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Committee: **Accounts, Audit and Risk Committee**

Date: **Wednesday 22 January 2020**

Time: **6.30 pm**

Venue: **Bodicote House, Bodicote, Banbury, OX15 4AA**

Membership

Councillor Mike Kerford-Byrnes (Chairman)
Councillor Hugo Brown (Vice-Chairman)
Councillor Hannah Banfield
Councillor Nathan Bignell
Councillor Nicholas Mawer
Councillor Les Sibley
Councillor Tom Wallis
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 20 November 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. Internal Audit - Progress Report 2019/20 (Pages 5 - 24)

Report of the Executive Director of Finance (Interim)

Purpose of report

To receive CWAS's progress report summarising their internal audit work to date.

Recommendations

The meeting is recommended:

1.1 To note the contents of the 2019/20 progress report from CWAS.

8. Draft Capital, Investment and Treasury Management Strategies 2020-21 (Pages 25 - 64)

Report of the Executive Director of Finance (Interim)

Purpose of report

To submit the draft capital, investment and treasury management strategy reports for 2020-21. These reports were presented as draft to AARC on 20 November 2019 and have subsequently been updated.

Recommendations

The meeting is recommended:

1.1 To recommend the draft strategies for 2020-21 to Council for adoption.

9. Work Programme (Pages 65 - 66)

To consider and review the Work Programme.

10. Exclusion of Press and Public

The following reports contain exempt information as defined in the following paragraphs 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).

7 – Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

Members are reminded that whilst the following items 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 items 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, Paragraphs 3 and 7 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."

11. **Progress of Counter Fraud Service** (Pages 67 - 120)

Exempt report of the Senior Investigation Officer – Corporate Fraud Team

12. **Closure of Account 2018/19 Update**

Exempt Verbal Update by Executive Director Finance (Interim) and Assistant Director (Interim) Finance.

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 14 January 2020

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 20 November 2019 at 6.30 pm

Present:	Councillor Mike Kerford-Byrnes (Chairman) Councillor Hugo Brown (Vice-Chairman) Councillor Hannah Banfield Councillor Nathan Bignell Councillor Nicholas Mawer Councillor Les Sibley Councillor Tom Wallis
Substitute Members:	Councillor Cassi Perry (In place of Councillor Sean Woodcock)
Also Present:	Councillor Tony Ilott, Lead Member for Financial Management and Governance Councillor Barry Wood, Leader of the Council Neil Harris, Engagement Partner, Ernst & Young, External Audit
Apologies for absence:	Councillor Sean Woodcock
Officers:	Adele Taylor, Executive Director: Finance (Interim) & Section 151 Officer Hedd Vaughan Evans, Assistant Director Performance and Transformation Dominic Oakeshott, Assistant Director (Interim) - Finance Joanne Kaye, Strategic Business Partner David Spilsbury, Systems Support and Development Officer Sharon Hickson, Democratic and Elections Officer

37 **Declarations of Interest**

There were no declarations of interest.

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

There were no petitions or requests to address the meeting.

39 **Minutes**

The Minutes of the meeting of the Committee held on 25 September 2019 were agreed as a correct record and signed by the Chairman.

40 **Chairman's Announcements**

There were no Chairman's announcements.

41 **Urgent Business**

There were no items of urgent business.

42 **Monthly Performance, Risk and Finance Monitoring Report - September 2019**

The Assistant Director, Performance and Transformation presented a report which summarised the Council's Performance, Risk and Finance monitoring position as at the end of each month.

Members were informed that changes would shortly be made to the risk register predominantly in reference to the separation from South Northamptonshire Council.

The Applications and Web Team Manager gave a short presentation on Cyber Security, highlighting the steps IT take within the authority.

The Chairman advised the Committee that the Assistant Director, Performance and Transformation would be leaving Cherwell District Council in December to take up a new role in Wales. Members expressed their thanks to the Assistant Director, Performance and Transformation for all the work carried out and wished him well for the future in his new post.

Resolved

(1) That the monthly Performance, Risk and Finance Monitoring Report be noted.

(2) That, having given due consideration, the Leadership Risk Register be noted and no issues be identified for further consideration.

43 **Accounts Closure 2018/19**

The Assistant Director Finance (Interim) and the External Auditor gave a verbal update on the progress of the closure of the 2018/19 accounts.

Members were informed that preparations for the 2019/20 closure of accounts were progressing and it was possible that they would be ready for sign off in

June 2020. If this were the case, the July Committee meeting would be brought forward to the 24 June 2020. This would be confirmed in due course.

Resolved

(1) That the verbal update be noted.

44 **Corporate Fraud Quarter 1**

The Chairman advised the Committee that consideration of this item would be deferred to a future meeting.

45 **Treasury Management Q2 (September 2019)**

The Assistant Director Finance (Interim) submitted a report which provided information on treasury management performance and compliance with the Treasury Management Policy for 2019/20, highlighting the borrowing performance for the 6 month period ending 30 September 2019 and the investment position during and at the end of the report period.

Resolved

(1) That the contents of the Q2 (September 2019) Treasury Management Report be noted.

46 **Draft Capital, Investment and Treasury Management Strategies 2020-21**

The Executive Director Finance (Interim) submitted a report which presented the draft, capital, investment and treasury management strategies for 2020-21.

The strategies had been drafted using templates provided by Arlingclose, the council's treasury management advisor. Each of the draft strategies were presented in turn to the Committee.

In considering the draft strategies, Members requested that graphs indicating the forecast of debt and borrowing be provided in the Treasury Management Strategy statement.

Resolved

(1) That, subject to the inclusion of graphs in the Treasury Management Strategy statement showing the forecast of the debt and borrowing, the progress on the draft reports be noted.

47 **Work Programme**

The Committee considered it's work programme for the remainder of 2019/20 and the indicative work programme for 2020/21.

Resolved

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

48 **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 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.

49 **Treasury Management- Q2 (September 2019) -Appendix 1 EXEMPT**

Resolved

(1) That the exempt appendix be noted.

The meeting ended at 7.58 pm

Chairman:

Date:

Cherwell District Council

Accounts Audit and Risk Committee

22 January 2020

Internal Audit – Progress Report 2019/20

Report of the Executive Director of Finance (Interim)

This report is public

Purpose of report

To receive CWAS's progress report summarising their internal audit work to date.

1.0 Recommendations

The meeting is recommended:

1.1 To note the contents of the 2019/20 progress report from CWAS.

2.0 Introduction

2.1 CWAS provide the Council's Internal Audit Service for 2019/20 and undertake their work in line with their Audit Plan originally agreed in March 2019.

3.0 Report Details

3.1 The Internal Audit Service progress report for 2019/20 is presented at Appendix 1.

4.0 Conclusion and Reasons for Recommendations

4.1 The progress report summarises the progress of internal audit's work for 2019/20.

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: No alternative options have been identified as this report is for information only, however, members may wish to request further information from the Chief Internal Auditor.

7.0 Implications

Financial and Resource Implications

7.1 The cost of the Internal Audit Service is within the approved budget and there are no further financial implications arising directly from any outcome of this report.

Comments checked by:
Dominic Oakeshott, Assistant Director of Finance (Interim), 0300 003 0110
dominic.oakeshott@cherwell-dc.gov.uk

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, 01295 221695
richard.hawtin@cherwell-dc.gov.uk

Risk Management Implications

7.3 There are no risk management issues arising directly from this report. Risks are captured as part of the audit programme of work and escalated to the leadership risk register as and when necessary.

Comments checked by:
Louise Tustian, Acting Assistant Director – Performance and Transformation, 01295 221786, louise.tustian@cherwell-dc.gov.uk

8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

Councillor Tony Ilott – Lead Member for Financial Management.

Document Information

Appendix No	Title
Appendix 1	CWAS Progress Report 2019/20.
Background Papers	
None	
Report Author	Adele Taylor, Executive Director of Finance (Interim)
Contact Information	Adele.taylor@cherwell-dc.gov.uk 0300 003 0103

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Cherwell District Council

Internal Audit Progress Report

January 2020

cw audit

internal audit services

Page 10

1. Progress against our agreed audit plan

The purpose of this report is to update the Audit Committee on progress made in delivering the 2019/20 audit plan to the end of December 2019. As previously reported, the 2019/20 plan of 163 days relates solely to Cherwell District Council, having previously been a joint plan with South Northamptonshire Council. Section 3 provides details of the audit assignments included in the plan and an update on progress where assignments have commenced.

Proposed changes to the plan	• There are currently no proposed changes to the agreed workplan.
Reports finalised since the last	**Final Reports** • A number of audits are either under way or have had scopes of work agreed, but no final reports have been issued since our last progress report to the committee.
Work planned / underway	**Ongoing** • Anti-Fraud and Corruption • Risk Management • MoT Income • Commercial Waste Income **Planned in quarter four** • Budget Management & Reporting • Finance Systems/Payroll • Revenues and Benefits • Development Management

2. Implementation of agreed actions

Recommendations arising from finalised Internal Audit reports are uploaded to a web-based tracking database. The Council has access to this system allowing recommendation 'owners' to view their recommendations and perform a self-assessment of the status of these recommendations (e.g. provide status updates, revise implementation dates or mark them as implemented once agreed action has been taken). The table below shows the status of recommendations that were due to be implemented by the **31st December 2019.**

Summary	**1 Critical**	**2 High**	**3 Medium**	**4 Low**	**Total**
Due for implementation by 31st December 2019	-	11	49	7	**67**
Implemented	-	-	3	-	**3**
Outstanding	**-**	**11**	**46**	**7**	**64**
Of these:					
- Overdue based on original due date (no deferral date set)	-	11	39	6	**56**
- Overdue based on revised deferral date set	-	-	6	1	**7**
- Deferred to future date (date not yet due)	-	-	1	-	**1**

A summary of the overdue/deferred recommendations is shown in Appendix One.

Responsible recommendation owners are now being actively chased for updates and it is intended that an updated table will be prepared and tabled at the meeting of the Committee.

3. Internal Audit Plan and Profile

Area	Assignment	Scheduled				Status	Level of assurance
		Qtr1	Qtr2	Qtr3	Qtr4		
Governance and Risk	Risk Management			✓	✓	Fieldwork ongoing	
	MoT Income			✓	✓	Fieldwork ongoing	
	Commercial Waste Income			✓	✓	Fieldwork ongoing	
	Development Management				✓		
Financial Assurance	Budget Management & Reporting				✓	Scoping	
	Payroll				✓	Scope to be agreed	
	Financial Systems				✓	Scope to be agreed	
	Revenues and Benefits				✓	Scoping	
	Anti-Fraud & Corruption			✓	✓	Fieldwork ongoing	
	Disabled Facilities Grant Certification		✓			Final	N/a
	Homes England Grant Certification	✓				Audit Compliance Checklist submitted.	N/a
Follow up	Follow up and recommendation tracking	✓	✓	✓	✓	Throughout year	

Page 13

Appendix 1: Summary of recommendations

Overdue – based on original due date (where no deferral) or deferral date where deferred

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
Revenues & Benefits	Sundry debtors - corporate debt policy -The Corporate Debt Policy should include date of last review and details of the approval process followed.	4	Jacey Scott 07/08/19		
	Council Tax - Valuation Office schedules (CDC) -Valuation Office schedules should be actioned weekly.	4	Jacey Scott 07/08/19		
	Benefits - recovery of overpayments -Unrecovered benefit overpayments at status report stage should have update recorded against them on at least a monthly basis.	3	Jacey Scott 07/08/19		
	Business Rates - Arrears Recovery -The Councils should ensure there is sufficient resource to allow business rates recovery processes to be applied on time and in full as and when they are due.	2	Jacey Scott 07/08/19		
	Council Tax - Arrears Recovery -The Council should ensure sufficient resource is in place to clear processing backlogs and therefore allow recovery procedures to be implemented in full when they are due.	2	Jacey Scott 07/08/19		
Capital Programme Management	DFG budget setting and monitoring -The Finance team and the DFG team should liaise with each other in order to reconcile and mutually agree the budget for DFG and expenditure against the budget. Going forward, there should be regular reporting of spend against the DFG budget in order to ensure that both parties are working to accurate figures with regard to DFG spend.	3	Joanne Kaye 31/10/19		
	Unspent DFG budget -CDC should consider whether the build up of unspent DFG budget is likely to be spent in future years, or whether local funds used to support the DFG budget in previous years could be better deployed elsewhere.	3	Joanne Kaye 31/10/19		
	Performance reports to members -Reports to the Executive Committee should provide details on performance to date (actual	3	Joanne Kaye 30/09/19		

Page 14

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
	spend and commitments), as well as forecast expenditure against each scheme.				
	Forecast spend against capital programme -Forecast spend to year-end should be subject to robust challenge to ensure that they are consistent with actual and committed spend to date and are achievable.	3	Joanne Kaye 31/08/19		
Human Resources	Recruitment agency -Review the effectiveness of the current recruitment agency and value that could be obtained from an HR driven process and supplier. Statistical information should be obtained to ensure that the effectiveness of advertising strategies can be evaluated.	3	Karen Edwards 31/12/19		
	Contract of employment content -Review and amend the standard contract of employment for both Councils to provide greater clarity on terms and conditions and move to compliance with best practice by referencing / producing other standard policies.	2	Karen Edwards 31/12/19		
	Recruitment training -Devise a programme of centralised training to ensure that recruitment managers can appropriately undertake their recruitment and selection duties.	2	Karen Edwards 06/08/19		
	Shortlisting -The shortlisting form, containing the records of all applicants and demonstrating those selected for interview, should be completed and saved in the HR folder.	2	Karen Edwards 06/08/19		
	Essential shortlisting criteria -Recruitment managers should comply with shortlisting guidance and only select for interview applicants who meet the criterion.	2	Karen Edwards 06/08/19		
	Job descriptions and person specifications -Ensure it is clear in documentation that job descriptions and personal specifications have been written or reviewed by appropriate officers.	3	Karen Edwards 06/08/19		
	Interview records -All interviews should be clearly scored. Interview notes for all candidates and scoring matrixes should be filed so it is possible to demonstrate that the successful candidate was appropriately selected using a transparent process.	2	Karen Edwards 06/08/19		
	Recruitment advertising -The Councils should have a policy and procedures in relation to the advertising of vacancies. The	3	Karen Edwards 06/08/19		

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
	advertising budget should be corporately coordinated. TBD by CEDR to ascertain if this recommendation is supported.				
	Recruitment Policy -The Councils should have a recruitment policy in place to ensure that recruitment occurs within a standard controlled and monitored framework with clear aims and objectives.	3	Karen Edwards 04/08/19		
GDPR	Data sharing procedures -The Councils should produce procedures and guidance to all staff that clearly set out when it is appropriate to share or disclose data.	3	Nick Graham 31/12/19		
	Confidential information storage -All paper records containing personal data should be secured when not being used.	3	Nick Graham 31/12/19		
	Resources for improvement -The resources required to implement the action plan and to adequately resource the ongoing GDPR activity need to be reviewed.	2	Nick Graham 07/12/19		
	Preparing for breach reporting -Although some training of staff has been provided on what constitutes a data breach, there needs to be an appropriate verification exercise to confirm that the training given has been effective.	3	Nick Graham 30/09/19		
	Information asset register. -Complete the production of a comprehensive Information Asset Register and ensure it covers all key systems used across the Councils.	3	Nick Graham 31/08/19		
	Personal data -The Councils should confirm that all departments have ensured that there is a legitimate purpose for using personal data prior to collecting it.	4	Nick Graham 31/08/19		
	Procedures to notify individuals of data breaches -Where a breach is likely to result in a risk to the rights and freedoms of individuals, the Councils should have procedures in place to notify those concerned directly.	3	Nick Graham 31/08/19		
	Monitoring and reporting -When the data mapping process has been completed there should be a process established to undertake periodic checks on records security. Regular reporting to management team should be undertaken to enable the outcomes of records security checks and compliance monitoring to	3	Nick Graham 31/08/19		

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
	be reported and provide strategic oversight to those with overall responsibility for records management.				
	The right to erasure -A policy on the right of erasure should be produced. A process should be put in place to enable individuals to have personal data deleted or removed if there is no compelling reason for its continued processing. If Councils have disclosed the personal data in question to third parties, they must inform them about the erasure of the personal data, unless it is impossible or involves disproportionate effort to do so.	3	Nick Graham 12/08/19		
	The right to data portability -The Councils should construct a data portability process.	3	Nick Graham 12/08/19		
	Subject access requests (1) -The Councils should create a policy and procedure to recognise and respond to individuals' requests to access their personal data within one month of the receipt of a request.	3	Nick Graham 12/08/19		
	Subject access requests (2) -The Councils need to have an appropriately resourced training programme for staff who deal with Subject Access Requests. The process should be monitored and reviewed to ensure compliance.	3	Nick Graham 12/08/19		
	Data flow mapping -Complete the mapping out the various types of data processing carried out and ensure that legal basis for carrying each is clearly documented.	4	Nick Graham 12/08/19		
	19_CSN01/GDPR/4.17 Data sharing policy and agreements -Complete the Data Flow Mapping process and then produce a Data Sharing Policy. The Councils need to ensure that there are Information Sharing Agreements in place with all third parties that the Councils share personal data with and that these agreements are compliant. This will need the legal team to be involved and potentially additional legal support.	2	Nick Graham 12/08/19		
	Legal basis for sharing information -Officers should identify and be aware of the legal basis for processing or distributing sensitive personal data and only distribute the information required.	3	Nick Graham 12/08/19		
	Risk register -The GDPR team should produce an updated risk	3	Nick Graham		

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
	register. The Leadership risk register should contain a GDPR risk.		10/08/19		
	Staff training -A reconciliation of staff trained to current staff in post should be undertaken to ensure that all staff have had appropriate data protection awareness training, including those previously booked that did not end up attending.	3	Nick Graham 07/08/19		
	Document retention policy -A document retention policy should be put in place that is periodically reviewed and updated as required. An officer should be nominated to carry out spot-checks to ensure that the document retention policy is being complied with.	3	Nick Graham 07/08/19		
	The right to rectificationew Recommendation -A process to enable personal data to be rectified within one month if it is inaccurate or incomplete should be developed. This should include rectification of personal data disclosed to third parties where possible. Officers should inform individuals about the third parties to whom the data has been disclosed where appropriate.	3	Nick Graham 07/08/19		
	Consent to process personal and sensitive data -The Councils need to conduct a review or sampling of consents where these are required.	3	Nick Graham 07/08/19		
	Consultant review of GDPR -Ensure the action plan and project plan are used to drive forward implementation of GDPR, with progress recorded and subject to regular review.	2	Nick Graham 07/08/19		
Cyber Security	Human Resource Security -Develop a comprehensive information security training programme with annual mandated completion which is assessed. A tailored training programme should be developed for those roles with a privileged level of access.	3	Nick Graham 12/08/19		
	Security Governance (1) -Agree Terms of Reference and re-implement the security forum as the Information Governance Group, with meetings to be held on a minimum quarterly basis.	3	Nick Graham 12/08/19		
	Physical Security (2) -Train reception staff to ensure visitors complete the sign in book, are issued with visitor badges and are logged when they leave the building. Physical security penetration tests should be carried out periodically.	3	Nick Graham 07/08/19		
	Physical Security (1) -Develop and publish a clear desk policy and	3	Nick Graham		

Page 18

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
	supporting procedures at CDC, which should include logging out of computers when not in use and the provision of lockable storage facilities. The policy should be rolled out formally, with acknowledgements obtained from staff and spot checks undertaken for compliance monitoring purposes.		07/08/19		
Legal Compliance	Legislative changes -Consideration should be given by the Councils as to how best they can strengthen the trail to demonstrate that all legislative changes that could impact on the Councils are identified and acted on.	3	Nick Graham 07/08/19		
Procurement & Contract Management	Procurement Strategy -The procurement strategy should be reviewed and updated as necessary.	3	Wayne Welsby 31/12/19		
	Contract procedure rules -Consider producing a flowchart or toolkit that will take non-specialist officers through the procurement process. The contract procedure rules should be dated and a date for review included.	4	Wayne Welsby 31/12/19		
	Post tender evaluation processes -Clearly document all stages of the process so there is a clear audit trail from bids to final decision and that a documented management trail is retained if evaluations are changed after initial assessment.	3	Wayne Welsby 30/09/19		
	Documenting tender evaluations -Ensure clearer evidence is provided to support the scores given on the evaluation of tenders.	3	Wayne Welsby 11/08/19		
	Accuracy of evaluation documentation -Clearly document evaluations and ensure that the results are recorded and reported correctly.	3	Wayne Welsby 11/08/19		
	Re-tendering contracts -A central comprehensive contracts register should be maintained that includes all Councils' contracts. This register should be centrally monitored to ensure that contracts are re-tendered in a timely fashion.	3	Wayne Welsby 11/08/19		
	OJEU and tender procedure compliance -Undertake a review of all contracts within the Councils that are above OJEU levels to ensure that no further breaches occur. Corporately monitor contract dates to ensure no further contract dates are missed.	2	Wayne Welsby 11/08/19		

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
	Procurement workplan -For contracts that require detailed monitoring, a work plan should be produced that includes key dates by which different contracting stages should be undertaken to ensure that compliant contracting takes place.	3	Wayne Welsby 11/08/19		
	Savings targets -A systematic process to ensure that when undertaking a procurement exercise, estimates to review and where possible reduce costs are completed as part of the workplan. As part of this a programme other savings activities should also be considered.	4	Wayne Welsby 11/08/19		
	Central review of contract management -Consider establishing central review of significant contracts to ensure service areas are undertaking appropriate contract monitoring and that contractors are performing as required.	3	Wayne Welsby 11/08/19		
	Performance indicators -The Councils should consider introducing a range of KPI's. These normally include a target for savings to be achieved and a target for year on year reduction in waived tender.	3	Wayne Welsby 11/08/19		
	Decentralised tendering -Use a consistent qualitative evaluation and scoring system for all tenders.	3	Wayne Welsby 11/08/19		
	DFG competitive quotations -Wherever possible, competitive quotations should be obtained by CDC from contractors wishing to undertake DFG work, or reasons why competitive quotations were not sought should be clearly recorded and subject to appropriate approval.	3	Tim Mills 30/09/19	31/10/2019	19/12/19 Procurement of the framework for the Small Repairs Grant element of our grant work is to be undertaken by the Procurement Team. The required information was provided to them in accordance with the agreed deadline of 1/8/19 and matters rest with them.
Business	Testing of Business Continuity Plans -A formal schedule should be	3	Richard Webb	22/11/2019	BC Exercises have been

Page 21

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
Continuity	created to conduct periodic recovery tests and simulation exercises. The scope should prioritise and include all critical applications, services and associated back-up recoveries. A full DR test should be completed to ensure all services can be fully restored. Lessons learned from the tests should be documented and included in relevant documentation.		12/08/19		developed and shared with teams. Being utilized in the refresh of BCPs taking place with a deadline of 31 October 2019. The BC steering group will review feedback on the exercises in November 19.
	Council Tax - suspense account (CDC) -The council tax CDC suspense account should be cleared of all prior year transactions.	4	Belinda Green 07/08/19	01/11/2019	
	Testing the Disaster Recovery Plan -A plan to fully test the disaster recovery system from end to end should be implemented once business continuity arrangements have been finalised. Results of the test should be reported to the Information Management Group.	3	Tim Spiers 30/09/19	31/10/2019	On the agenda for the next DR Steering Group on 9 October.
	Alignment with BCP -Once completed, the Councils need to ensure that the Business Continuity Plan is consistent with the Disaster Recovery Plan.	3	Tim Spiers 30/09/19	31/10/2019	On the agenda for the next DR Steering Group on 9 October.
	Business Continuity Plans -Ensure that: BIAs and BCPs include an in-depth examination of the underlying resources such as key people, equipment, IT, telephony, supplies, buildings and third parties that underpin critical tasks so that appropriate recovery strategies can be developed. The RTO and RPO for each of the critical applications/systems should be agreed with JICT and the business owners. The RTOs could then be used to prioritise which activity (and underlying systems that supports it) should be recovered first. The third party services that the Councils rely upon should be prioritised and include appropriate description and contact details that can be used in a crisis or continuity event.	3	Richard Webb 31/08/19	31/12/2019	The BC steering group reviewed a list of critical suppliers in August. There is insufficient detail in the current BIAs and BCPs on critical suppliers to properly prioritise these or create any central list. The BC steering group agreed a new approach involving services capturing more detail on these suppliers

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
					in their BCPs and BIAs. This will be implemented during the rewrite of BCPs in Sept/ Oct required to reflect separation of the councils.
	Training Programme -A communications and training programme should be created to regularly educate and prepare the Councils' workforce on the importance of business continuity and the individual roles they would play in the event of a disruption to their normal operating practices. Communication and training milestones should be included in the governance and management plan of business continuity.	3	Richard Webb 01/09/19	22/11/2019	The development of a training programme is being progressed through the BC Steering Group. Progress will be reviewed in November.

Page 22

Deferred to a future date – deferral date not yet due

Review	Recommendation	Ranking	Original Who / When	Defer Date	Update/Reason
Payroll	Establishment Checks - The current exercise for Assistant Directors to check the current staffing establishment should be fully completed and used to confirm the accuracy of staff and grades currently on the payroll.	3	G Kent 30/09/19	31/03/20	Resolved in new system going live in February 2020

Appendix 2: Definition of our assurance levels and our risk rankings

Opinion	Assessment rationale
No	The audit highlighted weaknesses in the design or operation of controls that have not only had a significant impact on the delivery of key system objectives, they have also impacted on the delivery of the organisation's strategic objectives. As a result, **no** assurance can be given on the operation of the system's internal controls to prevent risks from impacting on achievement of both system and strategic objectives.
Limited	The audit highlighted some weaknesses in the design or operation of control that have had a serious impact on the delivery of key system objectives, and could also impact on the delivery of some or all of the organisation's strategic objectives. As a result, only **limited** assurance can be given on the operation of the system's internal controls to prevent risks from impacting on achievement of the system's objectives.
Moderate	The audit did not highlight any weaknesses that would in overall terms impact on the achievement of the system's key objectives. However, the audit did identify some control weaknesses that have impacted on the delivery of certain system objectives. As a result, only **moderate** assurance can be given on the design and operation of the system's internal controls to prevent risks from impacting on achievement of the system's objectives.
Significant	The audit did not highlight any weaknesses that would materially impact on the achievement of the system's key objectives. The audit did find some low impact control weaknesses detailed in section four of this report which, if addressed, would improve the overall performance of the system. However these weaknesses do not affect key controls and are unlikely to impair the achievement of the system's objectives. As a result, **significant** assurance can be given on the design and operation of the system's internal controls to prevent risks from impacting on achievement of the system's objectives.
Full	The audit did not highlight any weaknesses that would impact on the achievement of the system's key objectives. It has therefore been concluded that key controls have been adequately designed and are operating effectively to deliver the key objectives of the system. As a result, **full** assurance can be given on the operation of the system's internal controls to prevent risks from impacting on achievement of the system's objectives.

Risk ranking	Assessment rationale
1	The system has been subject to high levels of risk that have, prevented the system from meeting its objectives and also impacted on the delivery of the organisation's strategic objectives.
2	The system has been subject to high levels of risk that has, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of some or all of the organisation's strategic objectives.
3	The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives.
4	The system has been subject to low levels of risk that has, or could, reduce its operational effectiveness.

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Cherwell District Council

Accounts, Audit and Risk Committee

22 January 2020

Capital, Investment and Treasury Management Strategies 2020-21

Report of Executive Director of Finance (Interim)

This report is public

Purpose of report

To submit the draft capital, investment and treasury management strategy reports for 2020-21. These reports were presented as draft to AARC on 20 November 2019 and have subsequently been updated.

1.0 Recommendations

The meeting is recommended:

1.1 To recommend the draft strategies for 2020-21 to Council for adoption.

2.0 Introduction

2.1 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

3.1 The draft strategies were previously submitted to AARC on 20 November 2019. They have since been revised following comments from members and advice from the Council's treasury management advisers, Arlingclose. They have also been updated with figures from 31 December 2019 monitoring reports.

3.2 The **Capital Strategy** demonstrates how the council takes capital expenditure decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.3 The **Investment Strategy** relates only to non-treasury management investments. The purpose of the strategy is to demonstrate how the council:

- Makes investment decisions (governance, advice taken etc)
- Demonstrates investments are tied to corporate objectives
- Assesses and monitors risk
- Assesses and monitors return
- Ensures there is appropriate capacity, skills and culture to support its strategy

3.4 Investments which are covered by this strategy include such things as:

- Loans to third parties (e.g. subsidiaries, charities, businesses) [Service loans]
- Purchase of shares (in subsidiaries, businesses etc)
- Property

3.5 The **Treasury Management Strategy** sets out the Council's risk appetite and associated priorities in relation to security, liquidity and yield in respect of returns from various financial instruments.

4.0 Conclusion and Reasons for Recommendations

There is a requirement for full Council to approve the three strategies prior to the start of each financial year.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

There are no alternative options – this is a requirement placed upon all local authorities.

7.0 Implications

Financial and Resource Implications

There are no financial implications arising directly from any outcome of this report. The financial implications of are incorporated into the draft budget 2020/21 and MTFS 2020/21 to 202/25. Presentation of this report is in line with the CIPFA Code of Practice and Prudential Code

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

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, 01295 221695
richard.hawtin@cherwell-dc.gov.uk

Risk Management Implications

There are no risk management implications arising directly from any outcome of this report. Treasury management is itself the management of risk and therefore these strategies demonstrate how the council manages treasury, capital and investment risk. Risks escalated as and when necessary to the leadership risk register

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

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 Appendix 2 Appendix 3	Capital Strategy 2020-21 Investment Strategy 2020-21 Treasury Management Strategy 2020-21
Background Papers	
None	
Report Author	Ian Robinson, Finance Business Partner
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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.

1.2 Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

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 £47.1m 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	15.0	0	0	0
Capital investments	20.1	35.5	47.1	1.7	1.0
TOTAL	29.8	50.5	47.1	1.7	1.0

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	1.0	1.0	1.0
Own resources	5.4	5.5	5.0	4.0	4.0
Debt	21.2	43.7	41.1	(3.3)	(4.0)
TOTAL	**29.8**	**50.5**	**47.1**	**1.7**	**1.0**

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	5.0	4.0	4.0

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 £38.8m 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**	**187.8**	**226.6**	**219.7**	**211.9**

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 31 December 2019 the Council had borrowing of £123m at an average interest rate of 1.58%, and treasury investments of £41.1m at an average interest rate of 0.66%.

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, and 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. leases)	111.0	154.7	195.8	192.5	188.5
Capital Financing Requirement	146.2	187.8	226.8	219.7	211.9

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	215	215	215
Authorised limit total external debt	225	240	240	240

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

Treasury 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.

Risk management

3.6 The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

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 £123m 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	(£0.4m)	£0.1m	£2.6m	£3.9m
Proportion of net revenue stream	(14%)	(2%)	0%	16%	24%

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.

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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 are 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	31.3.2019 actual		31.3.2020 expected	31.3.2021 expected
	Purchase Cost	Gains or (losses)	Value in accounts	Value in accounts	Value in accounts
Castle Quay Shopping Centre	61.120	(18.695)	42.425	42.425	110.225
Pioneer Square	8.161	(0.108)	8.053	8.053	8.053
Tramway Industrial Estate	9.603	(0.383)	9.220	9.220	9.220
Other properties valued under £5m	11.967	0.575	12.542	12.542	12.542
TOTAL	**90.851**	**(18.611)**	**72.240**	**72.240**	**140.04**

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 31/12/19):

Table 4: Loan Commitments and Guarantees

Borrower	**Purpose**	**£m Contractually Available**
Crown House Banbury Ltd	Redevelopment of town centre building into housing	0.4
Graven Hill Village Development Company Ltd	Revolving Credit Facility available to the council's subsidiary until 2026	13.5
Graven Hill Village Development Company Ltd	Facility Agreement that has been in place since 2014 to deliver the project.	19.8
Graven Hill Village Development Company Ltd	Loan Note instrument to enable the company to deliver its objectives	7.9
TOTAL		**41.6**

The council has also issued a performance bond of £22million to Oxfordshire County Council (OCC) on behalf of Graven Hill Village Development Company Ltd in respect of Graven Hill's obligations to OCC under s106 agreements.

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	62.4	62.4
Service investments: Shares	22.8	27.8	27.8
Commercial investments: Property	72.2	72.2	140.0
TOTAL INVESTMENTS	**157.7**	**177.4**	**245.2**
Commitments to lend	1.8	36.4	34.0
TOTAL EXPOSURE	**159.5**	**213.8**	**279.2**

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**	**2019/20 Forecast**	**2020/21 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 background, credit outlook and interest rate forecast provided by Arlingclose (as at 23 December 2019) is attached at **Appendix A**.

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

Local Context

On 31 December 2019, the council held £123m of borrowing and £41.1m of investments. This is set out in further detail below:

	31.12.19 Actual Portfolio £m	**31.12.19 Average Rate %**
External borrowing:		
Public Works Loan Board	75.0	1.76%
Local authorities	48.0	1.29%
Total gross external debt	**123.0**	**1.58%**
Treasury Investments:		
Banks & building societies (unsecured)	2.2	0.65%
UK Government	18.9	0.50%
Local Authorities	13.0	0.88%
Money Market Funds	7.0	0.70%
Total treasury investments	**41.1**	**0.66%**
Net debt	**81.9**	

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	187.8	226.8	219.7	211.9
Less: External borrowing **	(111.0)	(116.0)	(75.0)	(75.0)	(75.0)
Internal/(over) borrowing	**35.2**	**71.8**	**151.8**	**144.7**	**136.9**
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**	**(22.0)**	**(102.0)**	**(94.9)**	**(87.1)**

** 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 £177m over the forecast period (£75m plus £102m in 2020/21 from the table above).

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 (31/12/2019) holds £123 million of loans, an increase of £12 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 £177 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 £240million, 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.

The council has raised the majority of its *long*-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The council will now look to borrow any long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

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 61% 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 proportional 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. Financial derivatives may be used to manage this interest rate risk (see section 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 (31/12/19) holds invested funds of £41.1m representing income received in advance of expenditure plus balances and reserves held. In the past 9 months (April – December 2019), the council's investment balance has ranged between £11 million and £62 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 3 years	£3m 4 years	£5m 10 years	£3m 4 years	£3m 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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor

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	£450,000

^^ 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	£5m	£5m	£5m

Related Matters

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.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

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 £2.220 million, based on an average debt portfolio of £147 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

Appendix A – Arlingclose economic background, credit outlook and interest rate forecast – 23 December 2019

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21. The General Election has removed some uncertainty within the market, however following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, the same as October 2019, however continuing to fall from highs of 2.1% in July and April 2019 as accommodation services and transport continued to contribute to a level of inflation below the BOE target of 2%. Labour market data continues to be positive. The ILO unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

The fallout from the US-China trade war continues which, risks contributing to a slowdown in global economic activity in 2019. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change quickly. Slow growth in Europe, combined with changes in leadership at the ECB and IMF has led to a change of stance in 2019. Quantitative easing has continued and been extended.

Credit outlook: The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach; timeliness as the results are over 11 months of out date when they are published, being based on end-2018 balance sheets; ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups and; coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

The Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

Underlying assumptions:

- 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.

- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.

- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, 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. Indeed, two MPC members voted for an immediate cut in November 2019.

- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven 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.

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 General Election outcomes and the evolution of the global economy.

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

- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	0.50	0.50	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.85	0.85	0.90	0.90	0.95	0.95	1.00	1.00	1.00	0.88
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

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Accounts, Audit and Risk Committee
Work Programme 2019/20 and 2020/21

Date	Agenda Items
18-Mar	Performance, Finance and Risk Monitoring Report - Q3 - January 2020 Housing Benefit Subsidy Housing Benefit Risk Based Verification Policy Internal Audit 2019/20 Progress Update Internal Audit Plan 2020/21 External Audit Update Finance System Replacement Project Treasury Management Q3 Update Work Programme Update
Early May 2020	Appointment of Chair and Vice Chair
27-May-20	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
24-Jun-20	Additional meeting pending accelerated Closure of Accounts 2019/20 sign off (see * items below)
29-Jul-20 * * *	Performance, Finance and Risk Monitoring Report - Q1 - May 2020 Report of Those Charged with Governance 2019/20 External Audit - Annual Audit Opinion 2019/20 Final Statement of Accounts and Letter of Representation 2019/20 Treasury Management Annual Report Work Programme Update

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