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Cherwell

DISTRICT COUNCIL
NORTH OXFORDSHIRE

Committee: Accounts, Audit and Risk Committee

Date: Wednesday 25 January 2023

Time: 6.30 pm

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

Membership

**Councillor Donna Ford
(Chairman)**

Councillor Patrick Clarke

Councillor Ian Middleton

Councillor Sean Woodcock

Councillor Hugo Brown (Vice-Chairman)

Councillor Andrew Crichton

Councillor Chris Pruden

Councillor Barry Wood

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 - 8)

To confirm as a correct record the Minutes of the meeting of the Committee held on 16 November 2022.

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. Annual Governance Statement 2021/2022 - Update on Actions (Pages 9 - 14)

Report of Monitoring Officer & Assistant Director of Law & Governance

Purpose of report

To consider an update on actions from the Annual Governance Statement (AGS) 2021/2022.

Recommendations

The meeting is recommended:

- 1.1 To consider and comment on the update on the actions arising from the Annual Governance Statement 2021/2022.
- 1.2 To note the formation of the Corporate Oversight & Knowledge Governance Group by the Monitoring Officer.

8. Internal Audit Progress Report 2022/23 (Pages 15 - 34)

Report of the Assistant Director of Finance

Purpose of report

The report presents the Internal Audit Progress report for 2022/23

Recommendations

The meeting is recommended:

- 1.1 To note the progress with the 2022/23 Internal Audit Plan and the outcome of the completed audits.

9. Capital, Investment and Treasury Management Strategies 2023-24 (Pages 35 - 78)

Report of the Assistant Director of Finance

Purpose of report

To submit the draft Capital and Investment Strategy and Treasury Management Strategy for 2023-24.

Recommendations

The meeting is recommended:

1.1 To recommend the draft strategies for 2023-24 to Executive.

10. Treasury Management Report - Q3 2022/23 (December 2022) (Pages 79 - 88)

Report of the Assistant Director of Finance (Section 151)

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2022-23 as required by the Treasury Management Code of Practice.

Recommendations

The meeting is recommended:

1.1 To note the contents of this Treasury Management Report.

11. Work Programme (Pages 89 - 90)

To consider and review the Work Programme.

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

Information about this Meeting

Apologies for Absence

Apologies for absence should be notified to democracy@cherwell-dc.gov.uk or 01295 221534 prior to the start of the meeting.

Declarations of Interest

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

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

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

Evacuation Procedure

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

Access to Meetings

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

Mobile Phones

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

Queries Regarding this Agenda

Please contact Sharon Hickson, Democratic and Elections democracy@cherwell-dc.gov.uk, 01295 221534

Yvonne Rees
Chief Executive

Published on Tuesday 17 January 2023

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, Oxon OX15 4AA, on 16 November 2022 at 6.30 pm

Present:

Councillor Donna Ford (Chairman)
Councillor Hugo Brown (Vice-Chairman)
Councillor Patrick Clarke
Councillor Andrew Crichton
Councillor Ian Middleton
Councillor Chris Pruden

Substitute Members:

Councillor Andrew Beere (In place of Councillor Sean Woodcock)
Councillor Sandy Dallimore (In place of Councillor Barry Wood)

Apologies for absence:

Councillor Sean Woodcock
Councillor Barry Wood

Officers:

Joanne Kaye, Strategic Finance Business Partner
Sarah Cox, Chief Internal Auditor
Natasha Clark, Governance and Elections Manager

Officers Attending Virtually:

Celia Prado-Teeling, Performance and Insight Team Leader
Andy Leadbeater, Counter Fraud Officer
Natalie Welsh, Counter Fraud Trainee
Liam Semugabi, Interim Democratic Services Officer

39 **Declarations of Interest**

There were no declarations of interest.

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

There were no petitions or requests to address the meeting.

41 **Minutes**

The Minutes of the meeting of the Committee held on the 28 September 2022 were agreed as a correct record and signed by the Chairman.

42 **Chairman's Announcements**

There were no Chairman's announcements.

43 **Urgent Business**

There were no items of urgent business.

44 **Treasury Management Report - Q2 2022/23 (September 2022)**

The Assistant Director Finance submitted a report which provided information on treasury management performance and compliance with the treasury management policy for 2022-23 as required by the Treasury Management Code of Practice.

In response to Members' questions regarding the Councils net borrowing, the Strategic Finance Business Partner explained that the net borrowing of the Council had reduced by £10 million. In recognition of interest rate increases and volatility around rates, the council had achieved greater interest rate certainty by replacing short-term with medium-term borrowing.

In response to Members' questions regarding potential risk to the council's investments, the Strategic Finance Business Partner explained that in July work had been undertaken to mitigate risk. All current investments were relatively short term with institutions that had a good credit rating.

Resolved

(1) That the contents of this Treasury Management Report be noted

45 **Update on Counter Fraud Annual Plan 2022/23**

The Assistant Director Finance submitted a report which presented a summary of activity against the Annual Plan for the Counter Fraud service at CDC for 2022/23, which was previously presented to the Accounts, Audit & Risk July 2022 Committee meeting. The Plan supported the council's Anti-Fraud and Corruption Strategy by ensuring that the Council has in place proportionate and effective resources and controls to prevent and detect fraud as well as investigate those matters that do arise.

In response to Members' queries, the Chief Internal Auditor explained that fraud across the country was increasing which was considered largely as a result of the pandemic and cost of living crisis. Pro-active work undertaken had focussed on staff training and awareness session, with a fraud awareness and risk identification session being delivered to the Revenues and Benefits team.

Resolved

- (1) That, having given due consideration, the summary of activity against the Annual Counter Fraud Plan for 2022/23 be noted.

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September / Quarter 2 2022 - Risk Monitoring Report

The Assistant Director Customer Focus submitted a report which summarised the Council's Risk monitoring position of September / Quarter 2 2022.

In considering the report, Members were requested to send questions to the Performance and Insight Team Leader who would respond to accordingly.

Resolved

- (1) That the monthly Risk Monitoring Report September / Quarter 2 2022 be noted.

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Work Programme

The Strategic Finance Business Partner update the Committee on their Work Programme update. The Committee was advised that their private session with the External Auditor would take place at the conclusion of the 25 January 2023 meeting rather than this meeting.

Resolved

- (1) That the work programme update be noted.

The meeting ended at 7.28 pm

Chairman:

Date:

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Cherwell District Council

Accounts, Audit and Risk Committee

25 January 2023

Annual Governance Statement 2021/2022 – Update on Actions

Report of Monitoring Officer & Assistant Director of Law & Governance

This report is public

Purpose of report

To consider an update on actions from the Annual Governance Statement (AGS) 2021/2022.

1.0 Recommendations

The meeting is recommended:

- 1.1 To consider and comment on the update on the actions arising from the Annual Governance Statement 2021/2022.
- 1.2 To note the formation of the Corporate Oversight & Knowledge Governance Group by the Monitoring Officer.

2.0 Introduction

- 2.1 At its 25 May 2022 meeting, the Accounts, Audit and Risk Committee (AARC) approved the Annual Governance Statement (AGS) for the financial year 2021/2022.
- 2.2 Local authorities are required to prepare an AGS to be transparent about their compliance with good governance principles and to give an opinion on the effectiveness of those arrangements. As part of the process, authorities are expected to highlight particular areas of focus for the year following. This report updates the Committee on the actions identified for 2022/23 in the AGS.

3.0 Report Details

Annual Governance Statement Actions for 2022/2023

- 3.1 The Annual Governance Statement outlined the following areas and expected outcomes for particular focus in 2022/23:

3.2 Cherwell Oxfordshire Decoupling Programme

Action	Timescale for Completion	Responsible Officer(s)	Monitoring Body
<p>Cherwell-Oxfordshire Decoupling Programme Joint Shared Services and Personnel Committee (JSSP) with revised terms of reference, to provide suitable oversight and decision-taking concerning the termination of the agreement.</p> <ul style="list-style-type: none"> • A Joint Officer Transition Working Group will oversee a programme of due diligence and service reviews is underway, with the aim of keeping the best interests of residents at the centre of decision making • Where appropriate for each council, revised partnership arrangements will remain in-place within the framework of new agreements. 	31 August 2022	Nathan Elvery, Interim Corporate Director, Communities and Chief Operating Officer	Corporate Leadership Team (CLT) and Accounts, Audit and Risk Committee (AARC)

Update

3.3 Following the decisions at the respective Cherwell District Council and Oxfordshire County Council Full Council meetings in February 2022 to terminate the s.113 Agreement between the councils and agree an ongoing role for the Joint Shared Services and Personnel Committee (JSSP), the Committee has now concluded its work and has no further business. Accordingly, at its 4 July 2022 meeting, JSSP recommended to Council to agree to disband the Committee as from 31 August 2022. There are no longer shared Chief or Statutory Officers so there is no business for the Joint Appeals Panel and JAP should therefore also be disbanded as from 31 August 2022.

3.4 Constitution Review

Action	Timescale for Completion	Responsible Officer(s)	Monitoring Body
Schemes of Delegation	November 2022	Shahin Ismail, Interim Monitoring	Council

<p>The Council has implicit schemes of delegation (authorisation limits) within its Unit 4 financial system. However, these schemes of delegation are not formally codified within the constitution or delegated down from Corporate Directors to specific grades of officer.</p> <p>It is acknowledged that the monitoring officer will need to carry out a review of the schemes of delegation as part of the Constitution Review. This will be addressed as part of the constitutional work required on de-coupling its arrangements with Oxfordshire County Council.</p>		<p>Officer, and Michael Furness, Assistant Director of Finance.</p>	
<p>Constitution Review</p> <p>The Constitution Working Group advised Committee that the timescale in which to produce an updated Constitution that is fit for purpose and understandable would not be achievable within the initial anticipated timescale of 31 March 2022.</p> <p>Committee agreed to extend the deadline for the review until July 2022.</p> <p>Update to be provided to Committee in due course.</p>	<p>31 July 2022</p>	<p>Shahin Ismail, Interim Monitoring Officer</p>	<p>Council</p>

Update

- 3.5 The new Monitoring Officer has been appointed by the Council and has been in post for only a matter of weeks. Officer Schemes of Delegation at a senior level (Chief Executive to Assistant Director Level) will be reviewed as part of the overall Constitution review by the new Monitoring officer due to commence shortly. The first tranche of parts of the Constitution being reviewed by the new Monitoring Officer are the Scheme of Delegation and Contract Rules of Procedure.
- 3.6 Below Assistant Director level the finance team is working with Directorates to ensure that they are aware of the financial approval limits within the financial system and review and reconfirm the range of delegation the service want to use.
- 3.7 **Corporate Oversight & Knowledge Governance Group**

- 3.8 Following decoupling the Council's new Monitoring Officer has formed the Corporate Oversight and Knowledge Governance Group (COKGG). The primary purpose of the COKGG is to ensure good governance and decision-making processes, effective risk management, ensuring and improving value for money, effective internal controls and ensuring transparency and accountability. The draft terms of reference are produced below.
- 3.9 The COKGG is an internal officer group consisting of the Monitoring Officer together with key governance officers including the S151 Officer, Corporate Director (Resources), Chief Internal Auditor, Deputy S151 Officer, Deputy Monitoring Officer (when in post) and Assistant Director Customer Focus. COKGG will be supported by the EA to the Corporate Director (Resources).
- 4.1 As well as providing updates to CLT, COKGG is also working with CLT to bring forward a draft Annual Governance Statement for 2022/23, which will then be brought to this Committee.

Draft Terms of Reference of COKGG

1. To be responsible for the overall strategy, coordination and preparation of the Council's Annual Governance Statement in accordance with statutory timescales and professional guidance and standards.
2. To consider the extent to which the council complies with the principles and elements of good governance as set out in the CIPFA Framework.
3. To identify systems, processes and documentation that provide evidence of compliance.
4. To identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified.
5. To identify issues that have not been addressed in the authority and consider how they should be addressed.
6. To identify the individuals responsible for taking the actions required.
7. To recommend to the Audit & Governance or Accounts, Audit & Risk Committee as to any strategy for gaining assurance on risk management and internal control.
8. To determine the format of the risk registers and internal control checklist.
9. To coordinate the agreed process for gaining assurance on risk management and internal control.
10. To have an overview of high-level risks identified by Directors/Service Managers.
11. To review internal controls prepared by services and provide guidance and feedback on their completion.
12. To monitor progress the Annual Governance action plan and assurance.
13. To identify appropriate training on governance issues.
14. To monitor and review the Council's governance policies.

4.0 Conclusion and Reasons for Recommendations

- 4.1 In line with Annual Governance Statement process, this report provides an update on actions taken to date during 2022/2023 in respect of recommended actions arising from the 2021/2022 Annual Governance Statement.

5.0 Consultation

Senior officers for each area have been consulted and provided updates on progress as set out in section 3 of this report

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: Not to note the update. This is not recommended as it is good practice for the Committee to review progress against actions arising from the Annual Governance Statement.

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications associated with this report.

Comments checked by:

Michael Furness, Assistant Director of Finance (S151 Officer), 01295 221845, michael.furness@cherwell-dc.gov.uk

Legal Implications

- 7.2 The Council has a legal duty to agree an Annual Governance Statement. This report does not itself raise legal implications but this update on the actions arising from last year's AGS is consistent with the responsibility of this Committee to ensure the effectiveness of the Council's governance.

Comments checked by:

Shiraz Sheikh, Monitoring Officer & Assistant Director of Law & Governance 01295 22165, Shiraz.sheikh@cherwell-dc.gov.uk

Risk Implications

- 7.3 There are no risk implications associated directly with this report.

Comments checked by:

Celia Prado-Teeling, Performance and Insight Team Leader
01295 221556, celia.prado-teeling@cherwell-dc.gov.uk

Equalities and Inclusion Implications

- 7.4 There are no equalities nor inclusion implications arising directly from this report.

Comments checked by:

Celia Prado-Teeling, Performance and Insight Team Leader
01295 221556, celia.prado-teeling@cherwell-dc.gov.uk

8.0 Decision Information

Key Decision

Financial Threshold Met: N/A

Community Impact Threshold Met: NA

Wards Affected

All

Links to Corporate Plan and Policy Framework

N/A

Lead Councillor

N/A

Document Information

Appendix number and title

- None

Background papers

None

Report Author and contact details

Shiraz Sheikh, Monitoring Officer & Assistant Director of Law & Governance, Tel
01295 221651

Shiraz.sheikh@cherwell-dc.gov.uk

Cherwell District Council

Account Audit and Risk Committee

25 January 2023

Internal Audit Progress Report 2022/23

Report of the Assistant Director of Finance

This report is public

Purpose of report

The report presents the Internal Audit Progress report for 2022/23

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the progress with the 2022/23 Internal Audit Plan and the outcome of the completed audits.

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.

3.0 Report Details

Resources

- 3.1 A full update on resources was made to the Accounts, Audit & Risk Committee in May 2022 as part of the Internal Audit Strategy and Plan for 2022/23. Since then, one of our Senior Auditors left us in October. Work on recruitment to fill this post is ongoing. We have successfully recruited to our Counter Fraud apprentice and Internal Audit apprentice roles, both started at the end of October, and they have already commenced their professional apprenticeship training
- 3.2 We are continuing to support team members to complete professional training. In addition to the two new apprentices, the Counter Fraud Intelligence Officer is near to

completion of his apprenticeship. One of our Senior Auditors has one exam left to complete of the Certified Internal Audit Qualification. The previous Internal Audit Apprentice has completed her apprenticeship and been appointed as an Auditor, we are now supporting her to complete the Certified Internal Audit Qualification.

2022/23 Plan Progress

- 3.3 The 2022/23 Internal Audit Plan, which was agreed at the May 2022 Accounts, Audit & Risk Committee, is attached as Appendix 1 to this report. This shows current progress with each audit. The plan and plan progress are reviewed quarterly with senior management.
- 3.4 Since the last update to the September 2022 committee, the audits of Health & Safety, Temporary Accommodation, IT Disaster Recovery and also Revenues and Benefits have been completed. The executive summaries are included within Appendix 3 to this report.

Performance

- 3.5 The following performance indicators are monitored on a monthly basis.

Performance Measure	Target	% Performance Achieved for 22/23 audits (as at 04/01/2023)	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)	83%	Previously reported year-end figures: 67% 2021/22 78% 2020/21
Elapsed time for completion of audit work from exit meeting to issue of draft report.	15 days	67%	Previously reported year-end figures: 100% 2021/22 100% 2020/21
Elapsed Time between receipt of management responses to draft report and issue of final report.	10 days	100%	Previously reported year-end figures: 56% 2021/22 88% 2020/21 Change in measure

- 3.6 The performance indicator for the issue of draft reports is lower than expected. This is because two audits did not meet the PI, however in both cases they missed the target by 1 week.
- 3.7 The other performance indicators are:
- % of 2022/23 planned audit activity completed by 30 April 2023 – reported at year end.
 - % of management actions implemented – see paragraphs below.
 - % of repeat findings/actions (relative to the number of actions raised within the year) – reported at year end.

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. It should be noted that significant progress has been made by officers to address and implement these with now only 1 action still open and in progress. Further detail is recorded in Appendix 2. This will continue to be reviewed and followed up with senior management throughout 2022/23.
- 3.9 We agreed a total of 68 actions for the work completed as part of the 2020/21 Internal Audit Plan, 57 of these actions have been implemented and 7 have been superseded. Of the remaining 4 actions, 3 are not yet due for implementation, and 1 has recently become due. We agreed a total of 82 actions for the work completed as part of the 2021/22 Internal Audit Plan, 63 of these actions have been implemented and 2 have been superseded. Of the remaining 17 actions, 3 are not yet due for implementation, and 14 have recently become due. For the work completed so far during 2022/23, a total of 54 actions have been agreed. Of these 54 actions, 29 have been implemented, 12 are not yet due, 13 are being implemented – these will be followed up throughout 2022 and 2023.

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report provides a progress update on delivery of the internal audit plan for 2022/23 and provides an update on the implementation of management actions for the committee to consider. The current plan for 22/23 is on target for delivery by the end of April 2023.

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

7.1 There 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

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

Comments checked by:

Shiraz Sheikh, Assistant Director Law and Governance & Monitoring Officer, email:

shiraz.sheikh@Cherwell-DC.gov.uk

Risk Implications

7.3 There are no risk management issues arising directly from this report. Any risk arising in the future will be managed through the service operational risk register and escalated to the leadership risk register as and when necessary.

Comments checked by:

Celia Prado-Teeling, Interim Assistant Director – Customer Focus, 01295 221556

Celia.prado-teeling@cherwell-dc.gov.uk

Equalities and Inclusion Implications

7.4 There are no equalities and inclusion implications arising directly from this report.

Comments checked by:

Celia Prado-Teeling, Interim Assistant Director – Customer Focus, 01295 221556

Celia.prado-teeling@cherwell-dc.gov.uk

Sustainability Implications

7.5 There are no sustainability implications arising directly from this report.

Comments checked by:

Jo Miskin, Climate Action Manager, 01295 221748, jo.miskin@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 Adam Nell – Portfolio Holder for Finance

Document Information

Appendix number and title

- Appendix 1 – Internal Audit Plan 2022/23 – Progress Update
- Appendix 2 – Outstanding Management Actions (as at 04/01/2023)
- Appendix 3 – Executive Summaries of finalised audits

Background papers

None

Report Author and contact details

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

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APPENDIX 1: 2022/23 CDC Internal Audit Plan – Progress Report

Audit	Planned qtr start	Status as at 4/1/23	Conclusion
Revenues and Benefits	Qtr 2	Final Report	Green
Capital Programme	Qtr 3 / 4	Fieldwork	
Contract Management	Qtr 3 / 4	Planned for Q4	
Housing – Temporary Accommodation	Qtr 2	Final Report	Green
Health and Safety	Qtr 1	Final Report	Amber
IT Disaster Recovery	Qtr 3 / 4	Final Report	Amber
IT Cyber Security – Ransomware	Qtr 1	Final Report	Amber
IT Infrastructure Management	Qtr 1	Final Report	Amber
Grant Certification	Qtr 1 – 4		
Disabled Facilities Grant		Complete	-
Addition to Plan:			
<ul style="list-style-type: none"> • COMF (Contain Outbreak Management Fund) • Protect & Vaccinate • Test & Trace Support Payment Scheme 		Complete	-
		Complete	-
		Complete	-

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Appendix 2 – Open management actions as at 04 January 2023

2018/19 – outstanding open actions

Report Title	Total outstanding	Implemented	Superseded	Implementation date not reached or extended	Implementation date reached – overdue or being implemented
CDC HR 2018/19	3	2	-	1	-
Totals	3	2	-	1	-

2020/21 – all actions

Report Title	Total agreed	Implemented	Superseded	Implementation date not reached or extended	Implementation 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	11	-	1	-
CDC Cyber Security 2020/21	15	9	6	-	-
CDC Finance System Imp Phase 2 ICT Risks 20/21	5	5	-	-	-
CDC DHP & HPHF 2020/21	5	4	-	-	1
CDC Finance System Imp Phase 3 20/21	4	3	-	1	-

CDC Payroll 20/21	14	13	-	1	-
CDC Revs and Bens 2020/21	9	8	1	-	-
Totals	68	57	7	3	1

2021/22 - all actions

Report Title	Total agreed	Implemented	Superseded	Implementation date not reached or extended	Implementation date reached – overdue or being implemented
CDC Key Finance Systems 21/22	10	9	-	-	1
CDC Treasury Management 21/22	5	5	-	-	-
CDC Wellbeing and Sickness Management 21/22	5	2	-	-	3
CDC PCI 2021/22	9	6	1	-	2
CDC IT Remote Working 21/22	11	9	-	1	1
CDC GDPR 21/22	9	6	-	-	3
CDC Cyber Security Follow Up 21/22	9	7	1	1	-
CDC Payroll 21/22	10	8	-	1	1
CDC Waste Service 21/22	14	11	-	-	3
Totals	82	63	2	3	14

2022/23 – all actions as at 04/01/2023

Report Title	Total agreed	Implemented	Superseded	Implementation date not reached or extended	Implementation date reached – overdue or being implemented
CDC IT Infrastructure 22/23	5	2	-	-	3
CDC Cyber Security 22/23	14	14	-	-	-
CDC Health & Safety 22/23	20	4	-	8	8
CDC IT Disaster Recovery 22/23	5	1	-	2	2
CDC Temp Accommodation 22/23	4	2	-	2	-
CDC Revs & Bens 22/23	6	6	-	-	-
Totals	54	29	-	12	13

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APPENDIX 3 – Executive Summaries finalised since last update to Accounts, Audit & Risk Committee September 2022

Health & Safety 2022/23

Overall conclusion on the system of internal control being maintained	A
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SYSTEMS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Governance, Roles & Responsibilities	A	1	9
Risk Identification & Management	A	0	8
Management Information & Communication	A	0	2
		1	19

Opinion: Amber	
Total: 20	Priority 1 = 1 Priority 2 = 19
Current Status:	
Implemented	4
Due not yet actioned	4
Partially complete	4
Not yet Due	8

The corporate Health & Safety function is in the process of being reviewed following the decoupling from Oxfordshire County Council. There had been joint arrangements in place whilst Cherwell District Council was working in partnership with Oxfordshire County Council, but following the decoupling, the corporate health & safety assurance role is being covered by one member of staff. Work is ongoing to recruit a Health & Safety Manager. The current circumstances provide an opportunity for the Council to review and update current arrangements and ensure that they are fit for purpose.

Governance, Roles & Responsibilities – The Interim Assistant Director HR & OD, prior to the start of the audit and as part of the annual review of governance arrangements across the Council, had identified the need for a full review of health and safety to ensure that current arrangements meet statutory duties and are able to provide appropriate corporate assurance on organisational compliance. The review will require specific health & safety expertise and so it is intended that it will be completed as soon as a Health & Safety Manager is appointed.

Although there is a health & safety policy in place which covers all the key areas expected, it requires review. The audit noted some areas where updates are required to reflect current arrangements particularly in relation to management oversight and governance. Whilst audit testing noted that there is an awareness of health & safety issues, existence of risk assessments at service level etc, it was noted that mechanisms which feedback

from service areas through the management structure on health and safety arrangements and compliance are unclear.

The role of the corporate health & safety function also requires review in order to ensure that the best use is made of the corporate resource. There is a lack of internal guidance for the corporate health & safety function on key areas of responsibility including completion of health & safety audits, performance reporting and the recording and reporting on accidents, incidents and near misses. Pending appointment of the Health & Safety Manager role, current corporate health & safety activity is undertaken by the Health & Safety Supervisor. There is a risk that in his absence, without clarity over the key processes in place, it would be difficult for others to cover these tasks. The health & safety audit process, in terms of coverage, reporting arrangements and follow up requires review to ensure that the outcomes from this work are able to contribute to management assurance over the health and safety arrangements in place in their area of responsibility and to facilitate improvements in approach and process where required.

It is positive to note that there is a clear approach to all staff and manager mandatory training in relation to health & safety with reasonable completion rates. However, there is a lack of monitoring, reporting and follow up on non-completion of the required courses. Whilst it is the responsibility of individual members of staff and their managers to ensure that the required training is completed, senior management are accountable for establishing that appropriate health & safety training is taking place.

In relation to the delivery and monitoring of role specific health & safety training, progress is being made in this area with work ongoing to standardise recording processes, recording training centrally on the iTrent system which will also mean that reminders can be issued via workflow where refresher training is required. Further work is needed to ensure that all relevant training is covered, that managers are aware of what information is available in this area and on provision of assurance to senior management that role specific health & safety training in place is appropriate.

First aider and fire warden arrangements in Council buildings have been reviewed with the return to office working following the covid-19 pandemic. Health & Safety, Facilities Management and Learning & Development have worked together to ensure that there are appropriate first aid arrangements in place in Council buildings, identifying first aiders, ensuring that they are trained and that this training is up to date and that first aider payments are made as appropriate. First aider status is now recorded on iTrent which enables monitoring of training, identification of when renewal of training is required and administers first aider payments as appropriate. Work is ongoing to ensure that there is also appropriate fire warden coverage in key buildings as staff work in an increasingly agile way.

Risk Identification & Management – Corporate risk management arrangements in relation to health & safety specific risks have now been reviewed as part of a wider review of corporate risk management across the Council following the decoupling from Oxfordshire County Council. Directorate level health and safety specific risk management should also be reconsidered as part of the review of corporate health & safety arrangements discussed earlier in this executive summary.

Staff awareness of the required process for the reporting of accident, incidents and near misses requires review. Audit testing noted a low level of reporting along with one example where an accident had not been reported. Increased staff awareness of the required reporting process should help to ensure that the corporate health & safety team is made

aware of all relevant issues and can take the appropriate action to ensure compliance with statutory reporting requirements and to take preventative action to avoid reoccurrence.

Management Information & Communication – There is currently a lack of routine management reporting in relation to health & safety compliance and arrangements. Whilst historically senior management received quarterly updates, these are no longer being produced. Clarification is required on what senior management want and need in terms of assurance and reporting from the corporate health & safety function.

Review of KPI reporting completed as part of this audit noted some ambiguities in current indicators as well as some issues with the accuracy of performance reporting.

Temporary accommodation 2022/23

Overall conclusion on the system of internal control being maintained	G
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SYSTEMS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Policies & Procedures	G	0	0
B: Operational Processes	G	0	0
C: Finance	A	0	4
D: Management Information	G	0	0
		0	4

Opinion: Green	
Total: 4	Priority 1 = 0 Priority 2 = 4
Current Status:	
Implemented	2
Due not yet actioned	0
Partially complete	0
Not yet Due	2

Under the Homelessness Reduction Act 2017, each local housing authority in England must provide information and advice on a number of areas, including preventing homelessness and securing accommodation when homeless. The Act goes on to state that if the authority is satisfied an applicant both is homeless or threatened with homelessness, and is eligible for assistance, reasonable steps must be taken to help the applicant secure suitable accommodation. Overall, the audit found a strong system of internal control in place to ensure this is carried out effectively.

Policies & Procedures

At a high level, the Council's Housing Strategy and Homelessness and Rough Sleeping Strategy are both up to date and accessible, setting out the Council's priorities and plans in relation to housing, and at an operational level, appropriate guidance exists within the Temporary Accommodation Team covering the management of referrals and allocation of suitable accommodation.

Operational Processes

Sample testing of 15 placements carried out as part of the audit confirmed referrals had been dealt with promptly, and it could be demonstrated consideration is given to the appropriateness and safety of placements provided. All supporting documentation could be provided upon request, including signed licence agreements in which the service user agrees to the terms and charges of the placement.

Finance

On the financial side, a review of budget performance found the service to be operating within budget, with established processes in place to closely monitor this. A variety of procurement methods were seen to be used to ensure value for money within the service, including use of a block booked hotel, social housing stock assigned to temporary accommodation, and the use of business accounts to secure discounts on hotel bookings. In practice, allocations were found to be made in line with the priority system reported to audit, utilising block booked provision (where appropriate, dependent on the service user's situation), before making spot purchased placements.

Payments to providers for the provision of accommodation were found to be accurate and timely, however some weaknesses were noted in the charging of service users, with input or formulae errors in the spreadsheet used to record, calculate, and monitor payments resulting in inaccurate charges. Service users are responsible for covering any shortfall between their assessed housing benefit and the maximum eligible amount (determined by Government allocated Local Housing Allowance (LHA) rates), however a review of the 15 sampled placements found that of the 8 in which there was a shortfall, 4 had been charged incorrectly. One of these was due to manual error, which led to an inflated shortfall and resulted in the service user being overcharged £30 for the duration of their placement (a refund is now being arranged by the team), and the other 3 were found to be a result of reassessments to housing benefit entitlement (following a placement change or receipt of new evidence) not being updated on the spreadsheet (identified overcharges/undercharges were all less than £150). As these individuals' have not paid these charges, no refunds are due. A further review of the spreadsheet identified other errors in formulae causing mis-reporting of some placement costs and of charges to service users. No eligible refunds were identified as part of this; in the instances in which service users had been overcharged, their amount owed exceeded these amounts.

In regard to debt collection, outstanding payments for 2021/22 and 2022/23 to date total approximately £14k. While the team have implemented reasonable measures to ensure this is paid, in discussion with the relevant officer, it was reported any further recovery action would not be financially viable, due to the administrative cost of chasing debts versus the likely return should the service user be reached, and repayment plans be agreed. As a procedure for writing off debt has not been established, all old debt remains outstanding on the spreadsheets.

Management Information

A review of management information confirmed data returns to the Department for Levelling Up, Housing & Communities have been submitted as required, with comparison of the latest data set against South East and National averages showing Cherwell to be

significantly below average in terms of the percentage of the population for which temporary accommodation has been required. Further review of management information showed the area is included within internal Key Performance Indicators (KPIs), with the number of households in temporary accommodation included in monthly reporting to Members and officers.

IT Disaster Recovery 2022/23

Overall conclusion on the system of internal control being maintained	A
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SYSTEMS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
IT Business Continuity	A	0	1
Corporate IT Priorities	G	0	0
IT Disaster Recovery Plans	A	0	2
Testing	A	0	2
		0	5

Opinion: Amber	
Total: 5	Priority 1 = 0 Priority 2 = 5
Current Status:	
Implemented	1
Due not yet actioned	2
Partially complete	0
Not yet Due	2

As organisations place an increasing reliance on IT systems and services to support the delivery of their key functions, it is important that disaster recovery plans are in place to respond to any major system outage. The audit has found that the council has identified its priority services and disaster recovery is in place for critical IT systems. There are some areas where disaster recovery planning can be improved, mainly around documentation and testing. Details of these are provided below.

IT Business Continuity:

For the purpose of business continuity, all service areas are required to perform a Business Impact Analysis (BIA) to identify their critical services and how quickly they need to be recovered following a major incident. We found that a BIA has not been performed for IT Services, which could result in an interruption to the delivery of their services in the event of a major incident.

Corporate IT Priorities:

The organisation's priority services were agreed as part of the corporate Business Continuity Strategy (2018) and it was used to identify all critical IT systems. Critical IT systems and their Recovery Time Objective (RTO) are also identified as part of the BIA process. All BIA's are currently being reviewed. This work is being overseen by the Business Continuity Steering Group, which includes membership from IT Services. The list of critical IT systems includes Revenue and Benefits, Planning and Building Control, Finance, HR/Payroll and Elections.

IT Disaster Recovery Plans:

There is a documented IT Business Continuity Management System (BCMS) that provides an overall framework for IT business continuity. Sitting alongside this is a separate Disaster Recovery Plan, which is a technical document for recovering critical IT systems and services that are hosted in the Microsoft Azure cloud service and managed by IT Services. The disaster recovery plan is in draft and is currently being reviewed and updated.

For technical disaster recovery, a secondary data centre is available in Microsoft Azure and located in a different geographical region to the primary data centre. The secondary data centre is where a recovery of IT systems would be performed, and our testing confirmed that critical IT systems are replicated to this data centre.

An IT Response Team has been identified and comprises of four roles, although two of these are performed by the same person and hence there is a key person dependency. Secondary officers have not been identified to fulfil the roles should any of the primary officers be unavailable and the specific responsibilities of team members are also not explicitly defined.

Testing:

The IT BCMS and Disaster Recovery Plan both acknowledge the need to carry out test exercises. To date, the testing of disaster recovery has been limited to an annual test of the Elections system. The last test was performed in April 2022, but no formal report was produced to confirm what was tested and if the objectives were met, although there is confirmation from the business area that it was successful.

A number of critical IT systems are now externally hosted by third-parties and they are responsible for performing a disaster recovery test of these IT systems. There is no formal defined responsibility for confirming that these annual tests are performed and hence a lack of assurance that recovery time objectives can be met for these IT systems.

Revenues and Benefits 2022/23

Overall conclusion on the system of internal control being maintained	G
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SYSTEMS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Benefits/Payments (New Housing Benefit Applications)	G	0	0
Debt Recovery (Revenue)	A	0	5
Management Information & Quality Assurance	G	0	1

		0	6
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Opinion: Green	
Total: 6	Priority 1 = 0 Priority 2 = 6
Current Status:	
Implemented	6
Due not yet actioned	0
Partially complete	0
Not yet Due	0

The audit of Revenues & Benefits for 2022/23 focused on the new working arrangements following the decoupling from CSN Resources, the effectiveness of the implementation of the actions agreed from the 2020/21 audit, as well as reviewing several targeted areas within the Revenue & Benefits service. This included the processing of new Housing Benefit applications, the Council Tax and Business Rates debt management process, and a review of management information and quality assurance checks.

It is acknowledged that, at the time of audit testing, there were still a number of vacancies at officer level across the service however a recent recruitment exercise has resulted in new starters beginning in September 2022 however there are still vacant posts.

There has been good progress in implementing the actions agreed in the 2020/21 audit with improvements noted in the availability of guidance for staff and prompt training provided where a risk of incorrect benefit awards has been identified. Improvements were also noted in the monitoring of arrears for Council Tax and Business Rates, providing management with timely information on recovery performance. Quality assurance checks are now in place for Housing Benefit Overpayments (HBOP) in addition to the checks carried out for Revenues and Benefits.

Benefits and Payments

Sample testing on new Housing Benefit applications found that claims had been processed both accurately and promptly. The claims sampled were all processed within the agreed KPI timescale and customers had been notified of the outcome of their claim. Appropriate verification checks on ID, based upon the risk score allocated, had been undertaken and evidence saved.

Debt Recovery (Revenue)

The audit carried out sample testing on the debt recovery process, reviewing identification of new and defaulted debt and the resulting recovery action undertaken. The process for identifying debt was found to be operating effectively, with activity in line with established timescales. Testing on the write off process, in addition to review of a sample of write offs, included review of the outcome of an exercise reviewing and resolving outstanding HBOP debt. Testing confirmed that the correct process had been followed with appropriate approvals in place for the sample reviewed.

Sample testing was also carried out on historic Council Tax and Business Rates debt, to ensure recovery action was progressing appropriately. This testing identified some examples of delays in recovery action, due in part to the absence of regular reporting to enable identification of such cases, as well as some historic system issues in which cases had been omitted from reports and so had been overlooked.

In discussion with the service, it was acknowledged that reports were not being run as regularly as required. Following this being raised during the audit, the Revenue Services Manager has implemented a work programme identifying each required report and the

frequency at which it should be run. In addition, following identification of the system issues noted, a new report showing all cases with outstanding debt has been run by the team. This is being worked through case by case by officers, to confirm there are no further exceptions similar to those identified during audit testing.

The audit also reviewed Attachment of Earnings (AoE), a debt recovery process in which deductions are made from an individual's earnings to pay their debt. It was established that as employers send AoE remittances through on an ad-hoc basis, a report should be run from Academy approximately every 4 months to highlight all AoE's where there have been no payment for 30 days so that this can be followed up. The audit identified that in the past year, the report had been run in October 2021 and February 2022, and it could not be evidenced that the lists had been fully worked through by officers. As a result, the Revenue Services Manager has now implemented an audit trail to evidence the list has been checked and actioned.

Management Information & Quality Assurance

The audit reviewed the quality checking processes in place to provide assurance on the accuracy of Housing Benefit claims processed, confirming that quality checks are taking place against set criteria for the Benefits and Revenues Teams. It was noted that the volume of quality checks in regard to the Benefits Team for April, May, and June had not been at the volume expected, reportedly due to a combination of other pressures within the team, and absence in the Systems Performance Team. Review of more recent quality checks show these have been carried out in full, with an appropriate focus on new starters and temporary staff.

Quality checks have also recently been introduced for Housing Benefits Overpayments (HBOP). A review of the checks carried out found that there is no consistent follow up to ensure amendments are made as requested. For example, one financial error picked up through the quality checks was not acted upon for 2 months. This was followed up on as a result of the audit and had resulted in an overpayment of Housing Benefit of around £400.

Follow up

The audit undertaken in 2020/21 resulted in an agreed management action plan with 9 actions to address the weaknesses identified. This audit has confirmed that 8 are fully and effectively implemented and 1 has not been implemented effectively (review of quality checking processes, with weaknesses identified as noted above), a new management action has been agreed.

Cherwell District Council

Accounts, Audit and Risk Committee

25 January 2023

Capital, Investment and Treasury Management Strategies 2023-24

Report of the Assistant Director of Finance

This report is public

Purpose of report

To submit the draft Capital and Investment Strategy and Treasury Management Strategy for 2023-24.

1.0 Recommendations

The meeting is recommended:

- 1.1 To recommend the draft strategies for 2023-24 to Executive.

2.0 Introduction

- 2.1 The Capital and Investment Strategy was introduced for 2019-20, to sit alongside the Treasury Management Strategy. The Capital and Investment Strategy must be approved by Full Council annually and must satisfy the requirements of government legislation and CIPFA guidance.

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 The Council has to establish and approve an updated Capital and Investment Strategy that complies with CIPFA's revised Prudential Code for Capital Finance in Local Authorities (2021 edition) and Prudential Code Guidance Notes for Practitioners (2021 edition), CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 edition) and revised Statutory Guidance on Local Government Investments (Third Edition). Guidance requires the Strategy to be approved by Full Council on an annual basis and, moreover, that any mid-year material changes to the Strategy must also be subject to Full Council approval.

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.

Comments checked by:

Joanne Kaye, Strategic Finance Business Partner (D151)
01295 221545, joanne.kaye@cherwell-dc.gov.uk

Legal Implications

- 7.2 The Local Authorities (Capital Finance and Accounting) Regulations 2003 provides operational detail and specifically states that Authorities must have regard to CIPFA's Prudential Code when setting and reviewing borrowing limits. Local Authorities must also have regard to the Investment Guidance issued by Secretary of State under section 15(1)(a) of the Local Government Act 2003.

Comments checked by:

Shiraz Sheikh, Assistant Director Law & Governance | Monitoring Officer
01295 221651, shiraz.sheikh@cherwell-dc.gov.uk

Risk Implications

- 7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided. This and any other risks related to this report will be managed through the service operational risk and escalated to the leadership risk register as and when necessary.

Comments checked by:

Celia Prado-Teeling, Performance and Insight Team Leader
01295 221556, celia.prado-teeling@cherwell-dc.gov.uk

Equalities Implications

- 7.4 There are no equalities implications arising directly from this report.

Comments checked by:

Celia Prado-Teeling, Performance and Insight Team Leader
01295 221556, celia.prado-teeling@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 wards are affected

Links to Corporate Plan and Policy Framework

n/a

Lead Councillor

Councillor Adam Nell, Portfolio Holder for Finance

Document Information

Appendix number and title

- Appendix 1 - Capital and Investment Strategy 2023-24
- Appendix 2 - Treasury Management Strategy 2023-24

Background papers

None

Report Author and contact details

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Cherwell District Council

Capital and Investment Strategy 2023/24

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

A1. Introduction

- A1.1. The Prudential Code for Capital Finance sets out that 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 year¹. 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 2023/24, the Council is planning capital expenditure of £15.4m as summarised below:

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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Services	14.0	1.0	0.0	0.0	0.0
Capital investments	25.1	17.3	15.5	8.6	2.4
TOTAL	39.1	18.3	15.5	8.6	2.4

- A2.2. The main capital projects across the period include the Vehicle Replacement Programme, East West Railways, and the new Bicester Depot.

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.

Table 2: Estimates of Capital Expenditure in line with the Council's corporate priorities in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Healthy, resilient, and engaged communities	0.5	0.7	3.2	0.2	0.0
An enterprising economy with strong and vibrant local centres	15.0	4.3	2.9	3.8	0.0
Supporting environmental sustainability	4.5	4.9	2.4	1.9	0.9
Housing that meets your needs	18.5	3.3	3.1	1.4	1.4
Support Services	0.7	5.1	3.8	1.3	0.1
Total Capital Spend	39.1	18.3	15.5	8.6	2.4

- 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 Initiatives). The planned financing of the above expenditure is as follows

Table 3: Capital financing in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
External sources	11.3	4.7	5.5	5.0	1.2
Own resources	1.3	7.1	0.2	1.2	0.0
Revenue resources	3.0	0.0	0.0	0.0	0.0
Debt	23.5	6.5	9.8	2.4	1.2
TOTAL	39.1	18.3	15.5	8.6	2.4

- 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 4: Replacement of debt finance in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
MRP	1.6	5.2	5.6	5.7	5.9

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 £4.2m during 2023/24.

Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
TOTAL CFR	250.2	251.5	255.7	252.4	247.6

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.

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 2024/25. In addition, there are currently no plans to utilise capital receipts on services transformation projects for 2023/24. 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 2022 the Council had borrowings of £230m at an average interest rate of 1.72%, and £101m of investments at an average interest rate of 1.97%. 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. To meet this objective the Council must review the current market conditions alongside the long-term forecasts from Link to determine how to structure borrowings. Short term loans, which usually have lower interest rates and offer excellent flexibility, are suitable for stable market conditions or when interest rates are forecast to fall. Medium to long term loans offer a certain cost of finance but are generally more expensive and inflexible. The Council must therefore seek to strike a balance between short and medium to long term loans, to meet its objectives, by anticipating both its borrowing need and the forecast interest rates.
- A3.3. 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 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31st March 2022 Actual	31st March 2023 forecast	31st March 2024 forecast	31st March 2025 forecast	31st March 2026 forecast
Debt (incl. PFI & leases)	201.2	207.6	217.5	219.8	221.0
Capital Financing Requirement	250.2	251.5	255.7	252.4	247.6

- A3.4. 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

- A3.5. 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 7: Prudential Indicators: Operational boundary and Authorised limit for external debt in £m

	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
Operational boundary total external debt	290	290	290	290
Authorised limit total external debt	310	310	310	310

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 and generate income to support the Council's revenue activities.
- 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:	<p>The Council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies:</p> <ul style="list-style-type: none"> a) The Council invests across a range of sectors and its assets are diversified in terms of lot size. b) Some of 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. c) 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:	<p>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:</p> <ul style="list-style-type: none"> 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:	<p>A significant proportion of the Council's portfolio comprises industrial / warehouse buildings and retail assets which have relatively low obsolescence compared to office premises which require significant investment to maintain the landlords fit out specification in line with market demands. 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.</p> <p>Where matters of Council policy override commercial concerns, the Council's portfolio is more vulnerable. E.g., where significant outlay may be required on plant and machinery at the end of their useful economic lives. This is considered in the Asset Management plan for each asset.</p>
Capital expenditure	<p>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.</p>

Market risk:	<p>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:</p> <ol style="list-style-type: none"> 1. Lease lengths should be 3 – 5 years + which obviates most market risks during the period of the tenancy. 2. Longer leases which contain regular rent review provisions normally require the rents to be reviewed in an upwards only direction. 3. Tenant failure – see above under Tenant Default, re: vetting and diversification policies plus earmarked reserves held. <p>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. The risks arising from these investments are managed as part of the Strategic Asset Management plan and Asset Actions Plans for each asset.</p>
Returns eroded by inflation:	<p>Most properties are let on lease terms which contain upwards only rent reviews and some are indexed linked guaranteeing rental growth. Although in general rental levels lag against inflation (both when rising and falling due to reviews or renewals being generally every 3-5 years) rents are historically considered to be more stable with less fluctuations.</p>
Rising interest rates:	<p>The portfolio is ungeared and therefore un-mortgaged.</p>

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 (Section B of this report).

- 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. The annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general Government grants.

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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	3.8	8.7	9.4	9.4	9.4
Revenue funding (£m)	22.4	23.5	31.0	25.4	14.0
Proportion of net revenue stream	17%	37%	30%	37%	67%

Further details on the revenue implications of capital expenditure are in the 2023/24 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 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 Link Group as treasury management advisers and a range of property advisors as follows:

- Banbury based surveyors White Commercial, Wild Property Consultancy 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.
- Montagu Evans supply asset management and facilities management in respect of Castle Quay Shopping Centre.

- Avison Young supply specialist accounting services in respect of Castle Quay Shopping Centre and Waterfront.
- Montagu 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 Waterfront
- Broomfield Property Consultants Ltd and Prime Project Management Ltd provide services relating to Castle Quay and other property related projects

This approach is more cost effective than employing such staff directly and ensures that the Council has up to date access to market 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 unless the Council determines an alternative useful life to be more appropriate whilst continuing to be prudent.
4. For capital expenditure incurred in the provision of loans to third parties, MRP will not be charged until the Department for Levelling Up, Housing and Communities has completed its MRP consultation and published revised guidance. This is expected to be completed and ready for implementation by April 2024. Repayments of loan principal received by the council will be treated as capital receipts and used to reduce the CFR or avoid future additional borrowing, thus reducing future annual MRP charges.
5. Where the Council acquires an asset under a finance lease arrangement, MRP will be charged at an amount equal to the rent paid to reduce the balance sheet liability in year.
6. Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25.

B. Investment Strategy 2022/23

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 deliver against its strategic priorities as outlined in its Business Plan (investments in service and commercial property). Such assets may contribute to the delivery of service objectives and generate commercial income.

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 £11.8m during the 2023/24 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 2023/24 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, 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 a 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.

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	31.3.2022 actual			2023/24
	Balance	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	70.39	(0.90)	69.49	85.90
Parishes	0.08	0.00	0.08	0.10
Local charities/Other	1.10	(0.09)	1.01	1.15
TOTAL	71.57	(0.99)	70.58	87.15

** 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 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.
- Appropriate checks have been carried out on the owners of the organisations to be satisfied as to their integrity and to avoid any potential embarrassment to the Council.
- 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

- 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.
- 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	31.3.2022 actual			2023/24
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	35.65	0	35.65	38.26
TOTAL	35.65	0	35.65	38.26

- 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.

- 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.
- 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. Service and Commercial Investments: Property

- B5.1. The Council invests in local commercial and residential property with the intention of regenerating the local economy, and for place shaping which forms a key part of its strategic priorities. The generation of income to support the provision of local public services, whilst a factor, serves as a secondary objective to that of the strategic priorities. The Council's asset portfolio comprises a cross-section of retail, office, and industrial assets together with a health centre which are held to ensure the delivery of services to the local community. Investments made in recent years which the Council continues to hold include:

- Castle Quay, Banbury; a covered shopping centre and newly developed retail complex
- 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 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.

These assets also contribute an aggregate £6.1m gross income to the council's revenue budget.

The major component parts of the asset portfolio are described below:

*Table 3: Investments in Property held for service and commercial purposes in £ millions**

Property	Actual	31.3.2022 Actual			31.3.2023 Expected	31.3.2024 Expected
	Purchase /Development Costs	Net Book Value in accounts 31.3.2021	Expenditure, Gains or (losses)	Net Book Value in accounts 31.3.2022	Net Book Value in accounts	Net Book Value in accounts
Castle Quay Shopping Centre	63.5	21.6	(6.2)	15.4	17.6	18.7
Castle Quay Waterfront, Hotel and Supermarket*	66.4	56.4	(24.4)	32.0	33.6	34.1
Pioneer Square	8.2	4.4	(0.3)	4.2	4.2	4.2
Tramway Industrial Estate	9.6	9.3	1.4	10.7	10.7	10.7
Other properties valued under £5m	13.1	10.0	(0.9)	9.1	9.1	9.1
TOTAL	160.8	101.7	(30.4)	71.4	75.2	76.8

*The properties in table 3 are currently held as investment property for the purposes of publication in the Council's financial statements. The categorisation of such assets is reviewed annually to ensure that they meet the criteria for classification in line with the CIFPA Code on Local Authority Accounting.

Security

- B5.3. The Council considers a property investment to be secure where tenant performance, lease duration and property obsolescence are deemed to be at an acceptable level.

Risk assessment

- B5.4. 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.
- B5.5. 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 and help to deliver the strategic aims of the Council.
- B5.6. 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.

- B5.7. 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.
- B5.8. Credit ratings are used on acquisitions, new lettings and when tenants request consent to assign their leases. The Council uses D&B ratings as well as reviewing the published accounts of tenants or potential tenants.
- B5.9. 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 RICS Red Book valuation by qualified surveyors who are independent i.e., not acting for the council or the vendor on the acquisition.

Liquidity

- B5.10. Compared with other investment types, property is relatively difficult to sell in order to 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 diverse range of sectors and lot sizes. 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 other than for the purposes of delivering regeneration which has a different investment objective from pure revenue or capital return.
 - Some of 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 31/3/22)

Table 4: Loan Commitments and Guarantees

Borrower	Purpose	£m Contractually Available
Graven Hill Village Development Company Ltd	Revolving Credit Facility available to the council's subsidiary until 2026	£17m
Graven Hill Village Development Company Ltd	Facility Agreement that has been in place since 2014 to deliver the project.	Nil
Graven Hill Village Development Company Ltd	Loan Note instruments to enable the company to deliver its objectives	Nil
TOTAL		£17m

The Council has also provided bonds and guarantees to the value of £45.34 million to Oxfordshire County Council (OCC) on behalf of Graven Hill Village Development Company Ltd in respect of the Company's obligations to OCC under s.106, s.278 and s.38 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.

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. The annual Corporate Investment Strategy provides the reference point against which investment decisions are undertaken.

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 which 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. These risks are managed by the Council operating within the Treasury Management, Capital and Investment Strategies and strict governance arrangements around the Council subsidiary Companies.

Table 5: Total investment exposure in £ millions

Total investment exposure	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	52.15	16.97	10.00
Service investments: Loans	71.57	72.11	65.62
Service investments: Shares	35.65	35.65	35.65
Service and Commercial investments: Property*	71.40	75.20	76.80
TOTAL INVESTMENTS	230.77	199.93	188.07
Commitments to lend	11.00	11.00	17.00
TOTAL INVESTMENT EXPOSURE	241.77	210.93	205.07

*As per the net book value in Table 3

How investments are funded

Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Service investments: Loans	71.57	72.11	65.62
Service investments: Shares	35.65	35.65	35.65
Service and Commercial investments: Property	139.50	143.32	144.87
TOTAL FUNDED BY BORROWING*	246.72	251.08	246.14

*The total funded by borrowing represents the gross expenditure incurred on service and commercial investments which form part of the Council's CFR. MRP (see capital strategy Appendix A) made to date on these investments has not been included in this total.

Rate of return received

- B8.3. 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 7: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.11%	1.92%	3.50%
Service investments: Loans	1.5% - 12%	1.5% - 12%	1.5% - 13%
Service and Commercial investments: Property	Variable	Variable	Variable

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Treasury Management Strategy Statement 2023-24

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1. Introduction

The Authority is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The other main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

Investments held for service or commercial purposes are considered in the Capital and Investment Strategy and should be read in conjunction with this strategy.

1.1 Implementations required due to the revised Treasury Management Code

CIPFA published the revised Treasury Management Code and Prudential Code on 20th December 2021. The revised Treasury Management Code requires the Council to have implemented the following: -

1. **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement, with material differences between the liability benchmark and actual loans to be explained;
2. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;
3. **Environmental, social and governance (ESG)** issues addressed

Currently the Authority's strategy is to have regard to the Environmental, Social and Governance ("ESG") risks presented by its Counterparties (where reported.) The Treasury function aims to assess and monitor, not just Environmental but all, ESG factors when selecting investment options. Full assessment is however restricted by the fact that, at the time of writing, there is no agreed rating framework with which to measure and benchmark specific counterparty ESG metrics. Until this is fully resolved, the Council will favour any counterparty that offers 'green' investments as long as all investment criteria as laid out in this strategy are met.

It is important to note that excluding any one counterparty, on social norms or standards, will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

This issue is to be addressed in detail within an authority's Treasury Management Policies and Practices (TMP1) after further investigation and the approach agreed with members.

The Council employs Link Treasury Services Limited as its external treasury management advisor. However, responsibility for treasury management decisions remains with the Council at all times. The latest economic background, credit outlook and interest rate forecast provided by Link is attached at the end of this report.

1.2 Treasury Management Portfolio

The overall treasury management portfolio as at 31.3.22 and for the forecast position as at 31.03.23 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual	actual	forecast	forecast
	31.3.22	31.3.22	31.3.23	31.3.23
Treasury investments	£000	%	£000	%
Banks	0	0%	0	0%
Building societies - unrated	0	0%	0	0%
Building societies - rated	0	0%	0	0%
Local authorities	24,000	46%	3,000	18%
DMADF (H.M. Treasury)	22,240	43%	0	0%
Money Market Funds	5,913	11%	13,996	82%
Certificates of Deposit	0	0%	0	0%
Total managed in house	52,153	100%	16,996	100%
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total managed externally	0	0%	0	0%
Total treasury investments	52,153	100%	16,996	100%
Treasury external borrowing				
Local Authorities	99,000	50%	22,000	12%
PWLB	100,000	50%	166,000	88%
LOBOs	0	0%	0	0%
Total external borrowing	199,000	100%	188,000	100%
Net treasury investments / (borrowing)	(146,847)	0	(171,004)	-

1.3 Balance sheet summary and forecast

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
General Fund CFR	250.20	251.50	255.70	252.40	247.60
Less: External borrowing **	199.00	188.00	166.00	145.00	139.00
Less: Service Loans and lease liability	1.56	1.55	8.55	20.78	29.38
Internal/(over) borrowing	49.64	61.95	81.15	86.62	79.22
Less: Usable reserves	53.90	36.82	38.47	38.65	39.33
Less: Working capital	47.88	42.11	42.11	42.11	42.11
Investments / (New borrowing required)	52.14	16.98	(0.57)	(5.86)	2.22

** 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.

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. The table above shows that the Council expects to comply with this recommendation.

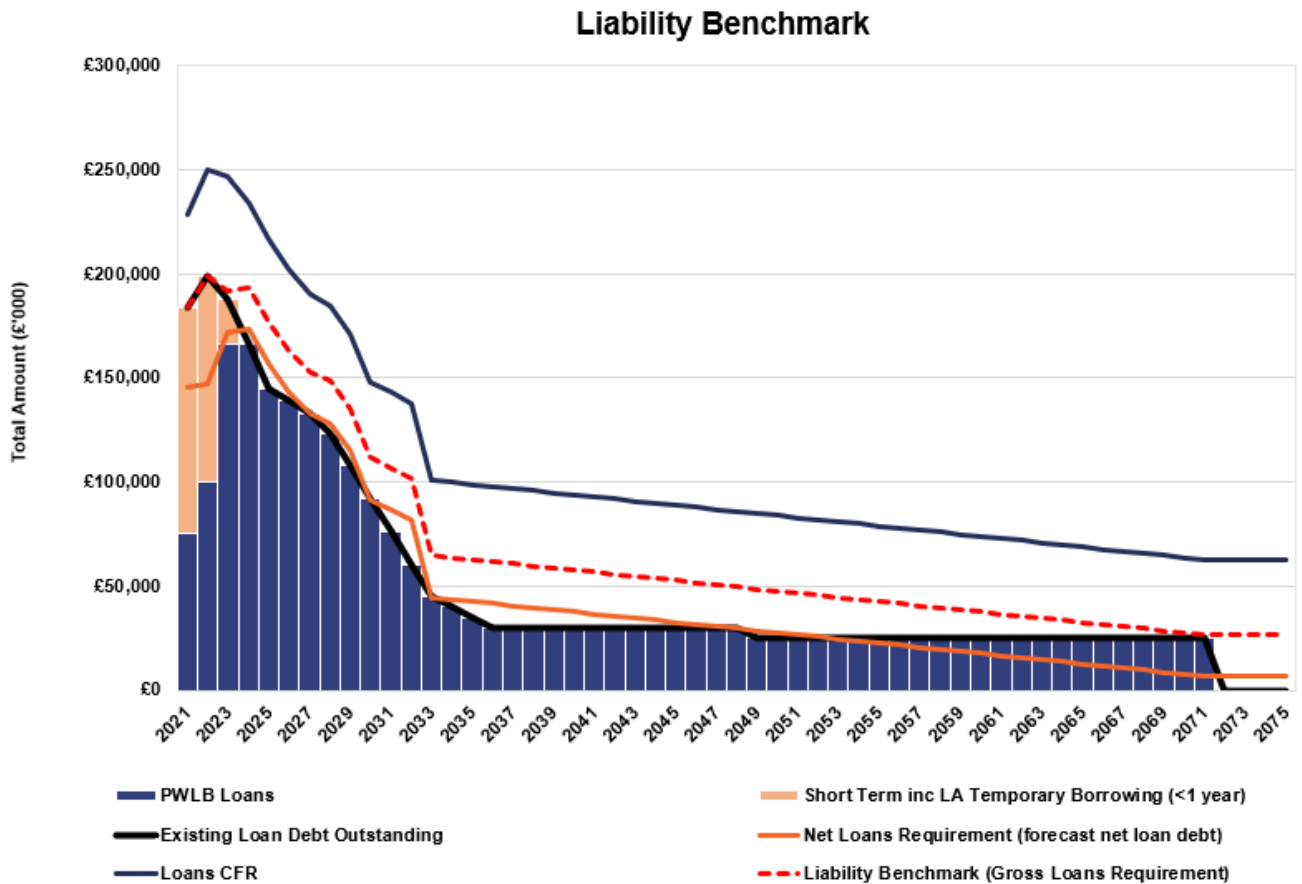
1.4 Liability Benchmark

The Council is pleased to include the Liability Benchmark (LB) as a prudential indicator for 2023/24 in this report. The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP.)
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



The LB graph above demonstrates that the Council is not in an overborrowed position. The difference between net loan requirement and loans CFR is made up of internal borrowing.

1.5 General Balances & Reserves and Expected Investment Balances

Internal borrowing is possible because of the Council's General Balances and reserves as laid out in the table below. These funds can be used to finance capital expenditure or other budget decisions to support the revenue budget but it is important that there is enough liquidity to ensure that should the funds be called upon that the Council would not be forced to borrow in an unfavourable position.

The other component within this table is working Capital which is made up of a combination of debtors, creditors, long term liabilities and non-capital deferred credits / receipts.

Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	2021/22	2022/23	2023/24	2024/25	2025/26
£m	Actual	Estimate	Estimate	Estimate	Estimate
General Balances	5.95	6.45	6.45	6.45	6.45
Earmarked Reserves	23.69	23.45	25.80	26.00	26.68
Revenue Grants	16.21	1.79	1.09	1.07	1.07
Capital Reserves	8.05	5.13	5.13	5.13	5.13
Total core funds	53.90	36.82	38.47	38.65	39.33
Working capital*	47.88	42.11	42.11	42.11	42.11
Under/(over) borrowing	49.64	61.95	81.15	86.62	79.22
Expected investments	52.14	16.98	(0.57)	(5.86)	2.22

*Working capital balances shown are estimated year-end; these may be higher mid-year

1.6 Treasury Management Indicators

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

Interest rate exposures for both borrowing and investing: 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*	± £ 10,000 per £m
Upper limit on one-year revenue impact of a 0.75% fall in interest rates**	£ 88,000

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

*This year there is very little interest rate risk as maturing loans have already been refinanced. The interest rate exposure risk would only be applicable to new loans made for Capital purposes. The revenue impact per £m would be a cost for new loans while it could also be an increase in revenue for investments.

** The loss of revenue has been calculated based on a 0.75% decrease in the interest rate for the investment forecast for 23/24 in the budget. There is also an opportunity to save on borrowing should the interest rate fall but as there is no planned borrowing in the budget for 23/24 no limit has been provided.

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	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	70%	0%
10 years and above	80%	0%

The upper limit should always be reviewed in line with the Liability benchmark to ensure that refinancing risk is mitigated. While it is important to have flexibility to navigate changing market conditions it is critical that loan repayments are spread appropriately. The lower limit has been considered but kept at zero to ensure that the Council is not forced into taking borrowings in a particular category that would lock us into an unfavourable borrowing situation.

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	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£5m	£5m	£5m

1.7 Financial implication of the 23/24 Treasury budget

The budget for treasury investment income in 2023/24 is £0.505m, based on an average investment portfolio of £12m at an average interest rate of 4.30%. This is an increase from the £0.019m budgeted for in 2022/23, based on an average investment portfolio of £21 million at an average interest rate of 0.09%.

The budget for committed debt interest payable in 2023/24 is £3.819m, based on an average debt portfolio of £171m at an average interest rate of 2.46%. This is also an increase from the 2022/23 budget of £2.240m, based on an average debt portfolio of £153.5 million at an average interest rate of 1.46%.

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

2 Borrowing

2.1 Borrowing Strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure (as detailed in point 1.5 - Year end Resources table above.) This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances for example:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then long term borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any significant decisions made by the S151 officer will be reported to the Accounts, Audit and Risk Committee (AARC) at the next available opportunity. In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

2.2 Approved Sources of Long and Short-term Borrowing

	Fixed	Variable
Public Works Loan Board (PWLB) and any successor body	●	●
Any other UK public sector body e.g., other local authorities	●	●
Any other bank or building society authorised to operate in the UK	●	●
Any institution approved for investments (see below)	●	●
UK private and public sector pension funds (except Oxfordshire County Council Pension Fund)	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Overdraft	●	
Internal borrowing (capital receipts & revenue balances)	●	

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:

	Fixed	Variable
Finance Leases	●	●
Operating Leases	●	●
Hire purchase	●	●
Private Finance Initiative	●	●

Forecast of borrowing rates: It is expected that the Bank of England base rate will become more stable and slowly reduce from its current forecast rate of 4.30% in March 2023 to 3.40% by March 2025.

2.3 Policy on Borrowing in Advance of Need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be taken in consideration of the forecast Capital Financing Requirement, forecast interest rate changes, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of investing such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.4 Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Accounts, Audit and Risk Committee, at the earliest meeting following its action.

3 Investment Strategy

The Authority's investment priorities will be **security first, portfolio liquidity second and then yield (return)**. The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.1.
5. **Transaction limits** are set for each type of investment in 3.2.
6. This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see point 1.6 Treasury Management indicators).
7. All investments will be denominated in **sterling**.
8. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant

charges at the end of the year to the General Fund. (The Department for Levelling up, Housing and Communities has announced that Ministers have decided to extend the existing IFRS 9 statutory accounting override for a further 2 years until 31 March 2025 to allow English local authorities time to adjust their portfolio of all pooled investments.)

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Monthly monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year:

The above criteria are *unchanged* from last year.

3.1 Approved counterparties

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

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			

* Any other UK public sector body e.g. other local authorities

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.

Financial Derivatives: 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. 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.

Operational bank accounts: The Council may incur operational exposures, for example through 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 until it improves sufficiently to meet our minimum criteria ,
- consideration of risk of default of existing investments and whether they can be recalled or sold at no cost will be made, 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.

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.

3.2 Investment limits

	Cash limit
UK Central Government	Unlimited
Any single organisation, including UK public sector body e.g. other local authorities	£5m each
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
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 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: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director of Finance (S151 Officer) 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.

3.3 Related Matters

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 Assistant Director of Finance (S151 Officer) believes this to be the most appropriate status.

General Data Protection Regulation 2018: Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

4 Appendices

4.1 Economic Commentary from the Link Group 31/12/2022

The third quarter of 2022/23 saw:

- A 0.5% m/m rise in GDP in October, mostly driven by the reversal of bank holiday effects;
- Signs of economic activity losing momentum as households increased their savings;
- CPI inflation fall to 10.7% in November after peaking at 11.1% in October;
- A small loosening in the labour market which pushed the unemployment rate up to 3.7% in October;
- Interest rates rise by 125bps over Q4 2022, taking Bank Rate to 3.50%;
- Reduced volatility in UK financial markets but a waning in global risk appetite.

The Chancellor's Autumn Statement on 17th November succeeded in restoring the government's fiscal credibility in the eyes of the financial markets without deepening the recession. The total fiscal consolidation package of £54.9bn (1.8% of GDP) in 2027/28 made the outlook for fiscal policy much tighter than at the beginning of Q4. The package was heavily backloaded, with net handouts of £3.8bn (0.15% of GDP) in 2023/24 and £0.3bn (0.01% of GDP) in 2024/25, and most of the tightening kicking in after 2024/25. The largest fiscal support was the extension of the Energy Price Guarantee for another 12 months, until April 2024, although at a higher price cap of £3,000 from April 2023 rather than £2,500. At the same time, Chancellor Hunt loosened the fiscal rules by requiring debt as a percentage of GDP to be falling in five years' time, rather than three. The Office of Budget Responsibility (OBR) estimated that the Chancellor will meet this new rule with a slim £9.2bn (0.3% of GDP) to spare.

With fiscal policy now doing much less to fan domestic inflation pressures, we think Bank Rate will peak at 4.50%, or at least close to that figure. Despite stepping up the pace of policy tightening to a 75-basis point (bps) rate hike in November, taking Bank Rate from 2.25% to 3.00%, the MPC's communication was dovish. The MPC pushed back heavily against market rate expectations, which at the time were for Bank Rate to peak at 5.25%. The Bank's new forecasts predicted a deeper and longer recession than the analyst

MPC meetings 3rd November and 15th December 2022

- On 3rd November, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 75 basis points to 3.00%, and on 15th December moved rates up a further 50 basis points to 3.50%. The later increase reflected a split vote – six members voting for a 50 basis points increase, one for 75 basis points and two for none.

- Nonetheless, the UK government appears more settled now, with Rishi Sunak as Prime Minister, and Jeremy Hunt as Chancellor. Having said that, a multitude of strikes across several public services and the continued cost-of-living squeeze is going to make for a difficult backdrop to maintain fiscal rectitude without pushing the economy into anything worse than a mild recession.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 425 basis points in 2022 and is expected to increase rates further in 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan (although the BoJ has “tightened” its policy by widening the accepted yield levels for 10yr JGBs, from 0.25% to 0.5% on 20th December). Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.
- What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

4.2 Link Interest rate forecasts - Quarter Ended 31st December 2022

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast, made on 19th December, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government’s priority is the establishment and maintenance of fiscal rectitude. In addition, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View 19.12.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Link Group Interest Rate View 08.11.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Link Group Interest Rate View 27.09.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10	3.10

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

4.3 Glossary of terms

Counterparties - an opposite party in a contract or financial transaction. This may include the Central Government, Local Authorities, Banks and Building societies to name a few.

Liability Benchmark – demonstrates how a Local authorities existing debt maturity profile and other cash flows affect their future debt requirement. Its aim is to show whether the local authority is in an over-borrowed position (existing debt maturity profile is greater than their forecast debt requirement) or an under-borrowed position (existing debt maturity profile is less than their forecast debt requirement.) In monitoring this position the Local Authority can aim to secure interest rates at the acceptable rates and manage interest payable costs.

General Balances and Reserves – The General balance has been created by keeping aside surplus funds during the course of an accounting period to meet contingencies or offset future losses. Reserves however are created for a specific purpose. This may be funds that have been received and earmarked for a specific purpose in the future.

Internal Borrowing – Instead of taking external loans to fund activities such as Capital expenditure, a Local Authority may use income and grants received in advance, to fund these activities. Usually, surplus funds are invested to earn interest, however it is prudent to use these funds instead of loaning money as loans generally cost more than could be earned by investing the funds.

Cost of Carry - The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

Cherwell District Council

Accounts, Audit and Risk Committee

25 January 2023

Treasury Management Report – Q3 2022/23 (December 2022)

Report of the Assistant Director of Finance (Section 151)

This report is public

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2022-23 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of this Treasury Management Report.

2.0 Introduction

- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.
- 2.2 The Council's Treasury Management strategy for 2022-23 was approved by full Council on 28 February 2022. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.
- 2.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 28 February 2022.

3.0 Report Details

Summary position and strategy

- 3.1 The Council has continued to pursue its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and borrowing costs.

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine and a range of different UK Government policies, UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022. In anticipation of rapid interest rate rise a decision was taken to borrow £66m in advance of need at an average of 2.83% in July 2022.

Initially taking out this fixed borrowing at higher than budgeted interest rates created a budget pressure. However, by investing the surplus cash in line with its Treasury Investment Strategy, the Council has mitigated this pressure while providing interest rate certainty for 2023/24 when interest rates are forecast to be at their peak.

The Bank of England's Monetary Policy Committee acted for a ninth consecutive meeting in December, raising the Bank Rate by 0.50% to 3.50%. In terms of current market views, predictions for the outcome of February's meeting remain mixed between 3.75% and 4%.

Table 1: Link Forecast Rates published on 3rd January 2023

	Interest Rate Forecasts							
Bank Rate	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Link	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%
Cap Econ	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%
5Y PWLB RATE								
Link	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%
Cap Econ	4.00%	3.80%	3.70%	3.50%	3.50%	3.40%	3.30%	3.30%
10Y PWLB RATE								
Link	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.60%
Cap Econ	4.00%	3.80%	3.70%	3.60%	3.50%	3.40%	3.40%	3.30%
25Y PWLB RATE								
Link	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.90%
Cap Econ	4.40%	4.20%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%
50Y PWLB RATE								
Link	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%
Cap Econ	4.10%	4.00%	3.90%	3.80%	3.80%	3.70%	3.60%	3.60%

Note: **Capital Economics** is an independent economic research business based in London to which Link are comparing their forecasts to demonstrate the market view

- 3.2 As at the end of December 2022 the Council had borrowing of £218m and investments of £91m – a net borrowing position of £127m (30/09/22: £129m).
- 3.3 All treasury management activities undertaken during the first 9 months of 2022-23 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all Prudential Indicators were met during, and at the end of, the reporting period (see Table 5 at point 3.9 and Table 9 at point 3.15 below).

Borrowing performance for 9 months ended 31 December 2022

- 3.4 The Council requires external borrowing to fund its capital programme and had a total debt of £218m at the report date. With the change in borrowing strategy the ratio of medium-long term loans from the Public Works Loan Board (PWLB) to short term loans from other local authorities has moved from 50/50 at the beginning of the financial year to 76/24 on the 31st December 2022.
- 3.5 The Council's chief objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Table 2 below shows the borrowing position during and at the end of the reporting period.

Table 2: Borrowing Position for 9 months ended 31 December 2022

	Borrowing Amount £m	Average Interest Rate	Interest Paid Budget £m	Interest Paid Actual £m	Variance to Date £m
Apr-Dec 2022	220 (average)	1.52%	1.542	2.511	0.969
As at 31/12/22	218	1.82%	-	-	-

* Interest payable relates to external loans only, excluding finance lease and other interest of £0.190m

- 3.6 As a comparison, the table below shows average borrowing rates.

Table 3: Average PWLB Rates for the reporting period

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.12.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

Source: Link

This comparison demonstrates that the rates at which the PWLB loans were secured at in July 2022, 5 years at 2.67% and 10 years at 2.99%, were below average and considerably below the highs.

- 3.7 Interest payable for the full year is forecast to be £1.292m over budget (negative variance). This is expected to fully offset by higher than budgeted interest receivable from investing.

3.8 A full list of current borrowing at 31st December 2022 is shown below:

Table 4: Borrowing

Lender	Principal Borrowed £m	Maturity Date
East Sussex County Council	5	13/01/2023
West Yorkshire Combined Authority	10	17/01/2023
North Northamptonshire Council	10	31/01/2023
Portsmouth City Council	5	13/02/2023
West Midlands Combined Authority - Birmingham	5	13/04/2023
Oxfordshire County Council	5	27/04/2023
Derbyshire County Council	5	16/06/2023
Guildford Borough Council	5	13/07/2023
Craven District Council	2	15/11/2023
PWLB 7-year maturity	21	19/10/2024
PWLB 6-year maturity	6	25/09/2025
PWLB 7-year maturity	6	19/09/2026
PWLB 5-year maturity	10	26/07/2027
PWLB 10-year maturity	10	31/05/2028
PWLB 6-year maturity	5	26/07/2028
PWLB 7-year maturity	10	26/07/2029
PWLB 10-year maturity	6	25/09/2029
PWLB 8-year maturity	10	26/07/2030
PWLB 11-year maturity	6	19/09/2030
PWLB 9-year maturity	16	26/07/2031
PWLB 10-year maturity	15	26/07/2032
PWLB 15-year maturity	5	31/05/2033
PWLB 15-year maturity	5	25/09/2034
PWLB 16-year maturity	5	19/09/2035
PWLB 30-year maturity	5	31/05/2048
PWLB 50-year maturity	25	10/11/2071
TOTAL	218	

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

Table 5: Prudential Indicators

	2022/23 Maximum £m	31/12/22 Actual £m	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
Borrowing / Total debt	274	218	290	310	Yes

Investment performance for 9 months ended 31 December 2022

- 3.10 Funds available for investment are on a temporary basis, and the level of funds available is mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme. The PWLB loans taken ahead of need have been invested to reduce the cost of carry.
- 3.11 The Council has seen an increase in interest income in line with rises in the Bank of England base rate. The short-dated money market investments have performed better than budgeted and the trend is set to continue throughout this financial year. Table 6 below shows the investment position during and at the end of the reporting period.

Table 6: Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
Apr- Dec 2022	83.91 (average)	1.57%	(0.015)	(1.085)	(1.070)
As at 31/12/22	91	3.04%	-	-	-

- 3.12 As a comparison Table 7 below shows average money-market rates.

Table 7: Average Investment Rates for the reporting period

FINANCIAL YEAR TO QUARTER ENDED 31/12/2022							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	3.50	3.43	3.43	3.18	2.74	2.15	1.40
High Date	15/12/2022	28/12/2022	30/12/2022	30/12/2022	30/12/2022	30/12/2022	30/12/2022
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	1.79	1.73	1.68	1.57	1.31	0.99	0.59
Spread	2.75	2.74	2.74	2.61	2.35	1.92	1.26

*SONIA (Sterling Overnight Index Average) is an interest rate benchmark published by the Bank of England.
Source: [Link](#)

- 3.13 While maintaining a balance between security, liquidity and yield the Council has also been looking for ways to invest sustainably (or green investment). This must be done within the criteria laid out in the approved Treasury Management Strategy amongst counterparties approved by the Council's Treasury Advisors, Link.

The Council has taken the opportunity to invest in Standard Chartered Bank's sustainable fixed deposit (aligned to the United Nations' Sustainable Development Goals) and will highlight any future sustainable investments in this report.

Currently a new Treasury Management Policy (TMP1) is being written to address the growing importance of ESG investing and to clarify the Council strategy on this matter.

3.14 A full list of current investments is shown in Table 8 below:

Table 8: Investments

Counterparty	Principal Deposited £m	Maturity Date / Notice period
<u>Fixed Term Deposits</u>		
Debt Management Agency Deposit Facility	1	06/01/2023
Norddeutsche Landesbank Girozentrale	3	12/01/2023
Debt Management Agency Deposit Facility	0.565	12/01/2023
Debt Management Agency Deposit Facility	6	12/01/2023
Nottinghamshire Police	5	13/01/2023
Debt Management Agency Deposit Facility	2.685	17/01/2023
Debt Management Agency Deposit Facility	10	31/01/2023
Suffolk Borough Council	5	03/02/2023
Standard Chartered Bank	3	07/02/2023
Development bank of Singapore	3	09/02/2023
Bayerische Landesbank	3	09/02/2023
First Abu Dhabi Bank PJSC	3	09/02/2023
SMBC Bank International Plc	3	09/02/2023
Qatar National Bank	3	09/02/2023
Lloyds Bank Corporate	3	09/02/2023
National bank of Kuwait (International)	3	09/02/2023
Yorkshire Building Society	3	13/02/2023
Debt Management Agency Deposit Facility	9	15/02/2023
Toronto-Dominion Bank	3	20/02/2023
Santander UK (RFB)	3	06/03/2023
Hertfordshire County Council	3	20/03/2023
Derbyshire County Council	3	03/04/2023
<u>Money Market Funds</u>		
CCLA Investment Management Limited	5	Same day
Federated Investors UK	3.300	Same day
Goldman Sachs Asset Management	1.275	
Northern Trust Asset Managements	0.100	Same day
Legal & General Investment Management	0.100	Same day
TOTAL	91.025	

3.15 Compliance with investment limits is shown in Table 9 below:

Table 9: Investment Limits

	2022/23 Maximum £m	31/12/22 Actual £m	2022/23 Limit £m	Complied?
UK Central Government	57	29	Unlimited	Yes
Any group of organisations under the same ownership	5	0	5 per group	Yes
Approved counterparties – Banks and Building Societies	3	3	3 each	Yes
Any group of pooled funds under the same management	0	0	5 per manager	Yes
Money Market Funds total	15 in total	10	15 in total	Yes

Non-treasury investment activity

- 3.16 The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in the government’s Statutory Guidance on Local Government Investments, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 3.17 As of the 31st December 2022, the Council holds £107.2m of investments in the form of shares (£35.6m) and loans (£71.6m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.
- 3.18 The loan elements of these non-treasury investments generate a higher rate of return than earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.
- 3.19 For the 9 months to 31st December 2022 these loans have earned interest of £3.210m, a positive variance of (£0.191m) against budgeted income of £3.019m. The full year forecast is expected to show a positive variance of (£0.255m).

Table 10: Non-Treasury Investment Position

	Budget to date £m	Actual to date £m	Variance to date £m
Total non-treasury investment income	(3.499)	(3.692)	(0.193)

Overall performance for the Period

3.20 The overall performance for the 9 months to 31st December 2022 is as follows:

Table 11: Overall Treasury Position for the Period

	Budget to date £m	Actual to date £m	Variance to date £m
Borrowing costs	1.542	2.511	0.969
Finance lease and other interest	0.190	0.163	(0.027)
Treasury income	(0.015)	(1.085)	(1.070)
Non-treasury income	(3.499)	(3.692)	(0.193)
Total cost/(income)	(1.782)	(2.103)	(0.321)

Year End Forecast

- 3.21 The treasury budget was approved in February 2022 using interest rate forecasts provided by Link in their November 2021 update. Since then, the worsening cost-of-living crisis and the war in Ukraine has altered the economic outlook.
- 3.22 Interest payable for the full year prior to the change in strategy was forecast to be £0.148m over budget (negative variance) before loans were taken in advance to provide interest rate security. The new borrowing strategy has resulted in a forecast overspend of £1.292m (no change from previous reporting period) for the financial year, an increase of £1.144m as a result of the change in strategy.
- 3.23 Interest receivable for the full year before the change in strategy was forecast to be (£0.070m) over budget (positive variance) due to the increasing interest rates expected on investments. With the increase in interest rates, as well as investing the surplus funds borrowed from the PWLB, the year end forecast is now (£1.446m) (positive variance.) This is an increase of (£1.376m) (positive variance) as a result of the change in strategy.
- 3.24 The full year forecast is expected to show an overall positive variance against budget of (£0.392m) (31/09/22: (£0.209m)) as shown in Table 12 below. This means that the Council not only recovered the costs involved in providing interest payable certainty, which will benefit the Council greatly in future years, but also benefited from the rapidly rising interest rates by prudently reinvesting loans taken ahead of need.

Table 12: Overall Treasury Position Forecast to Year End

	Full Year Budget £m	Full Year Forecast £m	Full Year Variance £m
Borrowing costs	2.056	3.348	1.292
Finance lease and other interest	0.253	0.253	0
Treasury income	(0.019)	(1.446)	(1.427)
Non-treasury income	(4.666)	(4.923)	(0.257)
Total cost/(income)	(2.376)	(2.768)	(0.392)

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council for the period ending 31 December 2022. It is submitted to the Accounts, Audit and Risk Committee for information as required by the Treasury Management Code of Practice.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

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

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

7.0 Implications

Financial and Resource Implications

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

Comments checked by:

Joanne Kaye, Strategic Finance Business Partner (D151)
01295 221545, joanne.kaye@cherwell-dc.gov.uk

Legal Implications

- 7.2 The presentation of the Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators.

Comments checked by:

Shiraz Sheikh, Assistant Director Law & Governance | Monitoring Officer
01295 221651, shiraz.sheikh@cherwell-dc.gov.uk

Risk Implications

- 7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided. This and any other risks related to this report will be managed through the service operational risk and escalated to the leadership risk register as and when necessary.

Comments checked by:

Celia Prado-Teeling, Performance and Insight Team Leader
01295 221556, celia.prado-teeling@cherwell-dc.gov.uk

Equalities Implications

7.4 There are no equalities implications arising directly from this report.

Comments checked by:

Celia Prado-Teeling, Performance and Insight Team Leader
01295 221556, celia.prado-teeling@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

N/A

Lead Councillor

Councillor Adam Nell, Portfolio Holder for Finance

Document Information

Appendix number and title

- None

Background papers

None

Report Author and contact details

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Account Audit & Risk Committee Work Programme 2022/2023

22 March 2023	Counter Fraud Update 2022/23 Annual Report of AARC Finance and Risk Monitoring Report - Q3 2022/23 Work Programme Update Training - Treasury Management
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