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

Date: **Wednesday 20 January 2021**

Time: **6.30 pm**

Venue: **Virtual meeting**

Membership

Councillor Mike Kerford-Byrnes (Chairman)
Councillor Hugo Brown (Vice-Chairman)
Councillor Hannah Banfield
Councillor Nathan Bignell
Councillor Conrad Copeland
Councillor Nicholas Mawer
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 5 - 10)

To confirm as a correct record the Minutes of the meeting of the Committee held on 18 November 2020.

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. Progress of Counter Fraud Service (Pages 11 - 16)

Report of the Senior Investigation Officer – Corporate Fraud Team

Purpose of report

The report provides an overview of the current progress of the Authority's counter fraud response following the delegation of authority in July 2018 to Oxford City Council.

Recommendations

The Audit Committee is recommended to:

1.1 Review and note the current performance of the Corporate Fraud team

1.2 Consider future work plans as described and the impact that this will have on future performance and income to the authority.

8. Internal Audit 2020/21 Progress Report (Pages 17 - 34)

Report of the Director of Finance

Purpose of report

The report presents the Internal Audit Progress report for 2020/21

Recommendations

The meeting is recommended:

1.1 To note the progress with the 2020/21 Internal Audit Plan and the outcome of the completed audits.

1.2 To review recommended best practice within CIPFA Audit Committee Guidance (2018) and agree additions to the AARC work programme.

9. Capital, Investment and Treasury Management Strategies 2021-22 (Pages 35 - 68)

Report of the Director of Finance

Purpose of report

To submit the draft Capital and Investment Strategy and Treasury Management Strategy for 2021-22.

Recommendations

The meeting is recommended:

1.1 To recommend the draft strategies for 2021-22 to Council.

10. 2019/20 Accounts

Verbal Update by the Director of Finance.

11. Work Programme (Pages 69 - 70)

To consider and review the Work Programme.

Information about this Meeting

Apologies for Absence
Apologies for absence should be notified to democracy@cherwell-dc.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.

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@cherwell-dc.gov.uk, 01295 221554

Yvonne Rees
Chief Executive

Published on Tuesday 12 January 2021

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held as at virtual meeting, on 18 November 2020 at 6.30 pm

Present:
Councillor Mike Kerford-Byrnes (Chairman)
Councillor Hugo Brown (Vice-Chairman)
Councillor Nicholas Mawer
Councillor Sean Woodcock

Substitute Members:

Councillor Barry Wood, (in place of Councillor Nathan Bignell)

Also Present:

Councillor Tony Ilott; Lead Member for Financial Management and Governance
Maria Grindley, Associate Partner, Ernst & Young (external audit)
Sue Gill, Ernst & Young (external audit)

Apologies for absence:

Councillor Hannah Banfield
Councillor Nathan Bignell
Councillor Conrad Copeland
Councillor Tom Wallis

Officers:

Lorna Baxter, Director of Finance & Section 151 Officer
Michael Furness, Assistant Director Finance
Sarah Cox, Chief Internal Auditor
Ian Dyson, Assistant Director of Finance, Oxfordshire County Council (OCC)
Louise Tustian, Head of Insight and Corporate Programmes
Robert Ducker, Senior Investigations Officer
Claire Taylor, Corporate Director Customers and Organisational Development
Joanne Kaye, Strategic Business Partner
Shaista Moughal, Account Closure Consultant
Sharon Hickson, Democratic and Elections Officer

28 **Declarations of Interest**

There were no declarations of interest.

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

There were no petitions or requests to address the meeting.

30 **Minutes**

The Minutes of the meeting of the Committee held on 20 September 2020 were agreed as a correct record, to be signed by the Chairman in due course.

31 **Chairman's Announcements**

There were no chairman's announcements

32 **Urgent Business**

There were no items of urgent business.

33 **Monthly Performance, Risk and Finance Monitoring Report - Quarter 2 / September 2020**

The Director of Finance and Head of Insight and Corporate Programmes, presented a report which summarised the Council's Performance, Risk and Finance monitoring position as at the end of September 2020.

The Head of Insight and Corporate Programmes informed members there had been one risk rating score change during September; L15 – Oxfordshire Growth Deal had decreased.

Resolved

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

34 **Review of Those Charged with Governance**

The Director of Finance presented a report which set out the response to Ernst & Young (EY) regarding the view of management assurance.

The Director of Finance confirmed the wording in paragraph 8 in relation to significant parties, would be checked to ensure correctness.

Resolved

(1) That the draft response relating to management assurances from Those Charged with Governance (Annex to the Minutes as set out in the Minute Book) be noted.

(2) That it be agreed that the Director of Finance, in conjunction with the Chairman of the Accounts, Audit and Risk Committee, make any further changes to the response relating to management assurances from Those Charged with Governance (Annex to the Minutes as set out in the Minute Book) that may arise as a result of the audit.

35 **External Audit - Annual Audit Opinion 2019/20**

The Director of Finance submitted a report which set out the External Audit Opinion for 2019/20.

Resolved

(1) That the contents of the External Audit Opinion (ISA260) for 2019/20 be noted.

36 **Statement of Accounts Update**

The Director of Finance submitted a report asking Members to consider changes to be incorporated to the draft statement of accounts.

Resolved

(1) That subject to the changes required, agree that the Draft Statement of Accounts 2019/20 be endorsed and once the final audit opinion is received the Director of Finance (S151 Officer), in consultation with the Chair of the Accounts, Audit and Risk Committee (or Vice Chair in case the Chairman is unavailable) be authorised to sign the accounts and it be noted that if any material changes to the accounts are required, then an additional committee meeting would be convened to consider the changes.

(2) That the Director of Finance, in consultation with the Chair of the Accounts, Audit and Risk Committee (or Vice Chair in their absence), be authorised to make any further changes to the letters of representation that may arise during completion of the audit.

37 **2018/19 Audit Fee**

The Director of Finance submitted a report that made the Committee aware of the updates in the 2018/19 Audit Fee.

Members thanked Ernst & Young for the work carried out on the audit this year.

Resolved

(1) That the £33,977 audit fee for work over and above the 2018/19 scale fee be noted.

38 **Treasury Management Report - Q2 (September 2020)**

The Director of Finance submitted a report which provided information on treasury management performance and compliance with treasury management policy and Prudential Indicators for 2020-21 as required by the Treasury Management Code of Practice.

Resolved

(1) That the contents of the Q2 (September 2020) Treasury Management Report be noted.

39 **Progress of Counter Fraud Service**

The Director of Finance submitted a report providing an overview of the current progress of the Authority's counter fraud response following the delegation of authority in July 2018 to Oxford City Council.

The Senior Fraud Officer advised Members that the Fraud Team had been involved in the covid support grants payments to local businesses. The Team had investigated cases which had been referred as possibly fraudulent. Of these cases, four applicants had been interviewed and would be issued warning letters, one further applicant would be interviewed once Covid-19 lockdown restrictions had been lifted.

Resolved

(1) That the current performance of the Corporate Fraud team be noted.

(2) That after due consideration of the future work plans and the impact that this will have on future performance and income to the authority, the report be noted.

40 **Update on Counter-Fraud Arrangements for 2021/22**

The Director of Finance submitted a report presenting the revised arrangements for Counter-Fraud, to become fully operational from April 2021/22.

The Assistant Director of Finance (OCC) updated members on the recruitment to the counter-fraud service. Two Counter Fraud Officers had been appointed and recruitment of the Intelligence & Data Officer would begin shortly. These appointments would ensure that the team was fully resourced by 1 April 2021.

Resolved

(1) The updated arrangements for Counter-Fraud for 2021/22 be noted.

41 **Redmond Review into Local Government Audit**

The Director of Finance submitted a report updating the Accounts, Audit and Risk Committee on the outcome of the Redmond Review into Local Government Audit.

In highlighting the recommendations set out as part of the review, the Director of Finance advised members that some of the recommendations would require Acts of Parliament before they could be adopted.

Resolved

(1) That the findings of the Redmond Review be noted

42 **Work Programme**

The Committee considered the work programme for the remainder of 2019/20.

Members thanked the Finance department for the assistance given to External Auditors on the 2019/20 Statement of Accounts.

Resolved

(1) That the work programme be noted.

The meeting ended at 7.49 pm

Chairman:

Date:

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Cherwell District Council

Accounts, Audit and Risk Committee

21 January 2021

Progress of Counter Fraud Service

Report of the Senior Investigation Officer – Corporate Fraud Team

This report is public

Purpose of report

The report provides an overview of the current progress of the Authority's counter fraud response following the delegation of authority in July 2018 to Oxford City Council.

1.0 Recommendations

The Audit Committee is recommended to:

1.1 Review and note the current performance of the Corporate Fraud team

1.2 Consider future work plans as described and the impact that this will have on future performance and income to the authority.

2.0 Introduction

2.1 The Authority's counter-fraud function is set out in the anti-fraud and anti-corruption policy, as well as the Fraud Response Plan and the Whistleblowing Policy.

2.2 In July 2018 the Council delegated the counter fraud investigation function to Oxford City Council under Section 101 of the Local Government Act 1972. The function was intended to maintain the counter fraud resource following recruitment and staffing issues under previous arrangements.

2.3 The length of the contract for provision of the service was 2 years to July 2020 with an option to extend. The contract has now been extended to April 2021.

2.4 The aim of this report is to provide members with an overview of the changes to working practice, the results achieved to date under current arrangements, and detail regarding work in progress.

3.0 Report Details

3.1 Oxford Investigation Service' (OIS), the Counter Fraud team at Oxford City Council, utilises an 'intelligence led' investigation model which has proven to be highly effective. The team providing the counter-fraud function consists of a Senior Investigation Officer, an Investigation Officer and an Intelligence Officer. All are professionally accredited officers with a great deal of proven experience in counter-fraud.

3.2 The team was given a fully corporate investigative remit which allows the use of a wide range of legal powers. This facilitates a capability to detect, prevent and disrupt criminal behaviour and activity in connection with Council services.

Results

3.3 Between 01 April 2020 and the 07 January 2021, the corporate fraud team has achieved the following results:

Cumulative Savings to date

Type	Fraud Loss Avoidance*	Income Generated
Directly Attributable Savings	£96,813.88	£5,445.56
Indirectly Attributable Savings	£10,235.68	£13,710.13
Totals	**£107,049.56**	**£19,155.69**

3.4 There are currently 15 live cases in CDC at various stages of investigation.

3.5 There are no outstanding prosecution cases within CDC at this time.

3.6 Joint working with the Department for Work and Pensions (DWP) Counter-Fraud Team had been suspended as all the DWP Fraud Team had been redeployed onto Universal Credit work. The UC work has decreased and DWP staff are gradually beginning to work joint cases. It is anticipated that this work will increase as referrals begin to increase. The team has had contact with DWP from Oxford and they are looking towards gradually reintroducing joint working. The joint working will be reintroduced over a period of time.

3.7 Regular liaison meetings are held with DWP and other LA's where the latest policy changes and problem cases are discussed. The Senior Investigation Officer (SIO) attends these meetings on behalf of CDC. There have been no meetings of this group due to the Corvid 19 crisis. DWP at Oxford have asked for Joint Working to be reintroduced and they are also looking at the possibility of reintroducing these meetings.

3.8 The SIO sits on the National Executive Board of the Tenancy Fraud Forum (TFF) and is also chair of the Thames Valley Tenancy Fraud Forum (TVTFF). This involves attending meetings on a quarterly basis to both forums. Both organisations provide counter fraud advice and support to Local Authorities and Social Housing Providers. The SIO attended the last National Executive Board meeting on 12 February 2020. The last executive meeting was completed through video conferencing on 22 Oct 2020. The next meeting of the group will be late January early February 2021.

4.0 Work in Progress

4.1 Training was provided for the Entitlements Team at the beginning of August. The team are exploring the options for providing training to staff and what platform to use.

4.2 Work on the National Fraud Initiative Exercise for 2020/21 has been ongoing with the uploads of the data being progressed. The upload was completed in December 2020 with the matches becoming available in February 2021. When the matches are made available the majority of the Fraud Teams work will be filtering the results. Datasets for the Covid Grant payments will also be uploaded in January 21 with the results of that being available in March 21.

4.3 Cyber criminals continue to target organisations and individuals using the numerous grant schemes that have been introduced by the government. These attacks are varied and normally mimics the organisations processes to lessen suspicion. As these attacks are identified other organisations such as NAFN issues alerts which are passed onto staff to be alert to the latest scams.

4.4 The Corporate Fraud Team have been involved in building the process for the distribution of grant payments to businesses in the District. This involved several meetings with stakeholders to build a process that was robust to prevent fraud but ensured that the local businesses got the help they needed quickly.

4.5 The Fraud Team have been involved in the Grants payments to local businesses. They have helped build a due diligence process that has ensured that the payments go to the right businesses. The team has had to review fourteen applications where there may have been concerns that they were fraudulent. Eventually five of these applications were considered to be suspicious enough that an Interview under Caution was the outcome. Four of these interviews have taken place and the evidence has been reviewed. Following this review four companies received warning letters, the fifth case has been referred to the legal department to see if there is enough evidence to prosecute the offender. Of the 14 cases eight of them have been refused a grant for numerous reasons and this has resulted in a prevention of £80,000 being paid out to either ineligible businesses or fraudulent applications.

4.6 The Fraud Team have been heavily involved in the setting up and reviewing of payments made to individuals through the Test and Trace Payments Scheme. Any suspected fraudulent applications are referred to the team to complete checks and take appropriate action.

4.7 The Fraud Team have also been involved in the process in preparation for payments through the Local Lockdown Grants Scheme. Since a national lockdown has been imposed this preparation work will mean the scheme should be able to be implemented quickly and help given to local businesses.

5.0 Conclusion and Reasons for Recommendations

5.1 The delivery of the Counter Fraud response has been impacted by Covid, most noticeably in the ability to progress joint investigations with DWP, and undertaking interviews under caution; however, this is now changing and cases are being progressed once again. The administration of business grants has been a new fraud risk area of activity during recent months. The strong collaboration between CSN, Finance, Internal Audit and Counter Fraud Teams has seen robust systems and processes adopted, that has managed the risk of fraud effectively.

6.0 Consultation

6.1 Not applicable.

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7.0 Alternative Options and Reasons for Rejection

7.1 This report is for noting progress and performance only. Therefore, no alternative options are presented for consideration.

8.0 Implications

Financial and Resource Implication

8.1 The cost to Cherwell District Council for the provision of Counter Fraud services is within the existing budget. The contract runs until April 21 when a new service will begin.

8.2 In addition to cashable savings, having a robust counter fraud strategy which includes a dedicated investigation team has additional benefits. These include preventing additional financial and reputational loss alongside other advantages such as advice, guidance and public assurance that the authority is actively working to tackle fraud in the district.

Comments checked by:
Michael Furness, Assistant Director of Finance, 01295 221845
michael.furness@cherwell-dc.gov.uk

Legal Implications

8.3 There are no legal implications arising directly from this report.

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

Risk Implications

8.4 There are no risk management issues arising directly from this report.

Comments checked by:
Louise Tustian, Head of Insight and Corporate Programmes, 01295 221786
louise.tustian@cherwell-dc.gov.uk

9.0 Decision Information

Key Decision: **N/A**

Financial Threshold Met: **N/A**

Community Impact Threshold Met: **N/A**

Wards Affected

All

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

Councillor Tony Ilott – Lead Member for Financial Management and Governance

Background papers

None

Report Author and contact details

Rob Ducker, Senior Investigation Officer, 01865 252180
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Cherwell District Council

Account Audit and Risk Committee

20 January 2021

Internal Audit Progress Report 2020/21

Report of the Director of Finance

This report is public

Purpose of report

The report presents the Internal Audit Progress report for 2020/21

1.0 Recommendations

The meeting is recommended:

1.1 To note the progress with the 2020/21 Internal Audit Plan and the outcome of the completed audits.

1.2 To review recommended best practice within CIPFA Audit Committee Guidance (2018) and agree additions to the AARC work programme.

2.0 Introduction

2.1 This report provides an update on the Internal Audit Service, including resources, completed and planned audits.

2.2 Each progress report includes the Executive Summaries from the individual Internal Audit reports finalised since the previous update to the committee and also an update on the implementation of agreed management actions.

2.3 This report also summarises the requirements / recommended guidance from both the CIPFA Audit Committee Guidance and PSIAS (Public Sector Internal Audit Standards) that should be considered for inclusion within the annual work programme of AARC.

3.0 Report Details

Resources

3.1 A full update on resources was made to the Accounts, Audit & Risk Committee in July 2020 as part of the Internal Audit Strategy and Plan for 2020/21. Since then the recruitment activity which had been paused due to covid-19, recommenced and we have successfully appointed to the Senior Auditor and Assistant Auditor vacancies. Both have now started.

3.2 The November committee meeting was updated, with the additional posts that had been agreed as dedicated counter fraud resource, with an updated structure chart presented for Internal Audit and Counter Fraud. The delivery of a joint Internal Audit Service across both CDC and OCC will be extended to include a joint counter fraud service from April 2021. Recruitment is in progress to ensure resources are in place for the beginning of the financial year.

2020/21 Plan Progress

3.3 The 2020/21 Internal Audit Plan, which was agreed at the July Accounts, Audit & Risk Committee, is attached as Appendix 1 to this report. This shows current progress with each audit. The plan and plan progress is reviewed quarterly with senior management.

3.4 An audit of Disabled Facilities Grant Processes has been completed and also a further review of IT risks under stage 2 of the finance system implementation. Executive summaries for both of these are included within Appendix 2 of this report. Internal Audit also completed the certification work for the Disabled Facilities Grant and this was satisfactorily signed off in October.

3.5 There have been two amendments made to the plan, which have been agreed by the Director of Finance. 1) We have removed the audit of Key Financial Systems Assurance and used the days available to continue to support over the summer the due diligence work on Small Business Grants. The audits of Payroll, Revenues and Benefits and also the implementation of the new Finance System remain in the plan. 2) We have removed the grant certification work on the Homes England Grant as this is not required for this financial year. There will likely be further grant certification work identified for the completion at the end of the financial year which will replace this, for example the Covid Compliance and Enforcement Grant. The remainder of the plan is on track for delivery by the end of April 2021.

Performance

3.6 The following performance indicators are monitored on a monthly basis.

Performance Measure	Target	% Performance Achieved for 20/21 audits (as at 07/01/2021)	Comments
Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	80%	
Elapsed time for completion of audit work (exit meeting) to issue of draft report.	15 days	100%	
Elapsed time between issue of Draft report and issue of Final Report.	15 days	80%	

3.7 The other performance indicators are:

- % of 2020/21 planned audit activity completed by 30 April 2021 – reported at year end.
- % of management actions implemented – see para 3.8 below.

Implementation of Agreed Management Actions

3.8 Outstanding management actions from 2018/19 and 2019/20 audits were taken over for monitoring from the previous internal audit provider. At the time of reporting to the July Committee and handover from the previous internal audit provider there were 27 actions still open from 2018/19 and 40 actions still open from 2019/20 audits. As at 07/01/2021 this figure has reduced, there remains 14 open from 2018/19 and 20 open actions from 2019/20. Further detail is recorded in Appendix 3. These will continue to be reviewed and followed up with senior management throughout 2021.

3.9 We have agreed a total of 36 actions for the work completed so far as part of the 2020/21 Internal Audit Plan, nine of these actions have been implemented and one has been superseded. Of the remaining 26 actions, 20 are not yet due for implementation, four are being implemented and two have recently become due – these will be followed up throughout 2021.

CIPFA’s Audit Committee Guidance (2018)

3.10 CIPFA’s Audit Committee Guidance 2018 sets out the functional and operational responsibilities of audit committees in local authorities throughout the UK. It represents best practice. Following the November AARC meeting a copy of the guidance was circulated to all AARC members for information. It recognises audit committees as a key component of governance. Audit committees are an important source of assurance about an organisation’s arrangements for managing risk, maintaining an effective control environment, the integrity of financial reporting and governance processes.

3.11 From April 2013, Internal Audit within local authorities have been required to follow PSIAS (Public Sector Internal Audit Standards). The committee have a clear role in oversight of the Internal Audit function.

3.12 There are a number of requirements / recommended guidance from both the CIPFA Audit Committee Guidance and PSIAS that should be considered for inclusion within the annual work programme of AARC. These are noted below for review and decision:

Item	**Description**	**Comment**	**Action proposed**
1	AARC Terms of Reference	Have the terms of reference for AARC been subject to recent review / is it in accordance with CIPFA recommended guidelines? (There is a suggested model for TOR within the guidelines)	Chief Internal Auditor / Assistant Director of Finance to undertake review of current AARC TOR against CIPFA guidelines and bring back to March committee meeting any proposed changes for discussion and approval.
2	Annual Report of AARC	CIPFA recommended guidance is that “a public report should demonstrate how the committee has discharged it’s responsibilities”. It is expected that this report should be made annually to full council.	Chief Internal Auditor to draft on behalf of the committee – draft to be presented to March committee meeting for review, discussion and amendment. Chair of AARC to present the report to full council early in 2021/21.
3	Review of Internal Audit Charter	This was presented and approved at the July 2020 AARC meeting. It is a requirement of PSIAS and CIPFA guidance that this is presented annually.	Include in work programme for July meeting. (annually)

4	Private sessions with both External Auditor and Chief Internal Auditor	Recommended that at least annually there are private sessions between the committee and The Chief Internal Auditor and also the committee and External Audit. This enables the committee to confirm with the Chief Internal Auditor, organisational independence, adequacy of resourcing, key issues, etc.	Schedule 30-minute private session with Chief Internal Auditor. Schedule 30-minute private session with External Audit. September 2021 (and then annually)
5	Independent member	Recommended best practice is to appoint an independent member to the committee. Advantages: • to bring additional knowledge and expertise to the committee • to reinforce the political neutrality and independence of the committee • to maintain continuity of committee membership where membership is affected by the electoral cycle.	Person specification would need to be drafted and agreed. Committee to decide how to progress with recruitment of an independent member.
6	Training programme / briefings / Self-Assessment	Is there a regular programme of training events / briefings for AARC members (e.g. risk management, finance, treasury management)? Are there any areas that would be useful to highlight and add to the work programme? Cipfa guidance recommends that the committee undertake a regular self-assessment against the guidance.	Add any current identified training or briefing requirements to AARC work programme. Undertake a self-assessment exercise (Chief Internal Auditor to lead and support AARC with this). Undertake a session in November 2021.

4.0 Conclusion and Reasons for Recommendations

4.1 This report provides a progress update on delivery of the internal audit plan for 2020/21, summarising key findings from completed audits and provides an update on the implementation of management actions for the committee to consider. The current plan for 20/21 is on target for delivery by the end of April 2021.

5.0 Consultation

Not applicable.

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.

7.0 Implications

Financial and Resource Implications – Mandatory paragraph

7.1 The are no financial implications arising directly from this report.

Comments checked by:
Michael Furness, Assistant Director of Finance, 01295 221845
michael.furness@cherwell-dc.gov.uk

Legal Implications – Mandatory paragraph

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

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

Risk Implications - Mandatory paragraph

7.3 There are no risk management issues arising directly from this report.

Comments checked by:
Louise Tustian, Head of Insight and Corporate Programmes, 01295 221786
louise.tustian@cherwell-dc.gov.uk

8.0 Decision Information

Key Decision (N/A)

Financial Threshold Met: **N/A**

Community Impact Threshold Met: **N/A**

Wards Affected

All

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

Councillor Tony Ilott – Lead Member for Financial Management and Governance.

Document Information

Appendix number and title

- Appendix 1 – Internal Audit Plan 2020/21 – Progress Update
- Appendix 2 – Executive Summaries of reports finalised
- Appendix 3 – Outstanding Management Actions (as at 7/1/20)

Background papers

None

Report Author and contact details

Sarah Cox, Chief Internal Auditor, 07393 001246, sarah.cox@cherwell-dc.gov.uk

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APPENDIX 1: 2020/21 CDC Internal Audit Plan – Progress Report

Audit	Planned Qtr Start	Status as at: 08/12/2020	Conclusion
Support with due diligence tests on Small Business Grants and Discretionary Grants	Q1	Complete	Results previously reported to July AARC
Revenues and Benefits (including debtors)	Q2	Fieldwork	
Implementation of new Finance System (design of internal controls / processes, including design of IT security controls)	Q1	Phase 1 – complete Phase 2 –complete Phase 3 – Q4	
Finance (Housing - Hardship Fund) - Discretionary Housing Payments / Hardship Fund	Q4	Not started	
Cyber Security	Q1	Final Report	Amber
Payroll (including IT security controls)	Q3/Q4	Fieldwork	
Disabled Facilities Grant Processes (in addition to grant certification)	Q2	Final Report	Amber
Accounts, Audit & Risk Committee			
Handover of monitoring of management action implementation	Q1	Complete	n/a
Public Sector Internal Audit Standards – compliance	Q1-Q4	In progress IA Charter – complete	n/a
Grants			
Disabled Facilities Grant Certification	Q2	Complete	n/a

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APPENDIX 2 – Executive Summaries of reports finalised since last report to September 2020 committee.

Finance System Implementation – Phase 2 ICT Risks (part 2)

Opinion: n/a	Management Letter Issued: 21/12/20
Total:	Priority 1 = 0 Priority 2 = 4
Current Status:	In Progress
Implemented	0
Due not yet actioned	0
Partially complete	0
Not yet Due	4

The Council have now procured a new finance system, which will replace the existing council's finance system from April 2021. Internal Audit is supporting this major programme by reviewing at key stages, the design of the internal control framework. This reports on the work Internal Audit have completed at build stage – phase 2, specifically on the following ICT risk areas:

- Logical Access Security
- User Access Rights
- System Audit Trails

(Previously reviewed ICT risk areas: Data Migration & Cloud Hosting, included in report to September AARC)

Overall Conclusion

The majority of users will access the new system using a web browser, utilising Single Sign-On (SSO) along with Multi-Factor Authentication (MFA). However, there are a small number of users who will need to access the system via a desktop client, and they will login using a local username and password. SSO and MFA will not be used for these users because of technical reasons and cost. The local password policy for desktop users has yet to be agreed but will likely be based on corporate standards which require a minimum 10-character password that does not expire. The new system allows complex passwords to be configured and an account lockout policy to be set, which locks accounts after a specified number of failed logins. These should both be used to further secure the login process for desktop users.

User access levels to menus, workflows and data control have been mapped based on roles that exist within the current finance system for creditors, debtors, general ledger and bank reconciliation. Once access levels have been agreed, they should be formally approved to confirm that they are correct and valid and to also provide a baseline for managing user access going forward. Some testing of user access has been performed during Integrated Systems Testing and we recommend that further specific testing around segregation of duties, authorisations etc is included as part of User Acceptance Testing.

There is a transaction level audit trail in the new system, although we could not find any configurable options for managing the audit trail within the system administration menus. It is therefore not possible to confirm if the audit trail logs changes to system configurations or system security and what level of reporting is available. These areas should all be confirmed prior to the system going live.

Disabled Facilities Grants Processes 2020/21

Overall conclusion on the system of internal control being maintained	A

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Policies & Procedures	A	0	2
B: Applications	A	0	2
C: Provision of Works	R	0	4
D: Recovery of Funding	G	0	1
E: Management Information	A	0	3
		0	12

Opinion: n/a	Report Issued: 07/01/21
Total: 12	Priority 1 = 0 Priority 2 = 12
Current Status:	In Progress
Implemented	0
Due not yet actioned	0
Partially complete	0
Not yet Due	12

The Government's budget for the Disabled Facilities Grant, intended to fund the provision of adaptations to disabled persons' homes, has continued to increase over recent years, with Cherwell's allocation rising from £457k in 2015/16 to £1.093m in 2020/21. In 2015/16, CDC agreed a 5-year annual funding commitment from their own budget, topping up the Government's allocation by £375k per year in order to meet demand, however in light of the significant increases to the Government's allocation, this top up was paused from 2018/19. Although large underspends have been reported year-on-year, there has been good progress in managing these, following extension of the Grants Team's capacity and introduction of various discretionary grants. Underspend has therefore decreased from £749k in 2018/19 to £497k in 2019/20. Initial forecasts for 2020/21 projected expenditure to remain at a similar level to the previous year, therefore using up carried forward funding, however due to the significantly reduced activity as a result of Covid-19, an underspend of £490k is now forecast.

In order to utilise the funding to meet growing demand and maximise opportunities to support people in their homes, the audit noted good use of several discretionary grants, introduced to speed up adaptations and ensure clients are supported in the best way possible. These are kept under regular review to ensure they are meeting clients' needs in the best way possible, with the Extended Minor Works Grant recently increased from £5k to £10k to allow an increased number of cases to be put through a discretionary grant route rather than the slower and more complex mandatory DFG route.

The audit noted the dedicated work of the team to ensure clients' needs are met as effectively as possible, particularly during the ongoing pandemic, having managed staffing vacancies and implementation of a new IT system. Annual figures submitted to the Government show that for 2019/20, a total of 194 grants were completed, successfully helping clients remain independent in their own homes and reducing pressure on social care services and hospitals.

The audit did, however, identify several areas of weakness within the DFG administration and management process, including a lack of team guidance, instances of non-compliance with the Contract Procedure Rules, and, currently, very little financial or performance reporting.

Appropriately authorised policies exist for each type of Disabled Facilities Grant, however the main DFG Policy is dated 2010, with sample testing identifying a number of areas where processes detailed in the policy are not reflective of what is happening in practice. Aside from one flowchart there are also no procedure or process notes within the team, leading to a number of inconsistencies in processes noted during testing, and a risk that grant conditions or Council policies are not complied with. The absence of up to date and complete policies and guidance was acknowledged by the team during the audit, with a 'Disabled Adaptations Policy' being drafted to replace the 2010 DFG Policy, and the intention to produce team guidance in the near future.

Sample testing of 24 adaptations found the assessment part of the process to be generally compliant with expected processes, including the consideration of discretionary grants to allow a more flexible approach, and completion of financial means-tests where applicable. Timeliness of approving completed applications was also found to be within the *Housing Grants, Construction and Regeneration Act's* requirement of 6 months, with it demonstrable that 'urgent priority' cases were being treated as such. While some delays were noted in getting to the 'completed application' stage, the reasons for the delay could be found in Case Manager, with a number due to required planning permission, and others due to delays in clients sending required information.

Instances of non-compliance with the Contract Procedure Rules (CPRs) were also identified during audit testing. 5 adaptations from the sample required 3 quotes in order to be compliant with the CPRs, however all had only obtained 2 quotes, and of the 10 requiring 2 quotes, only 3 were compliant. This issue was also noted during the 2018/19 internal audit of Capital Programme Management, where it was agreed that competitive quotes should be obtained by CDC, or reasons why quotes were not sought should be clearly recorded and subject to approval. Little progress has been made in implementing the agreed action, with the team stating they recognise the need to be compliant, but that flexibility is required in order to deliver their service to a particularly vulnerable client group under sometimes urgent circumstances. Further issues were also noted in terms of contractor use, with analysis of payment records showing over-reliance on one particular contractor, having been awarded 43% of Extended Minor Works Grant adaptations over the past 18 months. While the team maintain the contractor is used because a good working relationship has been developed and quality of work established, over-reliance on one contractor increases the risk performance issues should the contractor become unavailable. It is noted a framework is being developed for the Minor Works element of housing adaptations, which will reduce the risks associated with over reliance on one contractor.

Audit testing found payments to contractors were made promptly and accurately and Housing Improvement Agency (HIA) fees charged appropriately in the majority of cases. While 50% of cases sampled experienced additional payments when compared to the contractor's original quote, these additions were documented and confirmed as appropriate on Case Manager, the HIA case management system, in all cases. Reconciliations between Case Manager, Civica, and the adaptation's Notice of Approval did however identify one case in which the client's assessed contribution of £356 had not been deducted from the contractor's invoice to CDC, in line with the established process, meaning the client had not paid their contribution. This had not been identified prior to the audit but is now being followed up by the team.

More widely relating to sample testing, the audit noted that despite Case Manager being introduced in April 2019, it is yet to be fully integrated into day to day administration and management of DFGs. Due to reported data integrity issues with financial data held in Case Manager, and a subsequent lack of reliance on reporting, spreadsheets recording finances were initially maintained in parallel with the system, creating additional work for the team. Recognising this, the team stopped using the spreadsheets and have been working to resolve the reporting issues, however the lack of reliance on Case Manager reports means there has been little formal management information or performance reporting developed, and no reconciliations between Civica and Case Manager. Instead, informal catch ups and 1:1s within the team have been used to monitor performance. As the majority of reporting issues have reportedly been resolved, the team hope to utilise system generated reporting going forward, the priority being financial reconciliations, for which a report is already being developed with Finance to allow regular reconciliations between the two systems. The five District Councils and Oxfordshire County Council have also been working to develop a draft set of key performance measures relating to the HIA contract, with a series of measures focusing on the timeliness of DFG adaptations.

Sample testing also identified a lack of consistency in the use of client accounts on Case Manager. Multiple instances were identified where supporting documentation had not been uploaded to Case Manager, examples included client and contractor letters, invoices, confirmation of HIA fees, and completion certificates. While the team were able to provide a number of the missing documents upon request, the majority of client and contractor letters could not be provided. Further testing found various client accounts that have not been kept up to date, including one where confirmation had been received in October 2019 the works would not be going ahead, but is still recorded as active on the system, and 2 where no progress or updates have been made for a number of months and have reportedly been missed by the team. The current lack of performance reporting means issues such as these are not being identified and addressed promptly. It was also noted that in order for the HIA contract key performance measures to be meaningful and accurate, reliance is placed upon the team to update each adaptation's case status promptly. It is therefore important that responsibilities and trigger points for changing the status are clearly communicated and known across the team.

A further offline system was noted in the recording of land charges, which are added to client's properties under certain circumstances to ensure recovery of part of their funding should they sell their property within 10 years of completion of the adaptation. Until very recently this information was recorded on a spreadsheet, as there was no reportable way to record it on clients' accounts. This has now been resolved with it now being possible to record this information on Case Manager, but further work is required to update all client records with their land charge information, to allow monitoring to be carried out in one central place and reduce reliance on offline systems. Sample testing also identified one case where the Local Land Charges Team had not been informed of the land charge requirement upon completion of the works. This had not been identified prior to the audit, however the team have now been informed.

Definition of Internal Audit RAG opinions:

Grading:	**G**	**A**	**R**
Overall conclusion on the system of internal control being maintained	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

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Appendix 3 – Open management actions as at 07/01/21

2018/19 – outstanding open actions

Report Title	Total outstanding	Implemented	Superseded	Target date not reached or extended	Target date reached – overdue or being implemented
CDC GDPR 2018/19	7	-	-	6	1
CDC HR 2018/19	4	-	-	4	0
CDC Procurement & CM 2018/19	3	-	-	2	1
Totals	**14**	**-**	**-**	**12**	**2**

2019/20 – outstanding open actions

Report Title	Total outstanding	Implemented	Superseded	Target date not reached or extended	Target date reached – overdue or being implemented
CDC Budget Mgmnt & Reporting 2019/20	4	-	-	1	3
CDC MOT Income 2019/20	3	-	-	1	2
CDC Payroll 2019/20	1	-	-	0	1
CDC Anti-Fraud & Corruption 2019/20	4	-	-	3	1
CDC Risk Management 2019/20	4	-	-	4	0
CDC Finance Systems 2019/20	4	-	-	2	2
Totals	**20**	**-**	**-**	**11**	**9**

2020/21 – all actions

Report Title	Total agreed	Implemented	Superseded	Target date not reached or extended	Target date reached – overdue or being implemented
CDC Finance System Imp Phase 2 (b) ICT Risks 20/21	4	-	-	4	-
CDC DFG Processes 20/21	12	-	-	12	-
CDC Cyber Security 2020/21	15	4	1	4	6
CDC Finance System Imp Phase 2 ICT Risks 20/21	5	5	-	-	
Totals	**36**	**9**	**1**	**20**	**6**

Cherwell District Council

Accounts, Audit and Risk Committee

20 January 2021

Capital, Investment and Treasury Management Strategies 2021-22

Report of the Director of Finance

This report is public

Purpose of report

To submit the draft Capital and Investment Strategy and Treasury Management Strategy for 2021-22.

1.0 Recommendations

The meeting is recommended:

1.1 To recommend the draft strategies for 2021-2022 to Full Council for adoption.

2.0 Introduction

2.1 The Capital and Investment Strategy was 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 **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.

3.2 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

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

3.3 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

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

5.0 Consultation

5.1 None

6.0 Alternative Options and Reasons for Rejection

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

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report. The financial implications of are incorporated into the draft budget 2021-22 and MTFS 2021-22 to 2025-26. Presentation of this report is in line with the CIPFA Code of Practice and Prudential Code

Comments checked by:
Michael Furness, Assistant Director – Finance
michael.furness@:cherwell-dc.gov.uk 01295 221845

Legal Implications

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

Comments checked by:
Chris Mace, Solicitor, christopher.mace@cherwell-dc.gov.uk, 01295 221808

Risk Management Implications

7.3 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, Head of Insight and Corporate Programmes
louise.tustian@cherwell-dc.gov.uk 01295 221786

8.0 Decision Information

Key Decision: **N/A**

Financial Threshold Met: **N/A**

Community Impact Threshold Met: **N/A**

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 number and title

- Appendix 1 – Capital and Investment Strategy 2021-22
- Appendix 2 - Treasury Management Strategy 2021-22

Background papers
None

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Cherwell District Council

Capital and Investment Strategy 2021/22

A. Capital Strategy (Including Minimum Revenue Provision (MRP) Statement)

A1. Introduction

A1.1 The Prudential Code for Capital Finance sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Strategy must be approved by full Council.

A1.2 The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved. This strategy should be read alongside and in conjunction with the Treasury Management Strategy and the Investment Strategy.

A2. Capital Expenditure and Financing

A2.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year[1]. 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. In 2021/22, the Council is planning capital expenditure of £36.2m as summarised below:

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

	2019/20 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Services	16.3	15.0	11.0	0	0
Capital investments	25.5	64.7	25.2	1.4	0
TOTAL	41.8	81.2	36.2	1.4	0

A2.2 The main capital projects across the period include the Build! Programme, Castle Quay 1 and 2 and the Bretch Hill Reservoir Phase 2.

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

Governance

A2.3 Capital project bids linked to corporate or service priorities plus essential need are brought forward by Service Managers as part of the Budget & Business Planning process. These are considered by the senior officer leadership team, both in terms of priority and affordability. The Finance team undertake a calculation of the financing cost of proposals and recommend the level of investment based on affordability. Projects proposed to be included in the Council's capital programme are then considered and appraised by the Budget Planning Committee and provide comments to the Executive on the proposals. The Executive then, taking into consideration any comments propose which schemes to include in the Capital Programme ahead of the final capital programme being proposed to Council in February each year.

A2.4 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

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
External sources	3.4	0.8	1.0	1.0	1.0
Own resources	4.0	1.9	4.0	6.0	23.0
Debt	34.4	78.5	31.2	(5.6)	(24.0)
TOTAL	**41.8**	**81.2**	**36.2**	**1.4**	**0**

A2.5 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). In addition, 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

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Own resources	4.0	1.9	4.0	6.0	23.0

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

A2.6 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 £29.2m during 2021/22. 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

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
TOTAL CFR	**178.7**	**255.2**	**284.4**	**275.0**	**247.3**

Asset management

A2.7 To ensure that capital assets continue to be of long-term use, the Council has a property 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

A2.8 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. In addition, there are currently no plans to utilise capital receipts on services transformation projects for 2020/21 and 2021/22. Receipts from capital grants, loan repayments and investments also generate capital receipts.

A3 Treasury Management

A3.1 Treasury management is concerned with the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

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 typically has surplus cash in the short-term as revenue income is received before it is spent, but insufficient cash in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. At 30 September 2020 the Council had borrowings of £152m at an average interest rate of 1.43%, and £15.4m of investments at an average interest rate of 0.47%. The borrowing position is reported regularly to Accounts, Audit & Risk Committee as part of the Treasury Management Reports.

Borrowing strategy

A3.2 The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. This objective often conflicts, and the Council therefore seeks to strike a balance between lower cost short-term loans (currently available at around 0.75% to1.0%) and long-term fixed rate loans where the future cost is known, but higher cost (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

	31 March 2020 actual	31 March 2021 forecast	31 March 2022 budget	31 March 2023 budget	31 March 2024 budget
Debt (incl. leases)	141.0	219.5	250.7	192.5	188.5
Capital Financing Requirement	178.7	255.2	284.4	275.0	247.3

A3.3 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5 above the Council expects to comply with this in the medium term.

Affordable borrowing limit

A3.4 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

	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
Operational boundary total external debt	215	270	270	270
Authorised limit total external debt	240	300	300	300

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

A4. Commercial Activities

A4.1 To drive leadership of place within Cherwell, stimulate growth, pursue economic regeneration and helping to return confidence to the local economy through investment and facilitating inward investment, the Council invests in commercial property which may also provide some financial gain. Total commercial investments are currently (31 March 2020) valued at £62m with the largest being Castle Quay.

A4.2 From a financial perspective, the Council recognises that commercial investments can be higher risk than 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 and market sector. 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'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. d) 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 includes both large national concerns and small local businesses (mainly retail or industrial type tenants). Tenant default risk is managed in two ways: a) 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. b) Risk is managed by diversification as only a small proportion of tenants will fail in any given year. c) A commercial risk earmarked reserve is held to meet any shortfall in income which may arise in year due to default.
Obsolescence:	A significant proportion of the Council's portfolio comprises industrial / warehouse buildings and simple retail assets which have relatively low obsolescence compared to industrial premises where there are substantial amounts of plant and machinery. Where the Council has offices a sinking / replacement fund is put in place with annual sums collected from tenants 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 the Council will try to negotiate terms which allow for the replacement of obsolete plant when it is beyond economic repair. Where matters of Council policy override commercial concerns, the Council's 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 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 plus earmarked reserves held. 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, the Council relies 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

A4.3 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.

A4.4 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.

A5. Revenue Budget Implications

A5.1 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 7: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Net Financing costs/(Income)(£m)	(£0.6m)	(£0.1m)	(£2.7m)	(£1.2m)	(£1.1m)
Proportion of net revenue stream	(3%)	(0%)	(11%)	(7%)	(7%)

Further details on the revenue implications of capital expenditure are in the 2021/22 revenue budget.

Sustainability

A5.2 Due to the very long-term nature of capital 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.

A6. Knowledge and Skills

A6.1 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.

A6.2 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, the Council will ask for competitive quotes.
- 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 services 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

1. 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). The Council is required by statute to charge an amount of MRP to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax-payers.

2. Legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

3. The Council is recommended therefore to approve the following statement:
   - 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.

4. Capital expenditure incurred during 2021//22 will not be subject to an MRP charge until 2022/23.

B. Investment Strategy 2021/22

B1. Introduction

B1.1 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).

B1.2 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.

B2. Treasury Management Investments

B2.1 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 2021/22 financial year.

Contribution

B2.2 The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details

B2.3 Full details of the Council's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy.

B3. Service Investments: Loans

Contribution

B3.1 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 a redeveloped derelict office building in the centre of Banbury which is providing significant rental opportunities in the town centre while removing an eye-sore.

Security

B3.2 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	**31.3.2020 actual**			**2021/22**
	Balance*	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries	59.088	(0.728)	58.360	83.288
Local charities	1.186	(0.050)	1.136	1.150
Local Business	0.020	0	0.020	0.050
Parishes	0.077	0	0.077	0.100
TOTAL	**60.371**	**(0.778)**	**59.593**	**84.588**

** including accrued interest*

B3.3 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. The Council, however, makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment

B3.4 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.

B3.5 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

B4. Service Investments: Shares

Contribution

B4.1 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

B4.2 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	**31.3.2020 actual**			**2021/22**
	Amounts invested	**Gains or losses**	**Value in accounts**	**Approved Limit**
Subsidiaries	29.053	0	29.053	38.823
TOTAL	**29.053**	**0**	**29.053**	**38.823**

Risk assessment

B4.3 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

B4.4 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

B4.5 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.

B5. Commercial Investments: Property

Contribution

B5.1 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

B5.2 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 £ millions

Property	**Actual**	**31.3.2020 Actual**			**31.3.2021 Expected**	**31.3.2022 Expected**
	Purchase Cost	**Net Book Value in accounts 31.3.2019**	**Expenditure, Gains or (losses)**	**Net Book Value in accounts 31.3.2020**	**Net Book Value in accounts**	**Net Book Value in accounts**
Castle Quay Shopping Centre	63.485	42.425	(9.425)	33.000	33.000	40.812
Castle Quay Waterfront	0.000	0.000	0.000	0.000	0.000	72.482
Pioneer Square	8.164	8.053	(0.693)	7.360	7.360	7.360
Tramway Industrial Estate	9.618	9.220	0.030	9.250	9.250	9.250
Other properties	13.092	12.542	(0.545)	11.997	11.997	11.997

valued under £5m						
TOTAL	**94.359**	**72.240**	**(10.633)**	**61.607**	**61.607**	**141.901**

Security

B5.3 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.

B5.4 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 2020/21 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

B5.5 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.

B5.6 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 reliable future income streams and occupational demand is fundamental to our appraisals as longer let assets tend not to generate sufficiently attractive returns.

B5.7 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.

B5.8 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.

B5.9 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.

B5.10 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

B5.11 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.

B6. Loan Commitments and Financial Guarantees

B6.1 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 31/3/20):

Table 4: Loan Commitments and Guarantees

Borrower	**Purpose**	**£m Contractually Available**
Crown House Banbury Ltd	Redevelopment of town centre building into housing	0.2

Graven Hill Village Development Company Ltd	Revolving Credit Facility available to the council's subsidiary until 2026	13.0
Graven Hill Village Development Company Ltd	Facility Agreement that has been in place since 2014 to deliver the project.	15.4
Graven Hill Village Development Company Ltd	Loan Note instruments to enable the company to deliver its objectives	6.1
TOTAL		**34.7**

The council has also issued a performance bond of £22 million 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.

B7. Capacity, Skills and Culture

Elected members and statutory officers

B7.1 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

B7.2 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

B7.3 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.

B8. Investment Indicators

B8.1 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

B8.2 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	**31.03.2020 Actual**	**31.03.2021 Forecast**	**31.03.2022 Forecast**
Treasury management investments	22.0	15.0	15.0
Service investments: Loans	60.4	66.6	77.6
Service investments: Shares	29.1	33.1	33.1
Commercial investments: Property	61.6	61.6	141.9
TOTAL INVESTMENTS	**173.1**	**176.3**	**267.6**
Commitments to lend	34.7	28.7	17.7
TOTAL EXPOSURE	**207.8**	**205.0**	**285.3**

How investments are funded

B8.3 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

B8.4 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	**2019/20 Actual**	**2020/21 Forecast**	**2021/22 Forecast**
Treasury management investments	0.69%	0.30%	0.09%
Service investments: Loans	1.5% - 12%	1.5% - 12%	1.5% - 12%
Commercial investments: Property	Variable	Variable	Variable

Cherwell District Council

Treasury Management Strategy Statement 2021-22

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 or commercial purposes are considered in the Investment Strategy. This strategy should also be read in conjunction with the Capital Strategy.

The latest economic background, credit outlook and interest rate forecast provided by Arlingclose is attached at the end of this report.For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 0.09%, and that new loans will be borrowed at an average rate of 0.77%.

Local Context

On 30 September 2020, the council held £152m of borrowing and £15.4m of investments. This is set out in further detail below:

	30.9.20 Actual Portfolio £m	**30.9.20 Average Rate %**
External borrowing:		
Public Works Loan Board	75.0	1.76%
Local authorities	77.0	1.10%
Total gross external debt	**152.0**	**1.43%**
Treasury Investments:		
Banks & building societies (unsecured)	0.1	0.01%
UK Government	0	-
Local Authorities	8.0	0.88%
Money Market Funds	7.3	0.03%
Total treasury investments	**15.4**	**0.47%**
Net debt	**136.6**	

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

Table 1: Balance sheet summary and forecast

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
General Fund CFR	180.6	255.2	284.5	275.1	247.4
Less: External borrowing **	(141.0)	(179.0)	(75.0)	(75.0)	(75.0)
Internal/(over) borrowing	**39.6**	**76.2**	**209.5**	**200.1**	**172.4**
Less: Usable reserves	(28.6)	(28.6)	(28.6)	(28.6)	(28.6)
Less: Working capital	(33.0)	(33.0)	(33.0)	(33.0)	(33.0)
Investments/(New borrowing required)	**22.0**	**(14.6)**	**(147.9)**	**(138.5)**	**(110.8)**

** shows only loans to which the council is currently committed. Therefore 'New Borrowing includes some refinancing of existing debt

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 may therefore be required to borrow up to a total of £222.9m over the forecast period (£75m plus £147.9m in 2021/22 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 (30/9/20) holds £152 million of loans, an increase of £9 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 £222.9 million in 2021/22. The council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £300 million, which has been assessed and stated in the Capital Strategy.

Objectives: The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

Strategy: the council's borrowing strategy is to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. A balance is therefore sought between short-term borrowing, using internal resources and securing affordable long term borrowing to mitigate future interest rate risk.

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. External advisors, 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 2021/22 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, which provides accessible and affordable borrowing options. The council may also look to borrow any long-term loans from other sources as set out below.

Alternatively, the council may arrange forward starting loans during 2021/22, 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 private and public 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

Forecast of borrowing rates: It is expected that the Bank Rate will remain at 0.10% during 2021/22. PWLB borrowing rates are forecast to be between 0.80 – 1.55% in the short to medium term, therefore the "cost of carry[1]" associated with the long-term borrowing compared to temporary investment returns will be significantly reduced compared to previous years.

The main sources of borrowing for the Council are the PWLB and other UK local authorities. The borrowing rate from the PWLB is directly linked to UK Government Gilt yield. There are two rates offered by the PWLB which the Council has access to; the standard rate and the certainty rate, which are 100, and 80 basis points over gilts, respectively.
The Council will apply to qualify for the certainty rate each year.

Our advisors, Arlingclose have forecast gilt yields and borrowing rates over the medium term to be as follows:

Duration	Gilt Yield %	PWLB Certainty Rate %

[1] The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

50 year	0.60 – 0.75	1.40 – 1.55
20 year	0.70 – 0.85	1.50 – 1.65
10 year	0.30 – 0.55	1.10 – 1.35
5 year	0.00 – 0.25	0.80 – 1.05

Borrowing from Local Authorities comprises approximately 49% of our current loans and are readily available for short durations (1 month – 2 years) at lower rates than PWLB, although these do carry the risk of interest rate rises when refinancing.

For the purpose of setting the budget, it has been assumed that new loans will be borrowed at an average rate of 0.77%, using a combination of PWLB (10% of required borrowing at 1.5%) and local authority loans (90% of new borrowing at 0.7%). The overall forecast loans rate for 2021/22 using existing long term borrowing and new loans is1.16%.

Investment Strategy

The council currently (30/9/20) holds invested funds of £15.4m representing income received in advance of expenditure plus balances and reserves held. In the past 6 months (April – September 2020), the council's investment balance has ranged between £13.5 million and £58.8 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.

Treasury management investments in £millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Short-term investments	17.0	15	15	15	15
Longer-term investments	0	0	0	0	0
TOTAL	**46.0**	**15**	**15**	**15**	**15**

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: There is a 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, the council would divest from any negative yielding instant access deposits and switch to a series of short term inter local authority deposits, whilst inter local authority returns remain above, or at zero.

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.

Forecast of interest rates: Our advisors, Arlingclose is forecasting that BoE Bank Rate will remain at 0.10% until at least the end of 2023. Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero. Taking into account the advice from Arlingclose, market implications and the current economic outlook, it has been assumed that new treasury investments for 2021/22 will be made at an average rate of 0.09%,

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		£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.

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.

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.

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 0.1% fall in interest rates	£450,000

As interest rates are at 0.1%, 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	2021/22	2022/23	2023/24
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 2021/22 is £13k, based on an average investment portfolio of £15 million at an average interest rate of 0.09%.

The budget for debt interest payable in 2021/22 is £2.235 million, based on an average debt portfolio of £192 million at an average interest rate of 1.16%.

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

Economic Commentary and Interest Rate Forecast – Arlingclose - January 2021

External Context

Economic background: The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2020

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB 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
17 March 2021	Performance, Finance and Risk Monitoring Report - Q3 - January 2021 Housing Benefit Subsidy Audit Housing Benefit Risk Based Verification Policy Internal Audit 2020/21 Progress Update External Audit Update Treasury Management Q3 Update Work Programme Update Terms of Reference Review Annual Report of AARC
24 May 2021 Informal Meeting	Local Government Finance
26 May 2021	Performance, Finance and Risk Monitoring Report - Q4 - March 2021 External Audit Update and Draft Statement of Accounts Annual Report of the Chief Internal Auditor 2020/21 Internal Audit Strategy and Plan 2021/22
28 July 2021	Internal Audit Charter Performance, Finance and Risk Monitoring Report - Q1 - May 2021 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 Counter Fraud Strategy and Plan 2021/22
22 September 2021	Chief Internal Auditor - Private Session External Auditor - Private Session Treasury Management Q1 Update 2021/22 Internal Audit Progress Update 2021/22
17 November 2021	Treasury Management Q2 2021/22 Performance, Finance and Risk Monitoring Report - Q2 - September 2021 Counter Fraud Update 2021/22
19 January 2022	Internal Audit Progress Update 2021/22 Draft Capital and Investment Strategy and Treasury Management Strategy 2022/23

16 March 2022	Counter Fraud Update 2021/22 Annual Report of AARC Performance, Finance and Risk Monitoring Report - Q3 - December 2021 Treasury Management Q2 2021/22 Housing Benefit Subsidy Audit Housing Benefit Risk Based Verification Policy External Audit Update