Public Document Pack

Cherwell DISTRICT COUNCIL NORTH OXFORDSHIRE

Committee:	**Accounts, Audit and Risk Committee**
Date:	**Wednesday 20 November 2019**
Time:	**6.30 pm**
Venue:	**Bodicote House, Bodicote, Banbury, OX15 4AA**

Membership

Councillor Mike Kerford-Byrnes (Chairman)
Councillor Hannah Banfield
Councillor Nicholas Mawer
Councillor Tom Wallis

Councillor Hugo Brown (Vice-Chairman)
Councillor Nathan Bignell
Councillor Les Sibley
Councillor Sean Woodcock

AGENDA

1. Apologies for Absence and Notification of Substitute Members

2. Declarations of Interest

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. Petitions and Requests to Address the Meeting

The Chairman to report on any requests to submit petitions or to address the meeting.

4. Minutes (Pages 1 - 4)

To confirm as a correct record the Minutes of the meeting of the Committee held on 25 September 2019.

5. Chairman's Announcements

To receive communications from the Chairman.

6. **Urgent Business**

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

7. **Monthly Performance, Risk and Finance Monitoring Report - September 2019** (Pages 5 - 30)

Report of Assistant Director: Performance and Transformation and Assistant Director: Finance and Governance

Purpose of report

This report summarises the Council's Performance, Risk and Finance monitoring position as at the end of each month.

Recommendations

The meeting is recommended:

1.1 To note the monthly Performance, Risk and Finance Monitoring Report.

1.2 To review the Leadership Risk Register and identify any issues for further consideration.

8. **Accounts Closure 2018/19**

This report will follow as it is being reviewed and finalised

9. **Corporate Fraud Quarter 1**

** This report will follow as it is being reviewed and finalised**

10. **Treasury Management Q2 (September 2019)** (Pages 31 - 38)

Report of the Executive Director of Finance (Interim)

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2019/20 as required by the Treasury Management Code of Practice.

Recommendations

The meeting is recommended:

1. To note the contents of the Q2 (September 2019) Treasury Management Report.

11. **Draft Capital, Investment and Treasury Management Strategies 2020-21** (Pages 39 - 72)

Report of the Executive Director of Finance (Interim)

Purpose of report

To receive draft capital, investment and treasury management strategy reports for 2020-21. These reports will be updated and refined prior to final versions being presented for approval to AARC on 22 January 2020.

Recommendations

The meeting is recommended:

1. To note progress on draft reports for 2020-21 and to comment, advise or request further information.

12. **Work Programme** (Pages 73 - 74)

To consider and review the Work Programme.

13. **Exclusion of Press and Public**

The following report(s) contain exempt information as defined in the following paragraph(s) of Part 1, Schedule 12A of Local Government Act 1972.

3– Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members are reminded that whilst the following item(s) have been marked as exempt, it is for the meeting to decide whether or not to consider each of them in private or in public. In making the decision, members should balance the interests of individuals or the Council itself in having access to the information. In considering their discretion members should also be mindful of the advice of Council Officers.

Should Members decide not to make a decision in public, they are recommended to resolve as follows:

“That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following item(s) of business on the grounds that, if the public and press were present, it would be likely that exempt information falling under the provisions of Schedule 12A, Part I, Paragraph 3 would be disclosed to them, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

14. **Treasury Management- Q2 (September 2019) -Appendix 1 EXEMPT** (Pages 75 - 76)

Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.

Information about this Meeting

Apologies for Absence
Apologies for absence should be notified to democracy@cherwellandsouthnorthants.gov.uk or 01295 221554 prior to the start of the meeting.

Declarations of Interest

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item.

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

Evacuation Procedure

When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

Access to Meetings

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named below, giving as much notice as possible before the meeting.

Mobile Phones

Please ensure that any device is switched to silent operation or switched off.

Queries Regarding this Agenda

Please contact Sharon Hickson, Democratic and Elections
democracy@cherwellandsouthnorthants.gov.uk, 01295 221554

Yvonne Rees
Chief Executive
Published on Tuesday 12 November 2019

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 25 September 2019 at 6.30 pm

Present:	Councillor Mike Kerford-Byrnes (Chairman) Councillor Hugo Brown (Vice-Chairman) Councillor Nathan Bignell Councillor Nicholas Mawer Councillor Les Sibley Councillor Sean Woodcock
Also Present:	Anand Persaud, CW Audit Services
Apologies for absence:	Councillor Hannah Banfield Councillor Tom Wallis
Officers:	Adele Taylor, Executive Director: Finance (Interim) & Section 151 Officer Joanne Kaye, Strategic Business Partner Sharon Hickson, Democratic and Elections Officer

26 **Declarations of Interest**

There were no declarations of interest.

27 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

28 **Minutes**

The Minutes of the meeting of the Committee held on 31 July 2019 were agreed as a correct record and signed by the Chairman.

29 **Chairman's Announcements**

There were no chairman’s announcements.

30 **Urgent Business**

There were no items of urgent business.

31 **Internal Audit Progress Report 2019/20**

The Executive Director – Finance (Interim) submitted a report to receive the CW Internal Audit Services progress report for 2019/20.

Resolved

(1) That the contents of the 2019/20 internal audit progress report from CW Audit Services be noted.

32 **Work Programme 2019/20 and 2020/21**

The Executive Director – Finance (Interim) submitted a work plan for 2019/20 and 2020/21.

Resolved

(1) That after due consideration the Work Programme 2019/20 and 2020/21 be noted.

33 **Treasury Management Report - Q1 2019/20**

The Executive Director of Finance (Interim) submitted a report which presented information on treasury management performance and compliance with treasury management policy for 2019/20 as required by the Treasury Management Code of Practice.

In presenting the report the Strategic Finance Business Partner highlighted to members that Table 2 in section 3.11 represented Treasury Loans only, the Table in section 3.13 also included finance lease costs.

Resolved

(1) That the contents of the June 2019 Treasury Management Report be noted.

34 **Exclusion of Press and Public**

Resolved

That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following item(s) of business on the grounds that, if the public and press were present, it would be likely that exempt information falling under the provisions of Schedule 12A, Part I, Paragraph 3 would be disclosed to them, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

35 **Q1 Treasury report- Appendix 1-EXEMPT**

Resolved

(1) That the exempt Appendix be noted.

36 **Closure of Accounts**

The Executive Director of Finance (Interim) provided an exempt verbal update on the Closure of Accounts.

Resolved

(1) That the verbal update be noted

The meeting ended at 7.22 pm

Chairman:

Date:

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Cherwell District Council

Accounts, Audit and Risk Committee

20 November 2019

Monthly Performance, Risk and Finance Monitoring Report – September 2019

Report of Assistant Director: Performance and Transformation and Assistant Director: Finance and Governance

This report is public

Purpose of report

This report summarises the Council's Performance, Risk and Finance monitoring position as at the end of each month.

1.0 Recommendations

The meeting is recommended:

1.1 To note the monthly Performance, Risk and Finance Monitoring Report.

1.2 To review the Leadership Risk Register and identify any issues for further consideration.

2.0 Introduction

2.1 The Council is committed to performance, risk and budget management and reviews progress against its corporate priorities on a monthly basis.

2.2 This report provides an update on progress made so far in 2019-20 to deliver the Council's priorities through reporting on Performance, the Leadership Risk Register and providing an update on the financial position.

2.3 The Council's performance management framework sets out the key actions, projects and programmes of work that contribute to the delivery of the 2019-20 business plan and the priorities of the Council. These measures and key performance indicators are reported on a monthly basis to highlight progress, identify areas of good performance and actions that have been taken to address underperformance or delays.

2.4 The Council maintains a Leadership Risk Register that is reviewed on a monthly basis. The latest available version of the risk register at the date this report is published is included in this report.

2.5 The Report details section is split into three parts:

- Performance Update
- Leadership Risk Register Update
- Finance Update

2.6 There are two appendices to this report:

- Appendix 1 - 2019/20 Business Plan
- Appendix 2 - Leadership Risk Register

3.0 Report Details

Performance Update

3.1 The Council's performance management framework sets out the key actions, projects and programmes of work that contribute to the delivery of the 2019-20 business plan (see Appendix 1) and the priorities of the Council.

3.2 The 2019-20 business plan set out three strategic priorities:

- Clean, Green and Safe.
- Thriving Communities and Wellbeing.
- District of Opportunity and Growth.

3.3 This report provides a summary of the Council's performance in delivering against each strategic priority. To measure performance a 'traffic light' system is used. Where performance is on or ahead of target it is rated green, where performance is slightly behind the target it is rated amber. A red rating indicated performance is off target.

Colour	Symbol	Meaning for Business Plan Measures	Meaning for Key Performance Measures (KPIs)
Red	▲	Significantly behind schedule	Worse than target by more than 10%.
Amber	●	Slightly behind schedule	Worse than target by up to 10%.
Green	★	Delivering to plan / Ahead of target	Delivering to target or ahead of it.

Priority: Clean, Green and Safe.

3.4 The Council is committed to protecting the natural environment and ensuring the character of the district is preserved and enhanced. Our commitment included working to ensure the district has high standards of environmental cleanliness and greater waste and recycling services. Maintaining the district as a low crime area is another key part of this priority and the Council is committed to working in partnership to deliver against this objective.

3.5 Overview of our performance against this strategic priority:

The Banbury Public Spaces Protection Order consultation was live between 5th August and 11th September 2019; with a total of 738 responses, providing the Community Safety Team with a statistically sound number and rich data to analyse and provide evidence to develop a decision paper on the potential renewal of the Banbury Public Spaces Protection Order, that will be prepared for a decision of the Executive in November.

Protect the Built Heritage is reporting Amber for September and Year to Date, but the Conservation team continues to work closely with Development Management on cases of heritage interest. The Conservation Area Appraisal programme is on-going. A consultation event took place for Duns Tew on 16 September 2019 and for Balscote on 23 September 2019. Further work will need to progress as soon as possible to ensure completion of the work programme by the end of March 2020.

Partnership work to tackle environmental crime – The Environmental Enforcement Team continues to work with the street cleansing teams to provide an increased focus on town centre problem areas, with assessments on local fly tipping hot spots to be undertaken in the coming months. Also, the Team will be supporting the Rural Crime Partnership initiative led by Thames Valley Police, in an effort to tackle and investigate rural crime focusing on engagement with the community, intelligence, enforcement and prevention.

<u>Priority: Thriving Communities and Wellbeing</u>

3.6 The Council is committed to supporting our communities to thrive and to promoting the wellbeing of our residents. This priority includes supporting health and wellbeing, improving leisure facilities and delivering leisure activities and working in partnership with voluntary organisations to deliver services in a manner that safeguards children, young people and vulnerable adults. Another key aspect of this priority is preventing homelessness, the delivery of affordable housing and improving the condition of residential properties.

Overview of our performance against this strategic priority:

Preventing homelessness - the number of households requiring temporary accommodation continues to decrease in the district; allowing the Housing Team to be flexible to offer support beyond the statutory requirements of homeless legislation and increasing the opportunity for vulnerable households to receive support and secure a permanent accommodation. Going into the winter months, the housing team is looking to secure further resources

to be able to offer accommodation and support for our most vulnerable residents.

Responding to the Welfare Reform Agenda – A project team has been established to look at the impact of Universal Credit on residents, landlords and the Council itself. The first meeting took place on 3rd October with colleagues from DWP, Housing, Revs and Bens and Customer Services getting together to further understand the consequences of the Welfare Reform Agenda and how to mitigate the effects that these changes could have in our most vulnerable residents.

Delivery of affordable housing in line with CDC and Growth Deal targets – is reporting Red for September and Year to Date, delivering 20 affordable homes against a target of 35. A higher number of affordable homes were expected to be completed in September. The actual number delivered, falls short of the projected target in this month. The reduction in completed units is due to delays in developer building programmes, connection of services and build quality standards. These units will still be delivered in 2019/20 but quality assurance is important.

% of Council Tax collected, increase Council Tax Base is reporting Amber for September and Year to date. The in-month collection has dropped slightly in September however all reminders, finals and summonses have been issued with proactive recovery taking place on those customers with court orders. We are making outbound calls during the day and evening to reduce the arrears balance. Cherwell is also experiencing an increase of new properties and whilst the customers are being issued with bills as soon as possible after the Valuation Office Agency notify us of the banding the customer is still entitled to pay their bill by instalments and therefore, they are always playing catch up.

% of Business Rates collected, increasing NNDR Base is reporting Red for September and Amber for Year to Date. The main reason for the drop in collection is known and is because a number of new large assessments have been rated by the Valuation Office one of these a rateable value of £720,000. However, all reminders, finals and summonses have been issued with proactive recovery taking place on those customers with court orders.

<u>Priority: District of Opportunity and Growth</u>

3.8 The Council is committed to developing the local economy, promoting inward investment and delivering sustainable growth. This priority also contributes towards making great places to live, work, visit and invest through economic development and working in partnership to deliver strategic transport infrastructure projects.

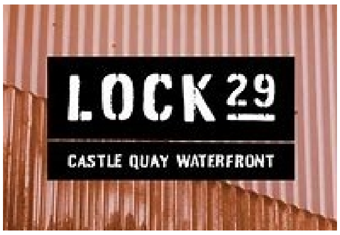
3.9 Overview of our performance against this strategic priority:

OXFORD TECHNOLOGY PARK

Promoting the district as a tourist destination - the construction of new hotels, and further expansion of existing ones, is progressing well at Oxford Technology Park in Kidlington and on several sites off Oxford Rd in Bicester. These will enable further overnight stays which will increase local expenditure, creating jobs locally whilst serving the needs of businesses, residents and visitors.

Deliver Innovative and Effective Housing Schemes - is reporting Amber for September and Year to Date. On- going marketing and first sale completion at Hope Close, Banbury, this project is being actively marketed and Cropredy is progressing through the purchase process which can take several months.

Showcasing Cherwell as a hub of business opportunities - The Council exhibited at 'Revo- 19' in Liverpool, a national retail property exhibition & conference, on the 18 and 19 September to promote Lock 29 and other town centre opportunities in Cherwell.



Banbury Job Fair - held on 26 September, the Banbury Job Fair again proved to be a success for both employers and residents, with an attendance of 156 job seekers/career changers and over 20 employers joined support agencies to provide a half day of support.

<u>Summary of Performance</u>

3.10 The Council reports on performance against 21 business plan measures and 15 key performance indicators on a monthly basis. The full details, including commentary against each measure and key performance indicator can be found in Appendix 2.

Business Plan Measures and Key Performance Indicators (36)					
Status	**Description**	**September**	**%**	**YTD**	**%**
Green	On target	28	78%	28	78%
Amber	Slightly off target	5	14%	7	19%
Red	Off target	3	8%	1	3%

3.11 **<u>Spotlight on: Housing and Homelessness</u>**

The purpose of the Housing Service is to prevent homelessness and rough sleeping, to help people to stay in their own home and improve housing standards.
As soon as someone is at risk of homelessness, we offer help and advice; this could be helping to resolve debt or rent arrears, how to resolve problems with a landlord, making an application for social housing, through our Homechoice system, or help with a deposit bond to gain access to the private rented sector.

At the end of September 2019, we were offering ongoing support to 276 households to prevent or resolve their homelessness; 26 of these households were in temporary accommodation and working with their Housing Officer to find a long term housing solution.

For the majority of households, we are either able to prevent homelessness or to help finding a new accommodation before residents lose their home.

In September we also launched the enhanced Cherwell Bond Scheme in order to help more households in to the private rented sector. The scheme now provides a bond deposit up to the value of 10 weeks' rent which is well above the 5 week cash deposit that landlords could otherwise collect from the tenant. We are also widening the number of households we can help to access affordable private rented sector properties which will include keyworkers such as care workers who often find it difficult to find affordable accommodation.

Our Landlord Forum, on 8th October, was attended by 16 landlords who wanted to hear about changes in the regulations affecting the private rented sector, opportunities to apply for a grant to renovate their property and bring it in to use for homeless households and to provide a home for Syrian refugees being resettled in Cherwell. The Housing Service can advise landlords on their responsibilities including how to set up a compliant house in multiple occupation (HMO) and how to apply for an HMO licence. We always aim to advise and educate but take enforcement action where necessary.

Affordable Extra Care Housing (ECH) flats in Cherwell are allocated through our housing register. The newest scheme opened this summer in Park Gardens, Banbury, welcoming the first residents in to affordable rented flats that offer a secure and accessible environment with care and support on-site. Park Gardens is the 3rd scheme to open in Banbury and the 6th in Cherwell. Any person over the age of 55 who has care needs can be considered for ECH.

Where older people and disabled people's homes need to be improved to be more accessible, we use the Disabled Facilities Grant to adapt properties. In the last 6 months we have improved 273 homes to make them safer and more accessible. In addition, we can advise and support owner occupiers who may not qualify for large grants but still need advice and help to commission the adaptations.

We are resourcing more tenancy support to vulnerable households to make sure that homelessness is prevented and that new tenancies are successful. We are also investing in support and supported accommodation for rough sleepers using funding secured from central Government. This includes outreach and floating support to rough sleepers and our first Housing First pilot which provides secure accommodation with wraparound support to people with complex needs who cannot access mainstream housing.

For information about any of these services go to www.cherwell.gov.uk/housing or phone 01295 753751.

Risk Update

3.12 The Council maintains a Leadership Risk Register that is reviewed on a monthly basis. The latest available version of the risk register at the date this report is published is included in this report.

3.13 The heat map below shows the overall position of all risks contained within the Leadership Risk Register.

Risk Scorecard – Residual Risks						
		Probability				
		1 - Remote	2 - Unlikely	3 - Possible	4 - Probable	5 - Highly Probable
Impact	5 - Catastrophic			L09		
	4 - Major		L12	L07, L10 & L11		
	3 - Moderate			L02, L03, L04, L05, L14	L08, L13 & L15	
	2 - Minor			L01		
	1 - Insignificant					

3.14 The table below provides an overview of changes made to the Leadership Risk Register during the past month. Any significant changes since the publication of the report will be reported verbally at the meeting.

Leadership Risk	Score	DoT	Latest Update
L01 Financial Resilience	6 Low risk	↓	Risk reviewed 09/10 – Residual score decreased from 9 to 6.
L02 Statutory functions	9 Low risk	↔	Risk Reviewed 09/10 – No changes.
L03 Organisational Capacity	9 Medium risk	↓	Risk Reviewed 14/10 – Description, residual score decreased from 12 to 9 & commentary updated.
L04 CDC Local Plan	9 Low risk	↔	Risk Reviewed 09/10 – Risk owner, mitigating actions and additional information updated.
L05 Business Continuity	9 Low risk	↔	Risk Reviewed 09/10 – Comments updated.
~~**L06** Partnering~~	~~12 Medium risk~~		REMOVED
L07 Emergency Planning	12 Medium risk	↔	Risk Reviewed 09/10 – Comments updated.
L08 Health & Safety	12 Medium risk	↔	Risk Reviewed 09/10 – Mitigating actions and comments updated.
L09 Cyber Security	15 Medium risk	↔	Risk Reviewed 07/10 – Mitigating actions updated.
L10 Safeguarding the Vulnerable	12 Medium risk	↔	Risk Reviewed 14/10 – No changes.
L11 Sustainability of Council owned companies and delivery of planned financial and other objectives.	12 Medium risk	↔	Risk Reviewed 09/10 – No changes.

L12 Financial sustainability of third-party suppliers including contractors and other partners	8 Low risk	↔	Risk Reviewed 14/10 – No changes.
L13 Separation and Joint Working	12 Medium risk	↓	Risk Review completed 14/10 – Mitigating actions, residual score decreased from 15 to 12 and commentary updated.
L14 Corporate Governance	9 Low risk	↔	Risk Review completed 09/10 – No changes.
L15 Oxfordshire Growth Deal	12 Medium risk	↔	Risk Review completed 09/10 – No changes.

The full Leadership Risk Register update can be found in Appendix 2. There are three score changes for September, further detail can be found in Appendix 2.

3.15 Finance Update (Revenue and Capital)

3.16 Revenue Position

The Council's forecast financial position up to the end of September, is set out in the table below, following a review across the Council's service areas. Overall, for the financial year 2019/20 Cherwell District Council is projecting a small underspend across the directorates of £16k, which has improved from a small overspend of £48k at the end of August. The directorates continue to manage their under and overspends looking to produce a balanced position by the year end. The Council continues to benefit from favourable interest rates earlier in the year which has generated a one-off underspend of £1.4m, resulting in an overall underspend of £1.42m for the Council. Currently all funding is shown on target as we are not expecting any significant variations to date and are not aware of any significant risks to our in-year funding at this stage of the financial year.

For more detail on the movements across all budgets please see the table below showing the main reasons for the variances in 2019/20.

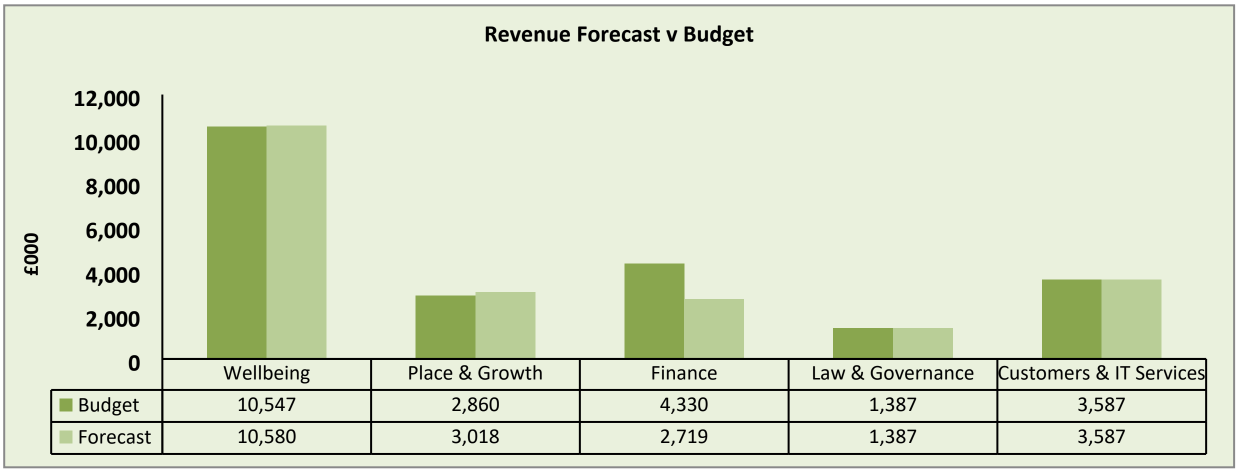
Revenue Monitoring **(Brackets denotes an Underspend)**	**Budget £000**	**Forecast £000**	**Current Month Variances £000**	***Prior Month Variances £000***
Communities	1,685	1,670	(15)	*33*
Leisure & Sport	791	781	(10)	*(15)*
Housing	2,047	1,977	(70)	*(60)*
Environmental Services	4,660	4,898	238	*89*
Environmental Health & Licensing	1,364	1,254	(110)	*(80)*
WELLBEING TOTAL	**10,547**	**10,580**	**33**	**(33)**
Housing: (£70k) *underspend due to salary savings as a result of changes in structure.* ***Environmental Services:*** *Gate fees increase of £8 per tonne* ***£93k****, Bulking & Haulage charge tonnage increase* ***£18k****, Agency staff costs* ***£84k****, Increase in NDR Charges* ***£40k****, Additional Income from vehicle maintenance* ***(£32k)****, Increase in business waste tonnage charges but reduction in anticipated income* ***£40k*** ***Environmental Health & Licensing: (£110k)*** *Salary savings due to changes in service delivery*				
Planning & Development	1,447	1,567	120	*267*
Economy & Regeneration	1,758	1,746	(12)	*42*

Build! Programme	(345)	(295)	50	*50*
PLACE & GROWTH TOTAL	**2,860**	**3,018**	**158**	**359**
Planning & Development: *Overspend in Building Control staffing of* ***£90k*** *relating to agency costs. Development Management overspend of* ***£250k*** *due to under recovery of Planning fee income. Offset by* ***(£220k)*** *saving on Consultants Fees for Local Development Framework* ***Build! Programme: £50k*** *under recovery of income due to a delay in Hope Close shared Ownership scheme*				
Finance	3,121	3,087	(34)	*(38)*
Property	(950)	(1,123)	(173)	*(250)*
Finance Total	**2,171**	**1,964**	**(207)**	**(288)**
Finance: Underspend on external & internal audit, overspend on bank charges. ***Property: £173k*** *underspend on a variety of functions, such as security, maintenance and vacancies. Variance to previous month due to unforeseen repair fees of empty properties.*				
Note: *additional income for Tramway and Castle Quay ringfenced directly to reserves due to uncertainty at this stage.*				
Law & Governance	1,387	1,387	-	*10*
Law & Governance Total	**1,387**	**1,387**	**0**	**10**
Law & Governance: *- Overspend in District Elections but reserve can be drawn upon to cover this.*				
Customers & IT services	1,903	1,903	-	*0*
Strategic Marketing & Communications	391	391	-	*0*
HR, OD & Payroll	730	730	-	*0*
Performance & Transformation	457	457	-	*0*
Corporate Services	106	106	-	*0*
CUSTOMERS & IT SERVICES TOTAL	**3,587**	**3,587**	**0**	**0**
TOTAL DIRECTORATES	**20,552**	**20,536**	**(16)**	**48**
Interest Costs	2,705	2,106	(599)	(713)
Interest Receivable	(563)	(675)	(112)	(79)
Interest from Graven Hill	(2,593)	(3,286)	(693)	(693)
Pension Costs	237	237	-	-
Appropriations For Transfer To Reserves	4,402	4,402	-	-
Appropriations For Transfer From Reserve	(3,529)	(3,529)	-	-
Capital Charges	1,500	1,500	-	-
EXECUTIVE MATTERS TOTAL	**2,159**	**755**	**(1,404)**	**(1,485)**
Treasury Management - active management resulted in beneficial interest rates and slower levels of borrowing significantly improving forecasted position. ***Interest Receivable: (£112k)*** *due to new loan given to Crown House.*				
COST OF SERVICES	**22,711**	**21,291**	**(1,420)**	***(1,437)***

Funding (Brackets denotes an Underspend)	**Budget £000**	**Forecast £000**	**Current Month Variances**	***Prior Month Variances £000***

			£000	
Business Rates Retention	(10,760)	(10,760)	-	-
Revenue Support Grant	(114)	(114)	-	-
Transfer to parish Councils for CTRS	349	349	-	-
Transition Grant	0	0	-	-
FORMULA GRANT EQUIVALENT	**(10,525)**	**(10,525)**	**-**	**-**
New Homes Bonus	(5,087)	(5,087)	-	-
GRANTS AWARDED TOTAL	**(5,087)**	**(5,087)**	**-**	**-**
Council Tax	(6,923)	(6,923)	-	-
Collection Fund	(176)	(176)	-	-
COUNCIL TAX INCOME TOTAL	**(7,099)**	**(7,099)**	**-**	**-**
TOTAL INCOME	**(22,711)**	**(22,711)**	**-**	**-**
Reserve management			**0**	
(Surplus)/Deficit			**(1,420)**	***(1,437)***

The graph below shows the overall variance by Directorate and compares the budget to the forecast end of year position.



3.17 Capital Programme

A summary of the capital programme is set out in the table below.

The budget for 2019/20 is £93m. Overall, we are projecting an underspend in year of (£21k), which is a slight change from August, further detail can be found within the detailed capital programme schedule.

Directorate	**Budget £000**	**Forecast £000**	**Re-profiled beyond 2019/20 £000**	**Current Period Variances £000**	***Prior Period Variances £000***

Wellbeing, Environmental & Regulatory	5,233	4,265	829	(139)	*(190)*
Place & Growth	30,155	18,029	12,144	18	*4*
Customers & Service Development	869	967	0	98	*1*
Finance Services	56,673	52,576	4,099	2	*(4)*
Total	**92,929**	**75,836**	**17,072**	**(21)**	***(189)***

Current Period Variances:

Wellbeing, Environmental & Regulatory Services: (£139k) *Budgets no longer required for Sunshine Centre* ***(£22k)*** *and Biomass Heating Bicester Leisure Centre* ***(£14k).*** *Forecast saving of* ***(£103k)*** *Discretionary Grants Domestic Properties.*

Finance Services: £2k *relating to: New E-tendering Portal for procurement no longer required* ***(£30k),*** *Tramway site small additional works required amounting to* ***£15k,*** *Thorpe Way Roof Repairs* ***(£2k)*** *project complete****, (£27k)*** *Retained Land budget no longer required,* ***(£2k)*** *Condition works Survey works project complete. Franklins House Travellodge* ***(£25k),*** *Asbestos Surveys* ***£60k*** *- some reprofiling.* ***£3k*** *over on BYHP Separation.* ***£10k*** *over on the fairway Garage Demolition*

Customers & Service Development: £98k *relating to: Land and property harmonisation* ***£39k,*** *Business Systems Harmonisation* ***(£25K),*** *IT Strategy Review* ***£58k,*** *Customer Excellence & Digital Transfer* ***(£45K),*** *Unified Communications* ***£25k and*** *HR/Payroll System* ***£46k*** *over.*

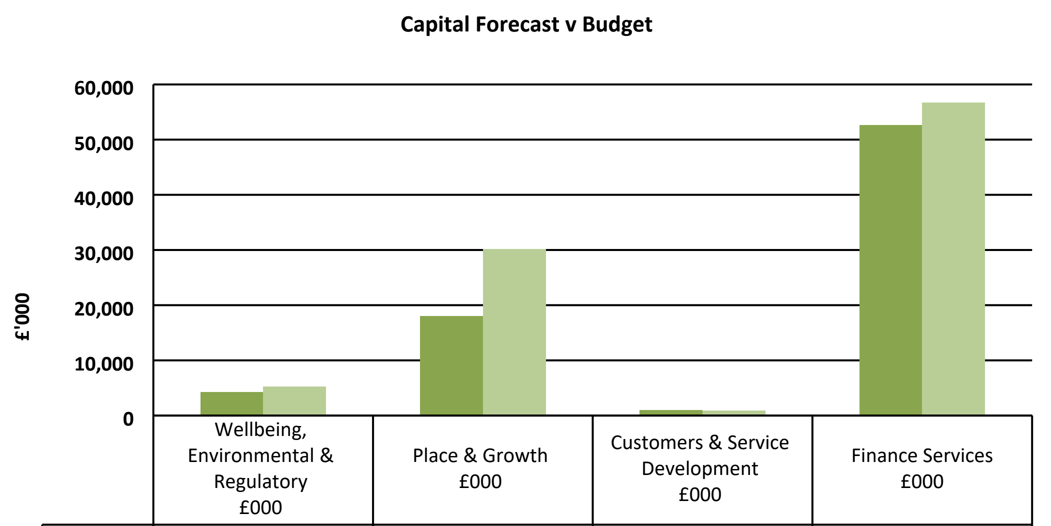
Place & Growth: *Overdue to Build programme phase 1* ***£17k*** *and* ***£1k*** *on Bicester Library.*

Re-profile beyond 2019/20:

Wellbeing, Environmental & Regulatory Services:
£30k *Spiceball Leisure Centre Bridge Resurfacing is part of the CQ2 project and will roll into 20/21.*
£122k *Bicester Leisure Centre extension, due to prioritisation this will roll into 20/21.*
£542k *disables facilities Grants - will roll forward what is not used as is better care fund money and can't be used for anything else.* ***£43k***
Solar Photovoltaic scheme to be rolled into 20/21 to set up a Climate emergency fund.
£50k *Public Conveniences rolled in to 20/21****.***
£42k *Car park refurbishment to roll into 20/21.*

Place & Growth:
£1,258k *Phase 1b Bicester Library plans are currently on hold.*
£10,886k *Phase 2 majority of works to commence in 20/21.*

Finance Services:
£153k *Banbury Health Centre, project currently paused as lease discussions with tenants.*
£3,636k *for CQ1 ongoing.* ***£210k*** *reprofiled for Surveys works - will spend full once scope identified.* ***£100k*** *for CDC feasibility, nothing forecast in current year.*
£150k *Works on compliance surveys,* ***£60k*** *works for asbestos surveys*



	Wellbeing, Environmental & Regulatory £000	Place & Growth £000	Customers & Service Development £000	Finance Services £000
Forecast	4,265	18,029	967	52,576
Budget	5,233	30,155	869	56,673

4.0 Conclusion and Reasons for Recommendations

4.1 It is recommended that the contents of this report are noted.

5.0 Consultation

5.1 This report sets out performance, risk and budgetary information from the previous month and as such no formal consultation on the content or recommendations is required.

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: This report illustrates the Council's performance against the 2019-20 business plan. As this is a monitoring report, no further options have been considered. However, members may wish to request that officers provide additional information.

7.0 Implications

Financial and Resource Implications

7.1 Financial implications are detailed within section 3.15 to 3.18 of this report.

Comments checked by:

Adele Taylor, Executive Director Finance (Interim)
Adele.taylor@cherwellandsouthnorthants.gov.uk
0300 003 0103

Legal Implications

7.2 There are no legal implications from this report.

Comments checked by:

Nick Graham, Monitoring Officer: Law and Governance
Nick.Graham@cherwell-dc.gov.uk

Risk management

7.3 This report contains a full update with regards to the Council's risk position at the end of the previous month. A risk management strategy is in place and the risk register has been fully reviewed.

Comments checked by:

Louise Tustian, Acting Performance & Communications Manager
01295 221786
Louise.tustian@cherwell-dc.gov.uk

8.0 Decision Information

Key Decision

Financial Threshold Met: **No**

Community Impact Threshold Met: **No**

Wards Affected
All

Links to Corporate Plan and Policy Framework
All

Lead Councillors –
Councillor Richard Mould – Lead member for Performance Management
Councillor Tony Ilott – Lead member for Finance and Governance

Document Information

Appendix No	Title
Appendix 1 Appendix 2	2019/20 Business Plan Leadership Risk Register
Background Papers	
None	
Report Author	Hedd Vaughan-Evans – Assistant Director: Performance and Transformation
Contact Information	Tel: 0300 003 0111 Hedd.vaughanEvans@cherwell-dc.gov.uk

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Cherwell District Council Business Plan 2019-20

Cherwell
DISTRICT COUNCIL
NORTH OXFORDSHIRE

Organisational Plan

Operational Excellence

- Rigorous Financial Management
- Efficient and Effective Governance
- Commercial and Procurement excellence
- Continuous Improvement

Customer Focus

- Excellent Customer Services
- Efficient and Effective Services
- Accessible services – Enabled through digitisation
- Consultation and Customer Insight

Best Council to work for

- Employer of choice
- Employee Engagement and Wellbeing
- Culture of Learning and Development
- Sustainable relationships with key partners

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Appendix 2 – Cherwell District Council – Latest Leadership Risk Register as at 14/10/2019

Level of risk	How the risk should be managed
High Risk (16-25)	**Requires active management** to manage down and maintain the exposure at an acceptable level. Escalate upwards.
Medium Risk (10 -15)	**Contingency Plans** - a robust contingency plan may suffice together with early warning mechanisms to detect any deviation from the profile.
Low Risk (1 – 9)	**Good Housekeeping** - may require some risk mitigation to reduce the likelihood if this can be done cost effectively, but good housekeeping to ensure that the impact remains low should be adequate. Re-assess frequently to ensure conditions remain the same.

Risk Scorecard – Residual Risks

		Probability				
		1 - Remote	**2 - Unlikely**	**3 - Possible**	**4 - Probable**	**5 - Highly Probable**
Impact	**5 - Catastrophic**			L09		
	4 - Major		L12	L07, L10 & L11		
	3 - Moderate			L02, L03, L04, LO5, L14	L08, L13 & L15	
	2 - Minor			L01		
	1 - Insignificant					

Risk Definition	
Leadership	**Strategic risks that are significant in size and duration, and will impact on the reputation and performance of the Council as a whole, and in particular, on its ability to deliver on its corporate priorities**
Operational	**Risks to systems or processes that underpin the organisation's governance, operation and ability to deliver services**

Ref	Name and Description of risk	Potential impact	Inherent (gross) risk level (no Controls)			Controls	Control assessment	Lead Member	Risk owner	Risk manager	Residual risk level (after existing controls)			Direct'n of travel	Mitigating actions (to address control issues)	Comments	Last updated
2019/20			Probability	Impact	Rating		Fully effective Partially effective Not effective				Probability	Impact	Rating				
L01 -	**Financial resilience** – Failure to react to external financial impacts, new policy and increased service demand. Poor investment and asset management decisions.	Reduced medium and long term financial viability	4	4	16	Medium Term Revenue Plan reported regularly to members.	Fully	Councillor Tony Illot	Adele Taylor	Dominic Oakeshott	2	3	6	↓	Key staff recruited to and review of workload and capacity across the team. Additional resilience and resource for financial accounting and reporting engaged through external partners and agencies.	Maintaining focus in this area with ongoing review, staff and member training and awareness raising.	Risk reviewed - 09/10/19 - Residual score has been reduced from 9 to 6.
		Reduction in services to customers				Balanced medium term and dynamic ability to prioritise resources	Fully								Investment strategy approach agreed and operating and all potential investments now taken through the working groups prior to formal sign off. Robust review and challenge of our investment options to be regularly undertaken through our usual monitoring processes.	Investment options considered as and when they arise, MTFS and budget setting being developed to enhance the scrutiny and quality of investments.	
		Increased volatility and inability to manage and respond to changes in funding levels				Highly professional, competent, qualified staff	Partially								Timeliness and quality of budget monitoring particularly property income and capital improving. Financial Systems replacement project underway. LEAN review of budget monitoring undertaken with significant engagement from within the wider business.	Financial System Solution Project continuing to consider future finance system options, incorporating budget management via Lean, extension of Civica and new procurement.	
		Reduced financial returns (or losses) on investments/assets				Good networks established locally, regionally and nationally	Fully								Asset Management Strategy being reviewed and refreshed.	Review underway	
		Inability to deliver financial efficiencies				National guidance interpreting legislation available and used regularly	Fully								Review of BUILD! to ensure procurement and capital monitoring arrangements are in place and development of forward programme - work still underway.	Review in hand.	
		Inability to deliver commercial objectives (increased income)				Members aware and are briefed regularly	Fully										
		Poor customer service and satisfaction				Participate in Oxfordshire Treasurers' Association's work streams	Fully								Finance support and engagement with programme management processes continuing.	Finance business partners involved with reflection locally on outcomes.	
		Increased complexity in governance arrangements				Review of best practice guidance from bodies such as CIPFA, LGA and NAO	Fully								Further integration and development of Performance, Finance and Risk reporting	Integrated reporting has been embedded	
		Lack of officer capacity to meet service demand				Treasury management and capital strategies in place	Fully								Regular involvement and engagement with senior management across County as well as involvement in Regional and National finance forums.	Engagement with a number of national and regional networks to ensure we are as up-to-date as we can be in relation to potential funding changes from 2020/21 and impact on our MTFS.	
		Lack of financial awareness and understanding throughout the council				Investment strategies in place	Fully								Regular member meetings, training and support in place and regularly reviewed. Briefings provided on key topics to members with particular focus on key skills for specific committees such as audit committee.	Regular training will be undertaken.	
						Regular financial and performance monitoring in place	Fully								New approach to budget setting introduced linked to service planning. Additional challenge added into the process to ensure robustness of estimates	Budget setting for 2020/21 underway, first checkpoint in 13/09/19 for the return of submissions by managers.	
						Independent third party advisers in place	Fully								Regular utilisation of advisors as appropriate.	Review of borrowing approach being considered alongside our financial advisors	
						Regular bulletins and advice received from advisers	Fully								Internal Audits being undertaken for core financial activity and capital as well as service activity	Regular reporting of progress on internal audits considered by the committee	
						Property portfolio income monitored through financial management arrangements on a regular basis	Partially										
						Asset Management Strategy in place and embedded.	Partially										
						Transformation Programme in place to deliver efficiencies and increased income in the future	Fully										
L02 -	**Statutory functions** – Failure to meet statutory obligations and policy and legislative changes are not anticipated or planned for.	Legal challenge	3	4	12	Embedded system of legislation and policy tracking In place, with clear accountabilities, reviewed regularly by Directors	Partially	Councillor Barry Wood	Yvonne Rees	Nick Graham	3	3	9	↔	Establish corporate repository and accountability for policy/legislative changes	Service plans for 2019-20 received and currently being reviewed. Performance framework for 2019-20 to be agreed.	Risk reviewed 09/10/19 - No changes
		Loss of opportunity to influence national policy / legislation				Clear accountability for responding to consultations with defined process to ensure Member engagement	Fully								Review Directorate/Service risk registers		
		Financial penalties				National guidance interpreting legislation available and used regularly	Fully								Ensure Committee forward plans are reviewed regularly by senior officers	Review of Leadership Risk Register and Risk Strategy for 2019-20 in progress.	
		Reduced service to customers				Risks and issues associated with Statutory functions incorporated into Directorate Risk Registers and regularly reviewed	Partially										
						Clear accountability for horizon scanning, risk identification / categorisation / escalation and policy interpretation in place	Partially								Ensure Internal Audit plan focusses on key leadership risks		
						Robust Committee forward plans to allow member oversight of policy issues and risk management, including Scrutiny and Audit	Partially								Develop stakeholder map, with Director responsibility allocated for managing key relationships		
						Internal Audit Plan risk based to provide necessary assurances	Partially								Standardise agendas for Director / PFH 1:1s		
						Strong networks established locally, regionally and nationally to ensure influence on policy issues	Fully								New NPPF published 05/03/18 will guide revised approach to planning policy and development management.		
						Senior Members aware and briefed regularly in 1:1s by Directors	Partially								Allocate specific resource to support new projects/policies or statutory requirements e.g. GDPR		

Ref	Name and Description of risk	Potential impact	Inherent (gross) risk level (no Controls)			Controls	Control assessment	Lead Member	Risk owner	Risk manager	Residual risk level (after existing controls)			Direct'n of travel	Mitigating actions (to address control issues)	Comments	Last updated
2019/20			Probability	Impact	Rating		Fully effective Partially effective Not effective				Probability	Impact	Rating				
L03 -	**Organisational Capacity** - Ability to deliver Council priorities and services impacted by increased workload and reduced capacity/resilience following end of joint working arrangements with South Northamptonshire Council.	Financial impact due to use of agency staff, possible impact on customers and frontline service delivery if capacity risks are not managed. Inability to deliver council's plans Inability to realise commercial opportunities or efficiencies Reduced resilience and business continuity Reduced staff morale, increased workload and uncertainty may lead to loss of good people	4	4	16	Weekly HR Vacancy Control process in place to ensure appropriate resourcing decisions are made. Arrangements in place to source appropriate interim resource if needed Ongoing programme of internal communication Programme Boards in place to oversee key corporate projects and ensure resources are allocated as required. CDC Extended Leadership Team (ELT) Meetings established to oversee and provide assurance on key organisational matters including resourcing. Partnership Working Group established with OCC to oversee joint working opportunities.	Partially Fully Fully Fully Partially Partially	Councillor Barry Wood	Yvonne Rees	Claire Taylor	3	3	9	↓	Weekly CEDR and monthly ELT meetings with clear escalation pathways for issues to be resolved. Learning and development opportunities identified and promoted by the Chief Executive. Regular communications from Chief Executive. Quarterly staff briefings from Assistant Directors. External support secured for key corporate projects including CDC/OCC joint working, Growth Deal and IT Transformation Programme.	Proposals for two Joint Corporate Directors between CDC and OCC approved. Opportunities for joint working with OCC being explored for Legal, Finance and Strategic Capability (corporate services).	Risk reviewed 17/10/19 - Risk description updated. Residual score decreased from 12 to 9 and commentary updated.
L04 -	**CDC Local Plan** - Failure to ensure sound, up to date local plan remains in place for Cherwell resulting in poor planning decisions such as development in inappropriate locations, inability to demonstrate an adequate supply of land for housing and planning by appeal	Poor planning decisions leading to inappropriate growth in inappropriate place. Negative (or failure to optimise) economic, social, community and environmental gain Negative impact on the council's ability to deliver its strategic objectives, including its commitments within the Oxfordshire Housing & Growth Deal Increased costs in planning appeals Possible financial penalties through not delivering forecasted New Homes Bonus (NHB) Reputational damage with investor community of Cherwell as a good place to do business created by uncertainty/ lack of policy clarity	3	5	15	Local Development Scheme (LDS) is actively managed and reviewed, built into Service Plan, and integral to staff appraisals of all those significantly involved in Plan preparation and review Team capacity and capability kept under continual review with gaps and pressures identified and managed at the earliest opportunity. Arrangements in place to source appropriate additional, time-bound resource if needed Delegations to Chief Exec agreed to ensure timely decisions Ongoing programme of internal communication, including Members updates and training programme On-going review of planning appeal decisions to assess robustness and relevance of Local Plan policies Updates on annual NHB payments	Partially Partially Partially Fully Fully Not	Councillor Colin Clarke	Simon Furlong	David Peckford	3	3	9	↔	Regular review meetings on progress and critical path review Regular Portfolio briefings and political review LDS updated as required with programme management approach adopted to ensure progress against plan LDS timeline built into Directorate level objectives (e.g. via Service Plans) and incorporated into SMART targets within staff appraisals Additional evidence commissioned as required. Need to keep under review staff and financial resources to ensure delivery to timetable (LDS) for Local Plan Review. Authority Monitoring Reports continue to be prepared on a regular annual basis	The latest Local Development Scheme is that approved by the Executive in December 2018. It includes the programmes for the Partial Review of the Local Plan, the Oxfordshire Plan 2050, a Local Plan Review, the Banbury Canalside Supplementary Planning Document and work on a Community Infrastructure Level (CIL). The residual risk score of '9' reflects delay with the Oxfordshire Plan and the review of the Local Plan.	Risk reviewed 06/10/19 - Risk owner, mitigating actions and additional info updated.
L05 -	**Business Continuity** - Failure to ensure that critical services can be maintained in the event of a short or long term incident affecting the Councils' operations	Inability to deliver critical services to customers/residents Financial loss Loss of important data Inability to recover sufficiently to restore non-critical services before they become critical Loss of reputation	4	4	16	Business continuity strategy in place Services prioritised and recovery plans reflect the requirements of critical services ICT disaster recovery arrangements in place Incident management team identified in Business Continuity Strategy All services undertake annual business impact assessments and update plans Business Continuity Plans tested	Fully Fully Fully Partially Fully Partially	Councillor Andrew McHugh	Graeme Kane	Richard Webb	3	3	9	↔	Business Continuity Statement of Intent and Framework agreed by CEDR BC Improvement Plan agreed with CEDR ICT transition to data centre and cloud services have reduced likelihood of ICT loss and data loss Corporate ownership and governance sits at senior officer level BC Impact assessments and BCPs in place for all teams and peer reviewed by OCC's Emergency Planning team Progress report was provided to CEDR in March	A cross-council programme to update all business continuity plans commenced in September to ensure all plans are up to date following separation of the councils. The BC steering group met in August and agreed a support package for BC plan authors to assist them to review their plans. The Business Continuity pages on the Intranet are being updated to provide more resources and information to assist in the development of BC plans.	Risk Reviewed 09/10/19 - comments updated

Ref	Name and Description of risk	Potential impact	Inherent (gross) risk level (no Controls)			Controls	Control assessment	Lead Member	Risk owner	Risk manager	Residual risk level (after existing controls)			Direct'n of travel	Mitigating actions (to address control issues)	Comments	Last updated
2019/20			Probability	Impact	Rating		Fully effective Partially effective Not effective				Probability	Impact	Rating				
L07 -	**Emergency Planning (EP)** - Failure to ensure that the local authority has plans in place to respond appropriately to a civil emergency fulfilling its duty as a category one responder	Inability of council to respond effectively to an emergency Unnecessary hardship to residents and/or communities Risk to human welfare and the environment Legal challenge Potential financial loss through compensation claims Ineffective Cat 1 partnership relationships	4	4	**16**	Key contact lists updated monthly. Emergency Planning Lead Officer defined with responsibility to review, test and exercise plan and to establish, monitor and ensure all elements are covered Added resilience from cover between shared Environmental Health and Community Safety Teams as officers with appropriate skill Senior management attend Civil Emergency training Multi agency emergency exercises conducted to ensure readiness On-call rota established for Duty Emergency Response Co- ordinators Active participation in Local Resilience Forum (LRF) activities	Fully Partially Fully Fully Fully Fully Fully	Councillor Andrew McHugh	Graeme Kane	Richard Webb	3	4	**12**	↔	Emergency plan contacts list being updated monthly and reissued to all duty managers. OCC Emergency Planning providing expert advice and support under a partnership arrangement. Chief Operating Officer meets with ACO Oxfordshire Fire and Rescue quarterly to oversee shared EP arrangements. Supporting officers for incident response identified in the emergency plan and wallet guide Drop in training session now taking place monthly (from June) covering a range of topics. Senior managers have attended multi-agency exercises and duty manager training with OCC senior managers. On-call rota being maintained Authority represented at the Local Resilience Forum	Active plans are in place to ensure the authority is prepared for a variety of emergencies. Continual improvements are being made as a result of a review of these plans and in partnership with the Local Resilience Forum. An 'on-call' system ensures there is a senior manager available to lead a response to an incident 24/7. Cherwell now has a stand-alone plan following separation from SNC. OCC are providing expert advice and support. Active involvement in the LRF Brexit planning arrangements is on-going and a refreshed timetable of risk and impact review is in place and restarted in September.	Risk Reviewed 09/10/19 - comments updated.
L08 -	**Health and safety** - Failure to comply with health and safety legislation, corporate H&S policies and corporate H&S landlord responsibilities	Fatality, serious injury & ill health to employees or members of the public Criminal prosecution for failings Financial loss due to compensation claims Enforcement action – cost of regulator (HSE) time Increased sickness absence Increased agency costs Reduction in capacity impacts service delivery	5	4	**20**	New Health & Safety Corporate H&S arrangements & guidance in place as part of the newly adopted HSG65 Management System Clearly identified accountability and responsibilities for Health and Safety established at all levels throughout the organisation Corporate H&S Manager & H&S Officer in post to formalise the H&S Management System & provide competent H&S advice & assistance to managers & employees. Proactive monitoring of Health & Safety performance management internally Proactive monitoring of Health & Safety performance management externally Effective induction and training regime in place for all staff Positive Health & Safety risk aware culture Corporate Health & Safety meeting structure in place for co-ordination and consultation Corporate body & Member overview of Health & Safety performance via appropriate committee Assurance that third party organisations subscribe to and follow Council Health & Safety guidelines and are performance managed where required	Partially Partially Partially Partially Fully Partially Partially Partially Fully Partially	Councillor Lynn Pratt	Adele Taylor	Ceri Harris	4	3	**12**	↔	A new Corporate Health, Safety and Wellbeing Policy was ratified BPM meeting on 17th June. The Corporate arrangements are in the process of being updated. These will be finalised by end of October 2019. Following the ratification of the new Corporate Health, Safety and Wellbeing Policy in July new AD checklists will be issued. The H&S team are conducting health and safety inspections internally across all services and teams, the health and safety inspection program has been reviewed and the programme started its role out in May 2019. To date a total of 9 audits have been carried out. The health and safety internal inspection cover all elements of our overall H&S management system to ensure compliance with our standards. Management of H&S training will now be included within the new eLearning programme which is in the process of being procured. A central list of risk assessments is to be created to enable more proactive monitoring of risk assessment across the council. Risk Assessment Workshop training is being developed. Robust training already in place in Environmental Services. Corporate Arrangements are being updated. These will be Good awareness in higher risk areas of the business, e.g. Environmental Services. However other areas need improved awareness of risk assessment process. Reviews of leases and performance monitoring to be reviewed to satisfy the Councils providers/ contractors are managing significant risks.	Senior Officer Meeting receives regular updates from Corporate H&S Manager. Relevant updates taken to appropriate committee. Joint Council and Employee Engagement Committee (JCEEC) to be formed by HR in Oct/Nov time. To be in place to ensure robust communication methods are in place for consultation between HR/H&S and TU. HR AD in the process of co-ordinating JCEEC meetings. First JCEEC meeting took place January 2019 The Internal Audit programme has undergone a review due to change in the resources available following separation to carry out the existing 3 year program. A new 2 year schedule has been developed to replaced the existing schedule. Roll out of the new audit schedule commenced in May 2019. Final sign off from the HR/Training Manager for training procurement and implementation due. Final tweaks being made prior to launch of eLearning package A review has been undertaken of all CDC owned properties to ensure that fire risk assessments, water hygiene surveys and asbestos surveys have been completed where required. A compliance review of tenanted properties leased by CDC is also under way to ensure that the tenants are managing the property in accordance with legislative requirements.	Risk reviewed 09/10/19 - Mitigating actions and comments updated.

Ref	Name and Description of risk	Potential impact	Inherent (gross) risk level (no Controls)			Controls	Control assessment	Lead Member	Risk owner	Risk manager	Residual risk level (after existing controls)			Direct'n of travel	Mitigating actions (to address control issues)	Comments	Last updated
2019/20			Probability	Impact	Rating		Fully effective Partially effective Not effective				Probability	Impact	Rating				
L09 -	**Cyber Security** - If there is insufficient security with regards to the data held and IT systems used by the councils and insufficient protection against malicious attacks on council's systems then there is a risk of: a data breach, a loss of service, cyber- ransom.	Service disruption	4	5	20	File and Data encryption on computer devices	Fully	Councillor Ian Corkin	Claire Taylor	David Spilsbury	3	5	15	↔	The cyber-essentials plus certification has now been passed.	Cyber security incidents are inevitable. The only way to manage this risk is to have effective controls and mitigations in place including audit and review.	Risk Reviewed 07/10/19 -No changes.
		Financial loss / fine				Managing access permissions and privileged users through AD and individual applications	Fully										
		Prosecution – penalties imposed				Consistent approach to information and data management and security across the councils	Fully								Cyber-security was reviewed by Internal Audit in May 2017 and a review meeting was held on 30th August 2018. The output has been received and signed off with good progress summary noted.		
		Individuals could be placed at risk of harm				Effective information management and security training and awareness programme for staff	Partially								The Regional Police Cyber Security Advisor gave the IT management team two training sessions (full cyber awareness Oct18 and table top DR exercise Nov18) followed by a series of all-Council staff awareness sessions in January 2019. Mop-up on e-learning options now being explored by IT and HR.		
		Reduced capability to deliver customer facing services				Password security controls in place	Fully								To complete the implementation of the intrusion prevention and detection system.		
		Unlawful disclosure of sensitive information				Robust information and data related incident management procedures in place	Fully								Agreed Terms of Reference and re-implementation of the security forum as the Information Governance Group, with meetings to be held on a minimum quarterly basis chaired by the Information Governance Manager. Information Governance support is now provided to Cherwell as part of a joint working relationship with Oxfordshire County Council. An action for the next month will be to ensure there are effective partnership working arrangements in place under this new service.		
		Inability to share services or work with partners				Appropriate robust contractual arrangements in place with all third parties that supply systems or data processing services	Fully								Cyber Awareness e-learning available and will be part of new starters induction training.		
		Loss of reputation				Appropriate plans in place to ensure ongoing PSN compliance	Fully								Cyber Security issues regularly highlighted to all staff.		
						Adequate preventative measures in place to mitigate insider threat, including physical and system security	Partially								External Health Check undertaken April 2019, executive summary gives us a high security posture and no critical security issues.		
						Insider threat mitigated through recruitment and line management processes	Fully										
L10 -	**Safeguarding the vulnerable (adults and children)** - Failure to follow our policies and procedures in relation to safeguarding vulnerable adults and children or raising concerns about their welfare	Increased harm and distress caused to vulnerable individuals and their families	4	4	16	Safeguarding lead in place and clear lines of responsibility established	Partially	Councillor Barry Wood	Graeme Kane	Nicola Riley	3	4	12	↔	Ongoing internal awareness campaigns	Vacant Safeguarding post has necessitated temporary changes with services making their own referrals directly and sending notification to Safeguarding inbox. Discussions with colleagues at OCC have provided insight but no clear way forward as yet. Software purchase proving time consuming.	Risk Reviewed 11/09/19 - No changes
		Council could face criminal prosecution				Safeguarding Policy and procedures in place	Fully								Ongoing external awareness campaigns		
		Criminal investigations potentially compromised				Information on the intranet on how to escalate a concern	Fully								Annual refresher and new training programmes including training for new members		
		Potential financial liability if council deemed to be negligent				Mandatory training and awareness raising sessions are now in place for all staff.	Fully										
						Safer recruitment practices and DBS checks for staff with direct contact	Fully								Continue to attend groups focused on tackling child exploitation		
						Action plan developed by CSE Prevention group as part of the Community Safety Partnership	Partially										
						Data sharing agreement with other partners	Partially										
						Attendance at Children and Young People Partnership Board (CYPPB)	Fully										
						Annual Section 11 return compiled and submitted as required by legislation.	Fully										
						Engagement with Joint Agency Tasking and Co-ordinating Group (JATAC) and relevant Oxfordshire County Council (OCC) safeguarding sub group	Fully										
						Engagement at an operational and tactical level with relevant external agencies and networks	Fully										

Ref	Name and Description of risk	Potential impact	Inherent (gross) risk level (no Controls)			Controls	Control assessment	Lead Member	Risk owner	Risk manager	Residual risk level (after existing controls)			Direct'n of travel	Mitigating actions (to address control issues)	Comments	Last updated
2019/20			Probability	Impact	Rating		Fully effective Partially effective Not effective				Probability	Impact	Rating				
L11 -	**Sustainability of Council owned companies and delivery of planned financial and other objectives** - failure of council owned companies to achieve their intended outcomes of fail to meet financial objectives	Unclear governance leading to lack of clarity and oversight in terms of financial and business outcomes Non achievement of business and finance outcomes directly or indirectly impacting on other council services Lack of understanding at officer and member level about the different roles of responsibilities required when managing council owned companies	3	4	**12**	Annual business planning in place for all companies to include understanding of the link between our objectives being delivered and financial impact for the council Financial planning for the companies undertaken that will then be included within our own Medium term financial plan Ensure strong corporate governance mechanisms are in place Sound monitoring in place of both business and financial aspects of the companies and the impact on overall council performance Training in place for those undertaking roles relating to the companies	Fully Fully Partially Fully Partially	Councillor Tony Illot	Adele Taylor	Dominic Oakeshott	3	4	**12**	↔	Changes in the shareholder support side line management been put in place. Additional oversight and capacity from senior managers including performance dashboards at CEDR Resilience and support being developed across business to support and enhance knowledge around council companies Skills and experience being enhanced to deliver and support development, challenge and oversight.	Knowledge and experience building take place with training and support as required. Company dashboard now being reviewed by CEDR to understand the impact of what is happening at company level on the council. Review of company governance being undertaken to ensure that we are adhering to best practice	Risk reviewed - 09/10/19 - No changes
L12 -	**Financial sustainability of third party suppliers including contractors and other partners -** the failure of a key partner of supplier impacting on the business of the council	The financial failure of a third party supplier or partner results in the inability or reduced ability to deliver a service to customers. Failure to ensure the necessary governance of third party relationships (council businesses, partners, suppliers) are in pace to have sufficient oversight of our suppliers	3	4	**12**	Ensure contract management in place review and anticipate problems within key service suppliers and partners Business continuity planning arrangements in place in regards to key suppliers Ensuring that proactive review and monitoring is in place for key suppliers to ensure we are able to anticipate any potential service failures	Partially Partially Partially	Councillor Tony Illot	Adele Taylor	Wayne Welsby	2	4	**8**	↔	Meetings take place when required with suppliers to review higher risk areas. Some review of appropriate information in regards to key supplier performance through trade press, information from networks in place.	The Council continues to monitor suppliers financial stability and meets with suppliers when required. Financial company insight being gained through use of monitoring tools and financial advice.	Risk reviewed - 12/09/19 - No Changes.
L13 -	**Separation and Joint Working** - Separation of joint services with SNC and development of joint working partnership with OCC impacts on the provision of services to residents and communities.	Inability to deliver Council priorities and plans, impacting on quality of services delivered to residents and communities. Reduced resilience and business continuity Reduced staff morale, increased workload and uncertainty may lead to loss of good people Opportunities for joint working with OCC take longer to develop than planned delaying potential service improvements for residents and communities. Northamptonshire re-organisation impacts on services being delivered to SNC from CDC, impacting on the quality of services delivered to residents and communities.	5	4	**20**	Agreed programme of separation in place between CDC and SNC Programme Board and Project Team established to deliver separation. S113 agreement in place with Oxfordshire County Council Partnership Working Group established with OCC to oversee the development of joint working proposals. On-going service delivery arrangements to SNC set out clearly and underpinned by the Collaboration Agreement with protocols in place for dealing with any emerging issues. Regular review and sharing of partnership activity / engagement at senior officer meetings	Fully Fully Fully Fully Partially Partially	Councillor Barry Wood	Yvonne Rees	Claire Taylor	4	3	**12**	↓	Standing item at senior officer meetings - regular review of risk and control measures. Legal advice sought with regards to the employment implications of re-organisation and separation proposals. Separation tracker and risk register to be circulated at all senior management meetings. Collaboration Agreement to underpin joint working with SNC following the end of the s113 in place.	All services have now either been separated or moved into service delivery arrangements with SNC. Reviews of service delivery arrangements with SNC to take place between October-December 2019. Strategic Capability proposal considered by Partnership Working Group in August. Proposals for two Joint Corporate Directors between CDC and OCC approved in July.	Risk reviewed 09/10/19 - Mitigating actions, residual score reduced from 15 to 12 and Commentary updated.

Ref	Name and Description of risk	Potential impact	Inherent (gross) risk level (no Controls)			Controls	Control assessment	Lead Member	Risk owner	Risk manager	Residual risk level (after existing controls)			Direct'n of travel	Mitigating actions (to address control issues)	Comments	Last updated
2019/20			Probability	Impact	Rating		Fully effective Partially effective Not effective				Probability	Impact	Rating				
L14 -	**Corporate Governance** - Failure of corporate governance leads to negative impact on service delivery or the implementation of major projects providing value to customers.	Threat to service delivery and performance if good management practices and controls are not adhered to. Risk of ultra vires activity or lack of legal compliance Risk of fraud or corruption Risk to financial sustainability if lack of governance results in poor investment decisions or budgetary control. Failure of corporate governance in terms of major projects, budgets or council owned companies impacts upon financial sustainability of the councils.	4	4	16	Clear and robust control framework including: constitution, scheme of delegation, ethical walls policy etc. Clear accountability and resource for corporate governance (including the shareholder role). Integrated budget, performance and risk reporting framework. Corporate programme office and project management framework. Includes project and programme governance. Internal audit programme aligned to leadership risk register. Training and development resource targeted to address priority issues; examples include GDPR, safeguarding etc. HR policy framework. Annual governance statements	Partially Partially Partially Partially Partially Partially Partially Partially	Councillor Barry Wood	Yvonne Rees	Nick Graham	3	3	9	↔	Standing item at senior officer meetings – regular review of risk and control measures Review of constitution to take place 2018/19 Implementation of corporate programme office – May 2018 Full review of HR policy to be undertaken during 2018/19 Monitoring Officer to attend management team meetings	S113 Agreement terminates on 16 January 2019. Collaboration Agreement being developed. Executive and Cabinet will consider its adoption on 7 and 14 January 2019 respectively. Service schedules are being developed for all services that require ongoing joint working - and these are programmed o be in placed by 16 January 2019.	Risk reviewed 09/10/19 - No changes.
L15 -	**Oxfordshire Growth Deal (contract with HMG)** As a result of a lack of experience of this scale and nature of partnership delivery there is a risk that inadequate levels of control will be applied by the Partnership to Oxfordshire Housing and Growth Deal governance, resourcing and delivery and that CDC (and its partners) will fail to meet its publicly stated Contractual commitments to its Partners and Government over the 5-year term.	Failure to meet its obligations as a partner within the Growth Deal could see Cherwell as a factor in Government holding back some or all of its funding and/or cease to extend the arrangement beyond 2023. Infrastructure milestone delivery late (for infrastructure linked to accelerated housing) Accelerated housing numbers delivered to plan late Cost of infrastructure to accelerate circa 6500 homes within 5-year term significantly beyond 2018 budget cost estimate DC GVA: no defined metrics in HGDDP but linked to homes accelerated/infrastructure/affordable homes delivered/JSSP progress and delivery JSSP Affordable Houses Productivity	**5**	**5**	**25**	Appointment of an interim advisor to guide and support delivery of the GD programme and risk management controls Recognition of issues in CDC GD arrangements and delivery of a 6-week review to identify and propose an action plan to manage and bring the issues within control (see 6-week plan) Establish CDC organisational fit of GDC GD as a programme capability reporting to CEDR through the Place Board Secured approval for CDC GD next stage plan at CEDR 17/12/18 which targets setting up CDC GD programme board, work stream capability and leadership supported by CDC Transformation PMO by end March 19 (see Board paper and Next stage Plan Proposal) Built on CDC PMO RAID principles and developed initial RAID logs for each work stream (capture risks, issues, dependencies and assumptions) to help define "gives and gets" as a basis for holding all to account for defined and transparent baseline delivery	Fully Partially Fully Fully Fully	Councillor Barry Wood	Robert Jolley	Jonathan MacWilliam	4	3	**12**	↔	A CDC GD programme and programme board capability Work stream plans of work (work stream brief, schedule, RAID log) Appropriate engagement with members in support of their advisory/scrutiny at GD Board level Governance and performance management Improved collaboration working with partners to hold them to account for their part of delivery Securing approval of a resourced GD Y2 plan to be delivered in a collaborative partnership environment Extending support from interim advisor to end March 19	There has been a change of SRO this month with the previous deputy SRO Robert Jolley assuming the senior role. The resulting vacant deputy SRO role now needs to be filled. This change in Board membership is not seen as impacting the overall Risk assessment. CEDR have approved the Year 2 Plan for Growth Deal delivery. Included in the decision was the agreement in principal to deliver the resources required by the Plan. Having the resourced plan in place will enable the residual risk to be managed downwards. However until the resources are available we consider it appropriate that the risk remains unchanged in this period. The programme is now working to the approved Year 2 Plan with the Programme Board providing appropriate governance and oversight. Whilst confidence is improving the overall low maturity level of the programme means that the Risk level remains at Amber. It is anticipated that should the current trajectory for the programme be maintained the residual risk will improve to GREEN (low risk) within the current quarter.	Risk reviewed 09/10/19 - no changes

L04 - Local Plan Risk
The latest Local Development Scheme is that approved by the Executive in December 2018. It includes the programmes for the Partial Review of the Local Plan, the Oxfordshire Plan 2050, a Local Plan Review, the Banbury Canalside Supplementary Planning Document and work on a Community Infrastructure Level (CIL).
Partial Review
A Partial Review of the Local Plan, to assist Oxford with its unmet housing need, was submitted to Government for Examination on 5 March 2018. A preliminary public hearing was held on 28 September 2018. On 29 October, the Inspector advised that the Council could proceed to main hearings. Main hearings were held during the weeks commencing 4 and 11 February 2019. On 13 July 2019, the Council received the Inspector's Post-Hearing Advice Note setting out his preliminary conclusions. In principle, the Inspector is satisfied that the Plan's housing requirement and strategy are appropriate and that there are exceptional circumstances for alterations to the Green Belt. However, he has concerns about proposed development next to Woodstock and suggested that the Council prepare Main Modifications to address this. On 30 September 2019, officers informally submitted proposed modifications to the Inspector supported by associated evidence. In October the Inspector will advise whether or not he is content for the Council to proceed to a six week public consultation.
Oxfordshire Plan 2050
A Growth Deal commitment. The Plan is being prepared by a central Plan team appointed through the Oxfordshire Growth Board. It must be submitted to Government for Examination by March 2020 to meet the existing terms of the Deal. The Council contributes to the plan-making process as a partner with a view to it being adopted as part of the Development Plan upon completion.
Public consultation on an Issues Paper ended on 25 March 2019. A public 'call for location ideas' ended on 12 April. The central Plan team is evidence gathering and scoping 'spatial options' for Plan development. On 24 September 2019, a report was considered by the Oxfordshire Growth Board proposing a new timetable for completion of the Plan. This allows for further stakeholder engagement in Autumn/Winter 2019/20; consultation on a formal Options Paper in June/July 2020; and consultation on a proposed Plan at the end of 2020 with the intention to submit the Plan for Examination in March 2021.
Local Plan Review
Work programming and initial preparatory work commenced in Spring 2019 but has had to be put on hold while further work on the Partial Review is pursued. There is a statutory requirement to review Local Plans within five years from adoption (the adopted Local Plan having been adopted in July 2015). The Plan will need to take account of the Oxfordshire Plan 2050 and consequently there are dependencies between the two work programmes.
Banbury Canalside SPD
Work has been stalled due to the need the review the work undertaken to date, particularly in the context of wider business plan objectives, and due to capacity issues within the Planning Policy team. A scope of work has been drafted.
Community Infrastructure Levy
Not a Local Development Document but a potential means of securing funding for infrastructure to assist overall delivery (should the Council decide to implement CIL) . Work on a potential charging levy was paused due to a Government review of

Ref	Name and Description of risk	Potential impact	Inherent (gross) risk level (no Controls)			Controls	Control assessment	Lead Member	Risk owner	Risk manager	Residual risk level (after existing controls)			Direct'n of travel	Mitigating actions (to address control issues)	Comments	Last updated
			Probability	Impact	Rating		Fully effective Partially effective Not effective				Probability	Impact	Rating				
L06	**Partnering** - Financial failure of a public sector partner organisation Failure to build the necessary partnership relationships to deliver our strategic plan. Failure to ensure the necessary governance of third party relationships (council businesses, partners, suppliers)	Potential reduction in service areas funded by the County Council resulting in an unplanned increase in demand on district functions leading to service difficulties.	4	4	16	Robust governance/contract management framework in place for key third party relationships	Partially	Councillor Barry Wood	Graeme Kane	Nicola Riley	4	3	12	↔	Review existing arrangements/ contracts to ensure appropriate governance		29/04/19 - Risk reviewed, CEDR agreed to remove this risk. Elements will be captured as part of L1 & L12.
		Poor service delivery													Standard agenda item at senior officer meetings		
		Inability to deliver council's plans and outcomes for communities				Training and development of senior officers/members to fulfil their responsibilities with partner organisations	Partially								Continue Institute of Directors training for Officers and Members		
		Legal challenge				Leader and CEO engaging at National and county level to mitigate impacts of potential service reductions for residents	Partially										
		Financial loss				Regular review and sharing of partnership activity/engagement at senior officer meetings	Partially										
		Inability to partner in the future														Ongoing meetings with wider health partners to ensure evidence based approach to	
		Reduced opportunity for inward investment in the future															

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Cherwell District Council

Accounts, Audit and Risk Committee

20 November 2019

Treasury Management Report – Q2 (September 2019)

Report of the Executive Director of Finance (Interim)

This report is public
Appendix 1 is exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2019/20 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

To note the contents of the Q2 (September 2019) Treasury Management Report.

2.0 Introduction

2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

2.2 The Council's treasury management strategy for 2019/2 was approved at a meeting on 25 February 2019. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.

2.3 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice; the local authority specific Guidance Notes for the Codes were published in July 2018. In England MHCLG published its revised Investment Guidance which came into effect from April 2018.

2.4 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 25 February 2019.

3.0 Report Details

Summary Position

3.1 At the end of September 2019 the Council had borrowing of £137m and investments of £48.2m - a net borrowing position of £88.8m (30/6/19 - £87.6).

Appendix 1 details the schedule of borrowing and investments as at 30 September 2019.

Strategy

3.2 The Treasury Management Strategy for 2019/20 includes the Annual Investment Strategy which sets out the Council's investment priorities.

Security of capital has remained the Council's main investment objective, followed by liquidity of capital, and then by yield. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20.

3.3 Counterparty credit quality is assessed and monitored with reference to:

- Credit Ratings - the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's
- Credit default swaps – a type of insurance to protect against default risk
- GDP of the country in which the institution operates
- The country's net debt as a percentage of GDP
- Sovereign support mechanisms or potential support from a well-resourced parent institution
- Share price

3.4 The Arlingclose ratings and advice encompass all of these and other factors and is our primary source of guidance in selecting investments. In addition to Arlingclose ratings and advice, the council keeps an internal counterparty 'Watch List' based on intelligence from a variety of other sources available to officers.

3.5 The Council's objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

3.6 The "cost of carry" analysis performed by the Council's treasury management advisor Arlingclose indicated during the reporting period that there was value in borrowing in advance for future years' planned expenditure, and therefore longer term/fixed rate borrowing has been increased to take of advantage of historically low interest rates.

3.7 All treasury management activities undertaken during the first 6 months of 2019/20 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all indicators were met during, and at the end of, the reporting period (see 3.10 and 3.13 below).

Investment performance for 6 months ended 30 September 2019:

3.8 Investment rates available in the market have continued at low levels, with the Bank of England Base rate remaining at 0.75% since August 2018.

Funds available for investment are on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.

3.9 The table below shows the investment position during and at the end of the reporting period:

	Investment Amount £	Interest Rate	Interest Budget £	Interest Actual £	Variance £
Apr-Sept 2019	£24.9m (average)	0.70% (annualised)	76,875	87,153	10,278
As at 30/9/19	£48.2m	0.60%	-	-	-

Rate Benchmarking	Overnight	7-day	1-month
Average LIBOR rates Apr-Sept 2019	0.67%	0.69%	0.72%

Interest receivable is currently ahead of target, and is forecast to remain above budget at the end of the year. Cash balances are higher than forecast due to recent new borrowing, offsetting the lower than forecast interest rates.

The Council's cash investments are held primarily for liquidity purposes and therefore only available for relatively short term deposits in a restricted selection of high quality instruments, which often generate sub-LIBOR returns. In particular, a large proportion of cash funds at the report date were held with the UK Debt Management Office (part of HM Treasury) which is highly secure but only pays a low rate of interest (0.50%).

A full list of current investments is shown at Appendix 1.

3.10 Compliance with investment limits is shown in the table below:

	2019/20 Maximum	30/9/19 Actual	2019/20 Limit	Complied?
Any single organisation, except the UK Government	£5.0m	£3.9m	£5m	Yes
UK Central Government	£31.5m	£31.5m	Unlimited	Yes
Any group of organisations under the same ownership	£5.0m	£3.9m	£5m per group	Yes
Any group of pooled funds under the same management	£5.0m	£3.9m	£5m per manager	Yes
Money Market Funds	£10.0m	£7.2	£15m in total	Yes

Borrowing performance for 6 months ended 30 September 2019:

3.11 The Council funds part of its capital programme through external borrowing, and had total debt of £137m at the report date. Just under 55% of the current debt is at fixed rate for the medium-long term from the Public Works Loan Board (PWLB), with the remainder short term variable rate from other local authorities. As borrowing will increase further, we will closely monitor the interest rate situation, and may seek to take a higher proportion of the debt at long term fixed rates. This may cost more in the short term but will provide certainty of cost and savings in the longer term.
It should be noted that the PWLB interest rates (which are linked to UK Gilt yields) were increased by an additional 1% across the board from 9 October 2019, making them relatively expensive and uncompetitive compared to other sources of funding.

3.12 The table below shows the borrowing position during and at the end of the reporting period:

	Borrowing Amount £	Interest Rate	Interest Budget* £	Interest Actual^ £	Variance £
Apr-Sept 2019	£109m (average)	1.55% (annualised)	1.257m	0.847m	0.410m
As at 30/9/19	£137m	1.53%	-	-	-

* Original interest budget reduced by £250k
^ Interest payable relates to externals loans only, excluding finance lease interest of £93k

Borrowing Benchmarking	3-year	5-year	10-year	20-year
Average PWLB Maturity rate Apr-Sept 2019	1.56%	1.57%	1.83%	2.34%

Interest payable for the full year is forecast to be significantly under budget, due in part to lower interest rates than forecast, but also due to lower than expected loan drawdowns from Graven Hill, and cashflow updates on the CQ2 development.

A full list of current borrowing is shown at Appendix 1

3.13 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below:

	2019/20 Maximum	30/9/19 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied?
Borrowing / Total debt	£137m	£137m	£205	£225m	Yes

3.14 **Non-treasury investment activity.**

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially to generate a profit.

As at 30 September 2019, the Council holds £65.3m of investments in the form of shares (£22.9m) and loans (£42.4m – excluding accrued interest) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.

The loans elements of these non-treasury investments generate, or are expected to generate, a higher rate of return than earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.

3.15 **Overall performance**

The overall performance for the 6 months to 30 September 2019 is as follows:

	Budget £k	Actual £k	Variance £k
Borrowing costs*	1,352	939	413
Treasury income	(77)	(87)	10
Non-treasury income	(1,501)	(1,870)	369
Total cost/(income)	**(226)**	**(1,018)**	**792**

*Borrowing costs include finance lease interest of £93k

The full year forecast is currently expected to achieve savings against budget of approximately £1.4m – this figure will be updated in future reports as events progress in terms of borrowing and interest rate activity.

3.16 Our treasury advisers, Arlingclose, provided the following economic report and interest rate forecast (their report is dated 1/10/2019 and does not therefore reflect the very latest political developments):

Economic report

The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance. Parliament appears to have frustrated UK Prime Minister Boris Johnson's desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020. The risk of a general election in the near term has, however, increased.

UK economic growth has stalled despite a probable pickup in growth in Q3 2019. The ONS reported a Q2 growth rate of -0.2%. The MPC has downgraded its growth forecasts for future years.

While the potential for divergent paths for UK monetary policy remain in the event of a withdrawal agreement, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy.

Inflation remains around target, albeit displaying a surprising decline in August 2019. The tight labour market risks medium-term domestically-driven inflationary pressure. Slower global growth should reduce the prospect of externally driven inflationary pressure, although political turmoil could push up oil prices.

Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Interest rate forecast

Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

Arlingclose judges that the risks are significantly weighted to the downside.

Gilt yields have fallen to historic lows. The risks to economic growth from global political uncertainty appear to have crystallised, dampening rate expectations and dragging yields lower.

We expect gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside. Volatility will continue to offer longer-term borrowing opportunities.

4.0 Conclusion and Reasons for Recommendations

4.1 This report details the Treasury Performance for the Council for the period ending 30 September 2019.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:
Dominic Oakeshott, Assistant Director - Finance (Interim)
Dominic.oakeshott@cherwell-dc.gov.uk 01295 227943

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:
Richard Hawtin, Team Leader – Non-contentious Business
richard.hawtin@cherwell-dc.gov.uk 01295 221695

Risk Management Implications

7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:
Louise Tustian, Acting Performance and Communications Manager
louise.tustian@cherwell-dc.gov.uk 01295 221786

8.0 Decision Information

Wards Affected
All wards are affected

Links to Corporate Plan and Policy Framework
Links to all areas of Corporate Plan

Lead Councillor
None

Document Information

Appendix No	Title
Appendix 1	CDC schedule of borrowing and investments at 30 September 2019 - EXEMPT
Background Papers	
None	
Report Author	Ian Robinson, Finance Business Partner
Contact Information	Direct Dial: 01295 221762 ian.robinson@cherwell-dc.gov.uk

Cherwell District Council

Accounts, Audit and Risk Committee

20 November 2019

Draft Capital, Investment and Treasury Management Strategies 2020-21

Report of the Executive Director of Finance (Interim)

This report is public

Purpose of report

To receive draft capital, investment and treasury management strategy reports for 2020-21. These reports will be updated and refined prior to final versions being presented for approval to AARC on 22 January 2020.

1.0 Recommendations

The meeting is recommended:

1. To note progress on draft reports for 2020-21 and to comment, advise or request further information.

2.0 Introduction

The capital and investment strategies were new reports introduced for 2019/20, to sit alongside the treasury management strategy. These strategies meet, respectively, the requirements of the 2017 Prudential Code, the 2018 MHCLG Investment Guidance and the 2017 CIPFA Treasury Management Code of Practice.

3.0 Report Details

The draft strategies have been updated from 2019-20 using figures from the 2018-19 Statement of Accounts and 30 September 2019 monitoring reports. Where applicable they will be updated with figures from 31 December monitoring reports.

The capital and investment strategies were new reports introduced (for all local authorities) for 2019-20. The Council's treasury management advisers, Arlinglcose, are holding a series of workshops and training sessions during November/December providing an overview of what they consider to be best practice in the presentation and data included in the strategies. These will be attended by officers and the outcomes carefully considered and incorporated into our final strategies where appropriate. It is possible, therefore, that the final version of these strategies may take a different form to those presented in this report.

4.0 Conclusion and Reasons for Recommendations

This report presents the draft capital, investment and treasury management strategies for 2020-21. It is recommended that the contents of the report are noted.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

This report presents the draft strategies for review and comment; therefore, no further options have been considered. However, members may wish to request that officers provide additional information.

7.0 Implications

Financial and Resource Implications

There are no financial implications arising directly from any outcome of this report.

Comments checked by:
Dominic Oakeshott, Assistant Director - Finance (Interim)
Dominic.oakeshott@cherwell-dc.gov.uk 01295 227943

Legal Implications

There are no legal implications arising directly from any outcome of this report.

Comments checked by:
Richard Hawtin, Team Leader – Non-contentious Business
richard.hawtin@cherwell-dc.gov.uk 01295 221695

Risk Management Implications

There are no risk management implications arising directly from any outcome of this report

Comments checked by:
Louise Tustian, Acting Performance and Communications Manager
louise.tustian@cherwell-dc.gov.uk 01295 221786

8.0 Decision Information

Wards Affected
All wards are affected

Links to Corporate Plan and Policy Framework
Links to all areas of Corporate Plan

Lead Councillor
None

Document Information

Appendix No	Title
Appendix 1	Capital Strategy 2020-21 (DRAFT)
Appendix 2	Investment Strategy 2020-21 (DRAFT)
Appendix 3	Treasury Management Strategy 2020-21 (DRAFT)
Background Papers	
None	
Report Author	Ian Robinson, Finance Business Partner
Contact Information	Direct Dial: 01295 221762 ian.robinson@cherwell-dc.gov.uk

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Cherwell District Council

Capital Strategy 2020/21

Including Minimum Revenue Provision (MRP) Statement

1 Introduction

1.1 The capital strategy was a new report introduced in 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

2 Capital Expenditure and Financing

2.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

For details of the Council's policy on capitalisation, see Financial Regulations

In 2020/21, the Council is planning capital expenditure of £44.8m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Services	9.7	11.0	0	0	0
Capital investments	20.1	75.8	44.8	1.7	1
TOTAL	29.8	86.8	44.8	1.7	1

2.2 The main capital projects include the Build Programme, Castle Quay 1 and 2 and the Sunshine Centre.

Governance

2.3 Service managers bid as part of the annual budget setting process, and throughout the year, to include projects in the Council's capital programme. Bids are collated by the Finance and a calculation of the financing cost is undertaken (which can be nil if the project is fully externally financed). The Budget Planning Committee appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to the Executive. The final capital programme is then presented to Council in February each year.

2.4 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
External sources	3.2	1.3	1	1	1
Own resources	5.4	5.5	5	4	4
Debt	21.2	80.0	38.8	-3.3	-4
TOTAL	**29.8**	**86.8**	**44.8**	**1.7**	**1**

2.5 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Own resources	5.4	5.5	5	4	4

The Council's full minimum revenue provision (MRP) statement is included at Appendix A below.

2.6 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £36m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
TOTAL CFR	**146.2**	**224.1**	**260.1**	**252.3**	**243.9**

Asset management

2.7 To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. This is a multi-level approach structured as follows:

- At a tenancy level the Comprehensive Asset Register (a database of key lease events) is being updated and used to identify forthcoming lease events such as

expiries, rent reviews and breaks. These are allocated to specific asset managers to progress whose work schedules are reviewed periodically.
- At a property level this can comprise the preparation of asset specific management plans which are then subject to periodic review and updating. This process is ongoing and informs the portfolio strategy as a whole.
- At a portfolio level the make-up of the portfolio is considered annually in terms of its sector weighting and suitability to meet the Council's longer term objectives of providing a secure risk weighted income stream. One such review is ongoing.

Asset disposals

2.8 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts.

3 Treasury Management

3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

At 30 September 2019 the Council had borrowing of £137m at an average interest rate of 1.53%, and treasury investments of 48.2m at an average interest rate of 0.60%.

Borrowing strategy

3.2 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%-1.0%) and long-term fixed rate loans where the future cost is known, but higher (currently 2.5 to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Debt (incl. PFI & leases)	111	191.0	229.8	226.5	222.5
Capital Financing Requirement	146.2	224.1	260.1	252.3	243.9

3.3 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this in the medium term.

Affordable borrowing limit

3.4 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Operational boundary and Authorised limit for external debt in £m

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
Operational boundary total external debt	205	250	250	250
Authorised limit total external debt	225	275	275	275

Further details on borrowing can be found in the treasury management strategy.

Investment strategy

3.5 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.6 The Council’s policy on treasury investments is to prioritise security and liquidity over yield. Focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 7: Treasury management investments in £millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Near-term investments	15.3	15	15	15	15
Longer-term investments	0	0	0	0	0
TOTAL	**15.3**	**15**	**15**	**15**	**15**

Further details on treasury investments can be found in the treasury management strategy.

Governance

3.7 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Council. Reports on treasury management activity are presented to the Accounts, Audit & Risk Committee. The Accounts, Audit & Risk Committee is responsible for scrutinising treasury management decisions.

4 Investments for Service Purposes

4.1 The Council makes investments to assist local public services, including making loans to and buying shares in the Council's subsidiaries, providing loans to local charities and businesses where there is demonstrable public benefit. In light of the public service objective, the Council is willing to take more risk than with treasury investments; however, it still plans for such investments to at least break even.

Governance

4.2 Decisions on service investments are made by the relevant service manager in consultation with the Section 151 Officer and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Further details on service investments are in the Investment Strategy.

5 Commercial Activities

5.1 With central government financial support for local public services declining, the Council invests in commercial property mainly for financial gain but also for strategic economic regeneration. Total commercial investments are currently (31 March 2019) valued at £72m with the largest being Castle Quay.

5.2 With financial return being an objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures are listed below together with an outline of how those risks are managed:

Illiquidity:	The council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies: a) The council invests across a range of sectors. Illiquidity is to an extent fluid and at any given time varies across sectors. This allows the Council the opportunity to effect sales, if required, in the more liquid sectors. b) The Council's assets are likewise diversified in terms of lot size. This affords the Council the ability to access a range of purchaser types e.g. small local investors, listed property companies or institutions. c) The Council does not invest in high risk assets which can be the most illiquid of all. d) The Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e. if sold they could be suitable for debt backed investors. e) The Council does not invest in specialist properties, where the market tends to be most illiquid. f) The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.
Tenant default:	The Council's portfolio is not populated by large national concerns and tenant default risk is managed in two ways: 1. Tenants are vetted when entering the portfolio either as new tenants when property is let or as replacement tenants when existing tenants assign their leases. It has to be acknowledged that there is less control when a tenant applies for consent to assign, though guarantees may be sought. 2. Risk is managed by diversification as only a small proportion of tenants will fail in any given year.
Obsolescence:	A significant proportion of the Council's portfolio comprises industrial / warehouse buildings and simple retail assets which have relatively low obsolescence compared to offices where there are substantial amounts of plant and machinery. Where we have offices we try to introduce sinking / replacement funds where we are able to collect from tenants an annual sum to put towards high cost items such as the replacement of lifts or air conditioning. An example of this is the Banbury Health Centre which has a renewals fund set at £10,000 per annum. In other leases we will try to negotiate terms which allow for the replacement of obsolete plant when it is beyond economic repair. Where matters of public policy override commercial concerns our portfolio is more vulnerable. For example, at Banbury Museum, the Council may be responsible for significant capital outlay on plant and machinery as it nears the end of its useful economic life.
Capital expenditure	Please see above but also note that the Council aims to let space on Full Repairing terms which either makes the tenant either explicitly responsible for maintaining the asset or allows CDC to recover the cost of repairs through the service charge provisions of the relevant lease.

Market risk:	Two key market risks are falling rents in response to declining economic conditions and extended marketing voids when leases end or tenants fail. These risks are mitigated in three main ways: 1. Lease lengths should be 3 – 5 yrs + which obviates most market risks during the period of the tenancy. 2. Rents are reviewed in an upwards only direction. This means that they cannot fall during the term of a lease. 3. Tenant failure – see above under Tenant Default, re: vetting and diversification policies. An additional risk is over-exposure to town centre retailing as the portfolio's largest assets are Castle Quay Shopping Centre in Banbury and Pioneer Square in Bicester. These are both strategic investments and in respect of Castle Quay we rely heavily on external advisors, particularly Montague Evans, to identify and manage both upside and downside risks.
Returns eroded by inflation:	All investment assets incorporate periodic rent reviews which provide a hedge against inflation. Property is generally accepted as performing better than fixed income assets in times of inflation.
Rising interest rates:	The portfolio is ungeared and therefore un-mortgaged

Governance

5.3 Decisions on commercial investments are made by Members and Statutory Officers in line with the criteria and limits approved by Council in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

Further details on commercial investments and limits on their use can be found in the Investment Strategy

5.4 The Council also has commercial activities in trading companies, exposing it to normal commercial risks. These risks are managed by the governance structure in place. The Shareholder Committee is regularly informed of the progress of each company. The Shareholder meets with the directors both formally and informally to ensure there is a consistent dialog between the companies and the council.

6 Liabilities

6.1 In addition to debt of £137m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £98m – as at 31 March

2019). The pension liability is the underlying commitments that the authority has in the long run to pay retirement benefits, less the fair value of the assets held within the scheme.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy, because:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary,
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid

The Council has also set aside £4.9m in its 2018/19 accounts to cover the risk of business rates appeals provisions. The Council is also at risk of having to refund the NHS for business rates if the on-going legal case is found in their favour.

Governance

6.2 Decisions on incurring new discretional liabilities are taken by service managers in consultation with Statutory Officers. The risk of liabilities crystallising and requiring payment is monitored by Finance and reported monthly to the Budget Planning and Executive committees. New liabilities are reported to full council for approval/notification as appropriate.

Further details on liabilities and guarantees are on page 72 and 76 of the 2018/19 statement of accounts

7 Revenue Budget Implications

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Financing costs (£m)	£3.1m	(£0.1m)	£0.9m	£2.6m	£2.9m
Proportion of net revenue stream	(14%)	0%	4%	16%	18%

Further details on the revenue implications of capital expenditure are in the 2020/21 revenue budget

Sustainability

7.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future, which aligns with the attached MRP Statement. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

8 Knowledge and Skills

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with many years' experience, the Assistant Director of Property and Investments is a chartered surveyor with over twenty years' experience of asset management and commercial property investment. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and RICS.

8.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, and a range of the current property advisors is as follows:

- Banbury based surveyors White Commercial and Bankier Sloane provide advice on the local property market, and assistance with new lettings, lease renewals, smaller valuations and rent reviews.
- Where specialist advice is required we ask for competitive quotes. For example we have asked three surveyors (one local, two national) to quote for rent review work in connection with a number of supermarkets within our portfolio.
- The day to day management of three asset is currently being tendered as we feel their management can be better achieved using external suppliers.
- Montague Evans supply asset management and facilities management in respect of Castle Quay.
- GVA Grimley also supply specialist accounting services in respect of Castle Quay.
- Montague Evans and Colliers both provide property valuation services
- BWD and Jackson Criss assist with Castle Quay lettings
- Gardiner Theobald provide project management, QS, CDM and Design services on Castle Quay
- Broomfield Property Ltd and Prime Project Management Ltd provide service relating to Castle Quay

This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Appendix A – Minimum Revenue Provision (MRP) Statement

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For capital expenditure loans to third parties that are repaid in instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.

Cherwell District Council

Investment Strategy 2020/21

1 Introduction

1.1 The council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.2 The investment strategy was a new report introduced for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

2 Treasury Management Investments

2.1 The council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to be an average of £15m during the 2020/21 financial year.

Contribution

2.2 The contribution that these investments make to the objectives of the council is to support effective treasury management activities.

Further details

2.3 Full details of the council's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the treasury management strategy.

3 Service Investments: Loans

Contribution

3.1 The council lends money to its subsidiaries, local parishes, the local Business Improvement District, and local charities to support local public services and stimulate local economic growth. The main loans issued are to the council's subsidiaries – the Graven Hill Village companies and Crown House Banbury Ltd.

Graven Hill is an ambitious self-build housing development providing significant housing in Bicester. Crown House is redeveloping a derelict building in the centre of Banbury which will provide significant rental opportunities in the town centre while removing an eye-sore.

Security

3.2 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2019 actual			2020/21
	Balance*	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	46.800	0.593	46.207	83.287
Local charities	1.152	0.049	1.103	1.150
Local Business	0.020	0	0.020	0.050
Parishes	0.094	0	0.094	0.100
TOTAL	**48.066**	**0.642**	**47.424**	**84.587**

** including accrued interest*

3.3 Accounting standards require the council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the council's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment

3.4 The council assesses the risk of loss before entering into and whilst holding service loans by approaching each loan request individually. The bulk of the council's loans are to its subsidiaries. When the council considers whether or not to create or acquire a subsidiary a full business case is prepared which sets out the optimal financing of the company. This will include an assessment of the market in which it will be competing, the nature and level of competition, how that market may evolve over time, exit strategy and any ongoing investment requirements. External advisors are used where appropriate to complement officer expertise and second opinions from alternate advisors is sought in order to monitor and maintain the quality of advice provided by external advisors.

3.5 Other service loans are evaluated against a set of criteria designed to demonstrate:

- Evidence of project objectives and needs analysis is provided
- The loan must have a demonstrable community impact
- The loan would provide up to 50% of the whole project cost
- Such a loan can only be applied for by constituted voluntary organisations with their own bank account; Town or Parish councils; charitable organisations
- The loan cannot be applied retrospectively
- The applicant has provided evidence of its financial stability and of its ability to manage the proposed scheme
- The applicant has demonstrated that the proposed scheme has been developed following good practice in terms of planning, procurement and financial appraisal
- The applicant has provided evidence the affordability of their proposed scheme and the loan repayments
- That the project furthers the council's priorities as reflected in its Business Plan

4 Service Investments: Shares

Contribution

4.1 The council invests in the shares of its subsidiaries to support local public services and stimulate local economic and housing growth. The council currently holds shares in Graven Hill Holding Company Ltd and Crown House Banbury Ltd.

Security

4.2 One of the risks of investing in shares is that they can fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	31.3.2019 actual			2020/21
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	22.828	0	22.828	26.971
TOTAL	**22.828**	**0**	**22.828**	**26.971**

Risk assessment

4.3 The council assesses the risk of loss before entering into and whilst holding shares by maintaining close links with the boards of directors of the companies through an established Shareholder Committee. Risk is assessed as above in Service Loans.

Liquidity

4.4 The maximum periods for which funds may prudently be committed are assessed on a project by project basis. The decision will balance both the long term viability of the subsidiary and the revenue and capital requirements of the council.

Non-specified Investments

4.5 Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5 Commercial Investments: Property

Contribution

5.1 The council invests in local commercial and residential property with the intention of making a profit that will be spent on local public services. The portfolio comprises a cross section of retail, office and industrial assets together with a health centre. The four largest investments are as follows:

- Castle Quay, Banbury; a covered shopping centre and development site
- Pioneer Square, Bicester; a modern retail parade of shops
- Franklins House, Bicester; a mixed use complex comprising offices, hotel, business centre and public library
- Tramway Industrial Estate

5.2 These assets contribute an aggregate £5.1m gross income to the council's revenue budget. They are all town centre properties and afford the council an opportunity to influence the amenity and environment of its two principal strategic centres. Castle Quay will, in particular, allow the development of a new leisure orientated focal point to help revitalise Banbury town centre.

The component parts of the entire investment portfolio are described below:

Table 3: Property held for investment purposes in £ millions0

Property	Actual	Actual	31.3.2019 actual		31.3.2020 expected	
	Closing Balance 2017/18	**Purchase / Build Costs 2018/19**	**Gains or (losses)**	**Value at 31.3.19**	**Gains or (losses)**	**Value in accounts**
Castle Quay Shopping Centre	61.120	0	-18.695	42.425	0	42.425
Pioneer Square	8.026	0.135	-0.108	8.053	0	8.053
Tramway Industrial Estate	0	9.603	-0.383	9.220	0	9.220
Other properties valued under £5m	11.725	0.242	0.575	12.542	0	12.542
TOTAL	**80.871**	**9.980**	**-18.611**	**72.240**	**0**	**72.240**

Security

5.3 In accordance with government guidance, the council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

5.4 A fair value assessment of the council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2019/20 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment

5.5 The council assesses the risk of loss before entering into and whilst holding property investments by cash flow modelling the income and expenditure profile of each investment and interrogating that model across a range of scenarios to test the robustness of the investment. The modelling exercise is informed by the likelihood of tenant default and the chances that individual units will become empty during the hold period.

5.6 The property investment market is dynamic and we are kept abreast of developments by frequent communication and established relationships with local and national agents, supplemented by in-house investigations and reading of published research. The market is at present competitive in most asset sectors and our focus is on assets that are local, strategic and meet our investment return criteria. We are mindful of the council's need for a reliable future income streams and occupational demand is fundamental to our appraisals as longer let assets tend not to generate sufficiently attractive returns.

5.7 In all acquisitions we take external advice from acknowledged experts in the field and sense-check their input against our in-house knowledge, experience and expertise. The advice sourced covers market value but also, given the purpose of the investment, letting risk, marketability and occupational demand, and likely expenditure over the hold period.

5.8 The council uses a number of local and national advisors and cross reference their views periodically. There is no single party who expects to be instructed by the council without competition.

5.9 Credit ratings are used on acquisitions, new lettings and when tenants request consent to assign their leases. The council uses D&B ratings and also study published accounts.

Credit ratings have not historically been used to monitor existing tenants but this will be introduced for our largest tenants this year.

5.10 A number of other strategies are used to mitigate risk:

- Tenant rent payment histories are analysed on any acquisition.
- Tenant rent payment patterns and arrears are examined in the existing portfolio.
- Introducing agents advise the council throughout the acquisition process and their advice includes market commentary at a national and a local level and commentary on perceived risks to the investment.
- In tandem with the above every acquisition is subject to a third party valuation by national surveyors who are independent i.e. not acting for the council or the vendor on the acquisition.

Liquidity

5.11 Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies:

- The council invests across a range of sectors. Illiquidity is to an extent fluid and at any given time varies across sectors. This allows the council the opportunity to effect sales, if required, in the more liquid sectors
- The council's assets are likewise diversified in terms of lot size. This affords the council the ability to access a range of purchaser types e.g. small local investors, listed property companies or institutions
- The council does not invest in high risk assets which can be the most illiquid of all
- The council's investments are not what is termed 'Investment Grade', but they are fundable – i.e. if sold they could be suitable for debt backed investors
- The council does not invest in specialist properties, where the market tends to be most illiquid
- The council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time

6 Loan Commitments and Financial Guarantees

6.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the council and are included here for completeness.

The council has contractually committed to the following loan amounts which have yet to be drawn upon (as at 11/11/19):

Table 4: Loan Commitments and Guarantees

Borrower	**Purpose**	**£m Contractually Available**
Crown House Banbury Ltd	Redevelopment of town centre building into housing	0.6
Graven Hill Village Development Company Ltd	Revolving Credit Facility available to the council's subsidiary until 2026	13.5
Graven Hill Development Company Ltd	Facility Agreement that has been in place since 2014 to deliver the project.	19.8
Graven Hill Development Company Ltd	Loan Note instrument to enable the company to deliver its objectives	7.9
TOTAL		**41.8**

7 Capacity, Skills and Culture

Elected members and statutory officers

7.1 The majority of senior statutory officers are qualified to degree level and have appropriate professional qualifications. Their shared business experience encompasses both the public and private sectors and the three most senior Property & Investment team members have on average 20+ years commercial experience.

Training and guidance are provided to support members in delivering their roles and support effective decision making.

Commercial Investments

7.2 Negotiations are either undertaken directly by Assistant Directors or at a senior level with Assistant Director direct involvement and oversight, alongside input from Directors and Lead Members where required. Assistant Directors are aware of the regulatory regime and convey that to all junior staff**.**

Corporate governance

7.3 There are appropriate corporate governance measures in place which comprise end to end decision making procedures. These include risk assessments within the organisation; presentation to relevant committees including Members, statutory officers approvals and relevant project boards. The annual Corporate Investment Strategy [insert link when available] provides the reference point against which investment decisions are undertaken.

8 Investment Indicators

8.1 The council has set the following quantitative indicators to allow elected members and the public to assess the council's total risk exposure as a result of its investment decisions.

Total risk exposure

8.2 The first indicator shows the council's total exposure to potential investment losses. This includes amounts the council is contractually committed to lend but have yet to be drawn down and guarantees the council has issued over third party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	**31.03.2019 Actual**	**31.03.2020 Forecast**	**31.03.2021 Forecast**
Treasury management investments	15.3	15.0	15.0
Service investments: Loans	47.4	51.4	51.4
Service investments: Shares	22.8	27.8	27.8
Commercial investments: Property	72.2	72.2	140
TOTAL INVESTMENTS	**157.7**	**166.4**	**234.2**
Commitments to lend	1.8	36.4	34.0
TOTAL EXPOSURE	**159.5**	**202.8**	**268.2**

How investments are funded

8.3 Government guidance is that these indicators should include how investments are funded. The council's investments are funded by usable reserves, income received in advance of expenditure and borrowing.

Rate of return received

8.4 This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	**2018/19 Actual**	**2018/19 Forecast**	**2019/20 Forecast**
Treasury management investments	0.50%	0.70%	0.68%
Service investments: Loans	1.5% - 12%	1.5% - 12%	1.5% - 12%
Commercial investments: Property	Variable	Variable	Variable

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Cherwell District Council

Treasury Management Strategy Statement 2020-21

Introduction

Treasury management is the management of the council's cash flows, borrowing and investments, and the associated risks. The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the council's prudent financial management.

Treasury risk management at the council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the council to approve a treasury management strategy before the start of each financial year. This report fulfils the council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

The latest economic and interest rate forecast provided by Arlingclose (Dec 2019) is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that treasury investments will be made at an average rate of 0.68%, and that loans will be borrowed at an average rate of 1.51%.

Local Context

On 30th September 2019, the council held £137m of borrowing and £48.2m of investments. This is set out in further detail below:

	30.9.19 Actual Portfolio £m	**30.9.19 Average Rate %**
External borrowing:		
Public Works Loan Board	75.0	1.76%
Local authorities	62.0	1.25%
Total gross external debt	**137.0**	**1.53%**
Treasury Investments:		
Banks & building societies (unsecured)	9.5	0.96%
UK Government	31.5	0.50%
Money Market Funds	7.2	0.71%
Total treasury investments	**48.2**	**0.60%**
Net debt	**88.8**	

Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
General Fund CFR	146.2	224.1	260.1	252.3	243.9
Less: External borrowing **	(111.0)	(68.0)	(41.0)	(41.0)	(41.0)
Internal/(over) borrowing	**35.2**	**156.1**	**219.1**	**211.3**	**202.9**
Less: Usable reserves	(21.8)	(21.8)	(21.8)	(21.8)	(21.8)
Less: Working capital	(28.0)	(28.0)	(28.0)	(28.0)	(28.0)
Investments/(New borrowing required)	**14.6**	**(106.3)**	**(169.3)**	**(161.5)**	**(153.1)**

** shows only loans to which the council is currently committed

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to a total of £210m (£41.0 plus £169.3m from the table above) over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the council expects to comply with this recommendation during 2020/21.

Borrowing Strategy

The council currently (30/9/2019) holds £137 million of loans, an increase of £26 million on the previous year end, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the council expects to borrow up to a total of £210 million in 2020/21. The council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £275 million, which has been assessed and stated in the Capital Strategy.

Objectives: The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the council with this 'cost of carry' and breakeven analysis. Its output may determine whether the council borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the council may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the council may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Oxfordshire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The council has currently around 55% of its borrowing long-term from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full council.

LOBOs: The council does not hold any LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council has the option to either accept the new rate or to repay the loan at no additional cost.

Short-term and variable rate loans: These loans leave the council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The council currently (30/9/19) holds invested funds of £48.2m, representing income received in advance of expenditure plus balances and reserves held. In the past 6 months (April – September 2019), the council's investment balance has ranged between £11 million and £49 million. Levels in the forthcoming year are expected to be generally lower, ranging between £10m and £25m, but may vary for short periods to due to cashflow needs and borrowing opportunities.

Objectives: The CIPFA Code requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and low returns from short-term unsecured bank investments, the council would aspire to diversify into more secure and/or higher yielding asset classes. However, given the low level of funds available for longer-term investment and the high liquidity requirements, the council's surplus cash is likely to remain invested in short-term bank deposits and call accounts, money market funds, and deposits with the UK Government and other local authorities.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the council's "business model" for managing them. The council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£3m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£3m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3 m 4 years	£3m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m	£3m	£5m	£3m	£3m

	3 years	4 years	10 years	4 years	10 years
A+	£3m 2 years	£3m 3 years	£5m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£3m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£3m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
None	None	None	£5m 2 years	None	None
Pooled funds and real estate investment trusts		£5m per fund or trust			

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £50,000 per bank wherever possible e.g. except for overnight balances where funds are received during the day and it is too late to transfer to another counterparty. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria. In addition to Arlingclose ratings and advice, the council maintains an internal counterparty 'Watch List' based on intelligence from a variety of other sources available to officers.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: In order that the council's revenue reserves available to cover investment losses are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 3: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£3m per broker
Foreign countries	£5m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£5m in total
Money market funds	£15m in total
Real estate investment trusts	£5m in total

Liquidity management: The council uses in-house cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the council's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

The council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures: This indicator is set to control the council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or a 0.75%^^ fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£600,000
Upper limit on one-year revenue impact of a 0.75% fall in interest rates	£460,000

^^ As interest rates are at 0.75%, the impact of a potential fall has been capped at 0%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	80%	10%
12 months and within 24 months	80%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	80%	0%
10 years and above	80%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper and lower limits as shown above provide the scope to accommodate new loan(s) in the most appropriate maturity band at the time of borrowing

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£0m	£5m	£5m

<u>**Related Matters**</u>

The CIPFA Code requires the council to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Markets in Financial Instruments Directive (MiFID II): The council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, the Executive Director of Finance believes this to be the most appropriate status.

Financial Implications

The budget for treasury investment income in 2020/21 is £101k, based on an average investment portfolio of £15 million at an average interest rate of 0.68%.

The budget for debt interest payable in 2020/21 is £2.261 million, based on an average debt portfolio of £150 million at an average interest rate of 1.51%.

If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Director of Finance and Governance, having consulted the Lead Member for Financial Management & Governance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

(to follow):

Appendix A – Arlingclose Economic & Interest Rate Forecast - December 2019

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Accounts, Audit and Risk Committee

Work Programme 2019/20 and 2020/21

Date	Agenda Items
22 January	Internal Audit Progress Report Council Tax Reduction Scheme - Final Proposal Draft Treasury Management Strategies 2020/21 Treasury Management Q2 Work Programme Update
18 March	Performance, Finance and Risk Monitoring Report - Q3 - January 2020 Housing Benefit Subsidy Council Tax Reduction Scheme - Final Proposal Internal Audit Plan 2020/21 and Progress Update External Audit Update Finance System Replacement Project Treasury Management Q3 Update Work Programme Update
Early May 2020	Appointment of Chair and Vice Chair
Late May 2020	Performance, Finance and Risk Monitoring Report - Q4 - March 2020 Internal Audit Annual Report 2019/20 External Audit Update Draft Statement of Accounts 2019/20 Draft Report of Those Charged with Governance External Audit Fees - 2020/21

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