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AUDIT COMMITTEE

Date: Monday, 3 February 2020
Time: 6.00pm
Location: Shimkent Room, Daneshill House, Danestrete
Contact: Ian Gourlay (01438) 242703
committees@stevenage.gov.uk

Members: Councillors: M McKay (Chair), J Gardner (Vice-Chair), S Barr, Booth, L Chester, D Cullen, L Kelly and G Lawrence.
Mr Geoff Gibbs (Independent Co-opted Member).

AGENDA

PART 1

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES - 12 NOVEMBER 2019 AND 27 NOVEMBER 2019

To approve as a correct record the Minutes of the meetings of the Committee held on 12 November 2019 and 27 November 2019.
Pages 3 – 12

3. ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2020/21

To consider the Annual Treasury Management Strategy including Prudential Code Indicators for 2020/21.
Pages 13 – 42

4. URGENT PART 1 BUSINESS

To consider any Part 1 business accepted by the Chair as urgent.

5. EXCLUSION OF PUBLIC AND PRESS

To consider the following motions –

1. That under Section 100(A) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in paragraphs1 – 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to Information) (Variation) Order 2006.

2. That Members consider the reasons for the following reports being in Part II and determine whether or not maintaining the exemption from disclosure of the information contained therein outweighs the public interest in disclosure.

6. PART II MINUTES - AUDIT COMMITTEE - 12 NOVEMBER 2019

To approve as correct record the Part II Minutes of the meeting of the Audit Committee held on 12 November 2019.
Pages 43 – 44

7. URGENT PART II BUSINESS

To consider any Part II business accepted by the Chair as urgent.

Agenda Published 24 January 2020

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE
MINUTES

Date: Tuesday, 12 November 2019
Time: 6.00pm
Place: Shimkent Room, Daneshill House, Danestrete

Present:	Councillors: Maureen McKay (Chair), John Gardner (Vice-Chair), Sandra Barr, Lizzy Kelly and Graham Lawrence.
Start / End Time:	Start Time: 6.00pm End Time: 7.02pm

1 **APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**

Apologies for absence were received from Councillors Stephen Booth, Laurie Chester and David Cullen, and from Mr Geoff Gibbs (Independent Co-opted Member).

There were no declarations of interest.

2 **MINUTES - 10 SEPTEMBER 2019**

It was **RESOLVED** that the Minutes of the Audit Committee meeting held on 10 September 2019 be approved as a correct record and signed by the Chair.

3 **EXTERNAL AUDIT 2018/19 - PROGRESS REPORT**

The Finance Manager (Technical) gave a verbal update on progress with regard to the 2018/19 External Audit.

The Finance Manager (Technical) advised that the External Auditors, Ernst & Young, had been on site at SBC since 30 September 2019. Two new significant risks had been identified in relation to the Queensway development, namely the decision-making process and the method of asset valuation. There were also a few outstanding issues in respect of the value for money conclusions.

The Finance Manager (Technical) commented that the External Auditors were also looking at the Medium Term Financial Strategy, with a view to assuring that the General Fund budget position was not being propped up by the Queensway project. The Group Accounts also needed to be agreed to reflect the valuation of Queensway and until this was completed the Statement of Accounts and audit could not be finalised. Ernst & Young aimed to complete this work by the due deadline, but it could be that the Statement of Accounts are published with any outstanding information to follow.

The Committee was informed that Ernst & Young had raised concerns that the Annual Governance Statement (AGS) made no mention of the Queensway and SG1 developments, and so it was likely that the Statement of Accounts/Audit Committees would be requested to approved an updated AGS at their joint meeting on 27 November 2019.

It was **RESOLVED** that the verbal progress report in respect of the 2018/19 External Audit be noted.

4 PROGRESS WITH DELIVERY OF 2019/20 ANTI-FRAUD PLAN

The Shared Anti-Fraud Manager presented a progress report on the Anti-Fraud Plan 2019/20.

The Shared Anti-Fraud Manager drew attention to Appendix B to the report, the Shared Anti-Fraud Service (SAFS) Action Plan 2019/20. He was pleased to report that all key actions were on target to be delivered by the end of March 2020. SAFS was currently working with the SBC Human Resources Team to develop an E-Learning package on fraud.

In respect of fraud referrals, the Shared Anti-Fraud Manager advised that 112 of these had now been received, in excess of the target of 100. Of the 71 lives cases still under investigation, the estimated fraud loss and savings combined was estimated to exceed £320,000.

The Shared Anti-Fraud Manager explained that the joint work between the SBC Parking Enforcement Officers and SAFS Team on Blue Badge fraud was going well. He also drew attention to the 2018/19 National Fraud Initiative data-sharing exercise, which had identified 1,612 potential matches. As at the end of September 2019 161 high risk matters had been reviewed and savings of £184,000 recorded.

In reply to a series of Members' questions, the Shared Anti-Fraud Manager commented as follows:

- the process for estimating the value of fraud loss was a recent addition to the SAFS IT system. At the end of the 2019/20 Financial Year, it would be possible to compare the estimated figure against the actual outturn figure;
- the statistics relating to Housing Benefit fraud covered both public and private sector housing;
- it was expected that any potential procurement/contract management fraud in respect of SBC contracts would be flagged up by officers for onward reporting to SAFS;
- the 2019/20 target of 12 social homes secured from sub-letting or other unlawful tenancy breaches was based on previous years and was challenging, as this type of fraud was complex. However, as well as delivering significant savings to the Council, the successful cases provided added social value;
- the onus would be for Planning Officers to enforce any instances of householders moving their boundary/fence lines onto amenity land.

It was **RESOLVED** that the work of the Council and the Shared Anti-Fraud Service in delivering the 2019/20 Anti-Fraud Plan be noted.

5 INTERNAL AUDIT PLAN 2019/20 - PROGRESS REPORT

The Committee considered a progress report on the Shared Internal Audit Service (SIAS) Audit Plan 2019/20 for the period to 25 October 2019.

The SIAS Client Audit Manager advised that, since the preparation of the report, a further three audits had been finalised, namely Procurement, Facilities Management and the CCTV follow-up. He commented that the audit of Land Charges had been cancelled and the audit days returned to contingency.

The SIAS Client Audit Manager reported that the Performance Indicators were broadly on target. Five client satisfaction questionnaires had been returned.

The SIAS Client Audit Manager referred to the High Priority audit recommendations and commented that the two outstanding CCTV recommendations had now been implemented; the IT-related recommendations were at various stages of completion; and the Museum recommendations had been implemented. In relation to the Hertfordshire Home Improvement Agency recommendations, it was reported that the HCC Audit Committee was to consider these in late November 2019, and the SIAS Client Audit Manager undertook to advise Members of the outcome.

In terms of the Audit Plan set out at Appendix C to the report, the SIAS Client Audit Manager stated that the IT Project Management and Sickness Absence Management audits had been re-scheduled from Summer 2019 to February 2020. The Housing Development Schemes and Queensway/Marshgate Redevelopment audits had also been re-scheduled at Management's request. The SIAS Client Audit Manager advised Members that re-scheduling these audits would make it more difficult to deliver this year's Audit Plan by 31 March 2020.

In respect of a Member's query regarding the High Priority Recommendations in relation to Cyber Security, particularly the Management Comment that it was "very rare (if ever) that someone connects an external device to the IT network", the SIAS Client Audit Manager agreed to clarify this comment with the ICT Strategic Partnership Manager and advise Members of the Committee.

It was **RESOLVED:**

1. That the Internal Audit Progress Report be noted.

2. That the amendments to the Internal Audit Plan, as at 25 October 2019, be approved.

3. That the status of Critical and High Priority Recommendations be noted.

6 MID YEAR REVIEW OF THE 2019/20 TREASURY MANAGEMENT STRATEGY

The Finance Manager (Technical) presented a report in respect of the 2019/20 Mid

Year Treasury Management Review. She drew attention to Paragraph 4.3.2 of the report, which showed that all of the Council's £72Million cash reserves had been allocated. In addition, the Capital Strategy required external borrowing and currently £401,000 of General Fund capital schemes were on hold pending matching capital receipts.

In relation to Capital Financing Requirements, the Finance Manager (Technical) advised that due to changes in the accounting treatment of the Queensway lease, this would now be reflected in SBC's accounts, classed as technical borrowing. As the valuation of the Queensway asset had been reduced, the Council had not breached its borrowing limit.

The Finance Manager (Technical) referred to the Council's Minimum Revenue Provision (MRP) position and the revised MRP Policy set out at Appendix E to the report. This showed a level of MRP overpayments since 2012/13 of over £1M for regeneration and just under £12,000 for other assets.

It was **RESOLVED:**

1. That Council be recommended to approve the 2019/20 Treasury Management Mid Year review.

2. That Council be recommended to approve the latest approved Countries for Investments list (Appendix D to the report).

3. That the updated authorised and operational borrowing limits be approved (Paragraph 4.4.7 in the report).

4. That the updated MRP Policy be approved (Paragraph 4.4.10 and Appendix E to the report).

7 PROGRESS OF CORPORATE AND SERVICE GOVERNANCE ACTIONS

The Corporate Performance & Improvement Officer (SB) presented a report in respect of the half-yearly progress of Corporate and Service Governance actions. She referred to Appendices A and B to the report, which provided progress reviews of 2019/20 Corporate Governance Actions and 2019/20 Service Governance Actions, respectively.

Members noted that, as usual, the Committee would receive a report on full year progress / outturn at its June 2020 meeting.

In response to a Member's question, the Corporate Performance & Improvement Officer (SB) advised that the policies and procedures in place to ensure that the Council ran effectively was measured against the CIPFA/SOLACE seven core principles of good governance set out in Paragraph 3.3 of the report.

It was **RESOLVED:**

1. That the progress to date of corporate governance action to strengthen the Council's corporate governance arrangements, as identified in the Council's 2018/19 Annual Governance Statement reported to the Audit Committee on 12 June 2019, be noted.

2. That the progress to date of service governance actions identified by the 2018/19 Service Assurance reviews carried out at business unit level to strengthen the Council's service governance arrangements reported to the Audit Committee on 12 June 2019, be noted.

8 INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) JOINT STRATEGY UPDATE

The Chair advised that relevant officers had been unable to attend the meeting to present the item and answer any questions.

It was **RESOLVED** that consideration of the ICT Joint Strategy update be deferred to the next meeting of the Committee in February 2020.

9 URGENT PART 1 BUSINESS

None.

10 EXCLUSION OF PUBLIC AND PRESS

It was **RESOLVED:**

1. Under Section 100(A) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as described in paragraphs 1-7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to information) (Variation) Order 2006.

2. Members considered the reasons for the following reports being in Part II and determined that the exemption from disclosure of the information contained therein outweighed the public interest in disclosure.

11 PART II MINUTES - AUDIT COMMITTEE - 10 SEPTEMBER 2019

It was **RESOLVED** that the Part II Minutes of the Audit Committee meeting held on 10 September 2019 be approved as a correct record and signed by the Chair.

12 STRATEGIC RISK REGISTER

The Committee received the Council's latest Strategic Risk Register, relating to Quarter 2 of 2019/20 (July – September 2019).

It was **RESOLVED:**

1. That the latest Strategic Risk Register (set out in Appendices A1 – A3 to the report) be noted.

2. That developments on risk management issues be noted.

13 URGENT PART II BUSINESS

None.

CHAIR

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE

(MEETING JOINTLY IN PART WITH THE STATEMENT OF ACCOUNTS COMMITTEE)

MINUTES

Date: Wednesday, 27 November 2019
Time: 6.00pm
Place: Shimkent Room - Daneshill House, Danestrete

Present:	Councillors: John Gardner (Vice-Chair in the Chair), Sandra Barr, Laurie Chester, Lizzy Kelly and Graham Lawrence. Mr Geoff Gibbs – Independent Co-opted Member.
Also Present:	Mr Neil Harris (Ernst and Young) Mr Robert Garnett (Ernst and Young)
Start / End Time:	Start Time: 6.00pm End Time: 7.46pm

1 APPOINTMENT OF PERSON TO PRESIDE

It was **RESOLVED** that Councillor Mrs Joan Lloyd be appointed to preside over the meeting which was held jointly with the Statement of Accounts Committee.

2 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for absence were received from Councillors Maureen McKay (Chair), Stephen Booth and Dave Cullen.

There were no declarations of interest.

3 2018/19 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT

The Audit Committee and the Statement of Accounts Committee meeting jointly received a presentation from the Finance Manager (Technical) on the Statement of Accounts 2018/19.

The Committees were advised that the Statement of Accounts were still “in audit” as a number of non-material changes were required in respect of how the financial arrangements and valuations relating to the Queensway LLP were reflected in the document.

A copy of Appendix 2 to the report, the draft Letter of Representation was then circulated to Members.

The Assistant Director (Finance and Estates) commented that, because the Statement of Accounts were still “in audit”, the recommendations in the report would need to be amended so that the draft Letter of Representation and Accounts be approved, but that herself and the Chair of the Statement of Accounts Committee be delegated authority to sign off any non-material adjustments to those accounts before publication.

The Assistant Director (Finance and Estates) undertook to provide Members of the Committee with a summary of the non-material adjustments made to the Statement of Accounts.

The Committees were shown how the Council’s accounts were constructed, with key points highlighted and identified.

In answer to a number of questions and queries, Members were advised:

- The capital spend figure of £14.476M for non-current assets as at 31 March 2019 primarily related to the Queensway redevelopment scheme, but also included other schemes; and
- The table showing the Pensions Reserve reflected the gap between pension assets and liabilities, which was reviewed on a tri-annual basis.

The Committees then considered the report from the Council’s External Auditors, Ernst and Young.

The Ernst and Young representatives acknowledged Members’ concerns and frustrations with the delay in auditing of the Statement of Accounts, and referred to a helpful letter from the SBC Leader to the Local Government Association Resources Board regarding the sustainability and capacity of audit firms to deliver local government audits going forward. Members noted that Ernst and Young had participated in similar sustainability discussions with Public Sector Audit Appointments Ltd.

The Ernst and Young representatives answered a number of questions raised by Members, and drew attention to a judgemental difference of £583,000 in relation to the valuation of the Stevenage Swimming Pool. They would be working with the SBC Finance Team to endeavour to agree on a mutually acceptable valuation level.

The Committees were advised that all audit tasks had been substantially completed, although a number of areas were still to be concluded, as set out in the report, and including final checks on the Group Accounts and Queensway LLP. However, it was expected that Ernst and Young would be issuing an unqualified audit opinion for both the Council’s accounts and the Value for Money statement. The aim was to complete the audit within 7 to 10 days of the meeting.

The Ernst and Young representative referred to audit fees to be charged for 2018/19, as set out in Section 9 of the report. These had increased by £25,000, due to the additional scope and risk profiles regarding the value for money conclusion, Queensway LLP work and Group Financial Statements.

The Assistant Director (Finance and Estates) commented that the Council would be submitting a claim for arbitration to Public Sector Audit Appointments, with a view to seeking compensation for the delays to the audit, which had impacted significantly on SBC Finance Officers due to the need to cancel holidays, re-arrange annual leave etc.

The Chair thanked both the External Auditor and the SBC Accounts Team for their presentations.

Note – At this point in the meeting the Statement of Accounts Committee RESOLVED to adjourn until the rise of the Audit Committee.

With regard to the valuation of the swimming pool, Members re-iterated a wish for a standard approach to be taken in future and requested that this view be fed back to the Statement of Accounts Committee.

The Committee agreed that the Assistant Director (Regeneration) be invited to the next meeting of the Committee to provide an update on the financial risks associated with the Queensway LLP and, in association with this, the Committee received a flowchart/diagram regarding the way in which the financial arrangement between the Council and the LLP worked, together with a copy of the Shared Internal Audit Services audit report on Governance.

The Committee accepted the offer made by the Assistant Director (Finance and Estates) to provide Members with a summary of the non-material adjustments made to the Statement of Accounts.

The Committee noted the Finance Manager (Technical)'s comment that there was a possibility that the audit of the accounts relating to the Queensway LLP for the 2019/20 financial year may involve two external auditors (namely the Council's external auditor and an auditor appointed by the LLP).

It was **RESOLVED:**

1. That the Annual Report to those charged with Governance for 2018/19 and the Annual Governance Statement be recommended to the Statement of Accounts for approval.

2. That the Council's Letter of Representation and the Financial Report including the Statement of Accounts 2018/19 be recommended to the Statement of Accounts Committee for approval, subject to the Assistant Director (Finance and Estates) and Chair of the Statement of Accounts Committee being delegated authority to sign off any non-material adjustments to those accounts before publication.

3. That the Assistant Director (Finance and Estates) be requested to provide Members of the Committee with a summary of the non-material adjustments made to the Statement of Accounts.

4. That the Assistant Director (Regeneration) be invited to the next meeting of the Committee to provide an update on the financial risks associated with the Queensway LLP and, in association with this, the Committee receives a flowchart/diagram regarding the way in which the financial arrangement between the Council and the LLP works, together with a copy of the Shared Internal Audit Services audit report on Governance.

4 **URGENT PART I BUSINESS**

None.

5 **EXCLUSION OF PUBLIC AND PRESS**

Not required.

6 **URGENT PART II BUSINESS**

None.

CHAIR

Part I – Release to Press

Meeting	Audit/ Executive/ Council
Portfolio Area	Resources
Date	03 February/ 12 February/ 26 February 2020

ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2020/21

NON KEY DECISION

Author –Belinda White Ext 2430
Contributors – Lee Busby Ext.2933
Lead Officer –Clare Fletcher Ext 2933
Contact Officer – Clare Fletcher Ext 2933

1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management[1] Strategy 2020/21, including its Annual Investment Strategy and the prudential indicators following considerations from Audit and Executive committees.

2 RECOMMENDATIONS

2.1 That subject to any comments from Audit Committee, the Treasury Management Strategy is recommended to Executive and Council for approval.

[1] CIPFA definition of treasury management and investments as " 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".

2.2 That Members approve draft prudential indicators for 2020/21.

2.3 That Members approve the minimum revenue provision policy.

2.4 That Members approve an increase to the maximum level of long term (invested for longer than 12 months) investments from £10Million to £20Million when cash balances are higher than £30Million.

3 BACKGROUND

3.1 The Council is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (this report) is forward looking, it is the first and most important of the three and includes:

- Treasury Management Strategy
- Investment Strategy
- Capital Plans and prudential indicators
- Minimum Revenue Provision (MRP) policy

3.1.1 The second is the mid-year treasury management report – this is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

3.1.2 The third is the annual treasury report – this is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3.1.3 Before being recommended to Council the reports are required to be adequately scrutinised, and this is undertaken by the Audit Committee and Executive.

3.2 **Treasury Management Strategy**

3.2.1 The key principle and main priority of the Treasury Management Strategy (TMS) is to maintain security of principal invested and portfolio liquidity. With regard to this, the aims of the strategy are:

i) To ensure that there is sufficient counter party availability and to maintain required levels of liquidity so that the Council has cash available to meet its payment obligations to its suppliers.

ii) To look for possible changes to the TMS which would increase returns on investments made including alternative investment opportunities with the aim of increasing returns on investments whilst maintaining the security of the monies invested.

3.2.2 The 2019/20 Prudential Code Indicators and TMS Report were approved by Council on the 27 February 2019, and had been updated to reflect new guidance on considering the risk and implications for non-treasury investments (for example commercial property purchases) decisions. The previous Capital Strategy, also approved by Council on the 27 February 2019, set out the policies for Investment in Commercial Property and Other capital investments. No additional strategy updates have been required for 2020/21.

3.2.3 The returns achievable on the Council's investments are currently modest based on the low Bank of England base rate and the risk appetite of the TM Strategy, which is compliant with the advice from the Council's treasury advisors, Link Asset Management. The Monetary Policy Committee (MPC) has not changed the Bank of England base rate since the increase to 0.75% on 2 August 2018. In 2019/20 investment returns of 0.93% are forecast with a target of 0.902% for 2020/21.

3.2.4 There is still ongoing uncertainty over Brexit, and the impacts after the transition period that may affect sterling. It may result in higher borrowing costs in future PWLB (Public Works Loan Board) rates as these rates are linked to gilts. The HRA and General Fund capital strategies both have significant borrowing requirements over the next few years and officers continue to monitor movements in the borrowing rates.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 LEGISLATIVE AND OTHER CHANGES IMPACTING ON THE TREASURY MANAGEMENT STRATEGY

4.1.1 There have been no revisions since the CIPFA Prudential Code and CIPFA Treasury Management Code came into force from 1st April 2018.

4.1.2 Each Authority now has a requirement to determine how best to report actual and planned non-financial / commercial activity to Members, arising from the investments described in paragraph 3.2.2. The Council has undertaken a small value of non-treasury investment to date, and the relevant statutory prudential indicators have been separated between their General Fund, HRA and Commercial components (see Appendix C).

4.2 **Comments from the Audit Committee**

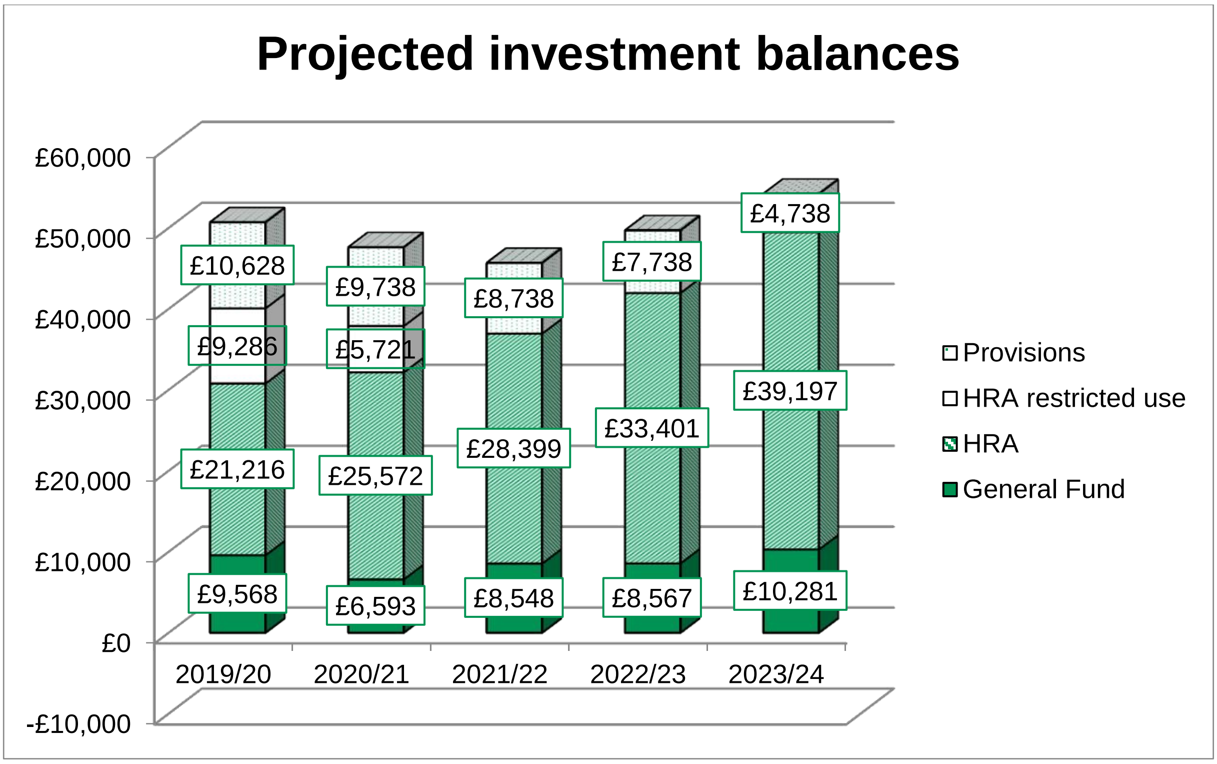
4.2.1 *To be incorporated into report to Executive and Council*.

4.3 **Performance of Current Treasury Strategy**

4.3.1 For the 2019/20 financial year to 31 December 2019 returns on investments have averaged 0.975% and total interest earned was £470,984 contributing to General Fund and Housing Revenue Account revenue income.

4.3.2 Cash balances as at 31 December 2019 were £63.03Million and are forecast to be £50.70Million as at 31 March 2020. The Council's balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts and balances held for provisions such as business rate appeals.

4.3.3 In considering the Council's level of cash balances, Members should note that the HRA Business Plan, General Fund MTFS and the Capital Strategy have a planned use of resources over a minimum of five and up to 30 year period, which means, while not committed in the current year, they are required in future years. This means that the Council's cash for investment purposes of £50.70Million as at 31 March 2020 is going to be used for revenue and capital plans approved by Members. This impact on cash available to invest is shown in the chart below.

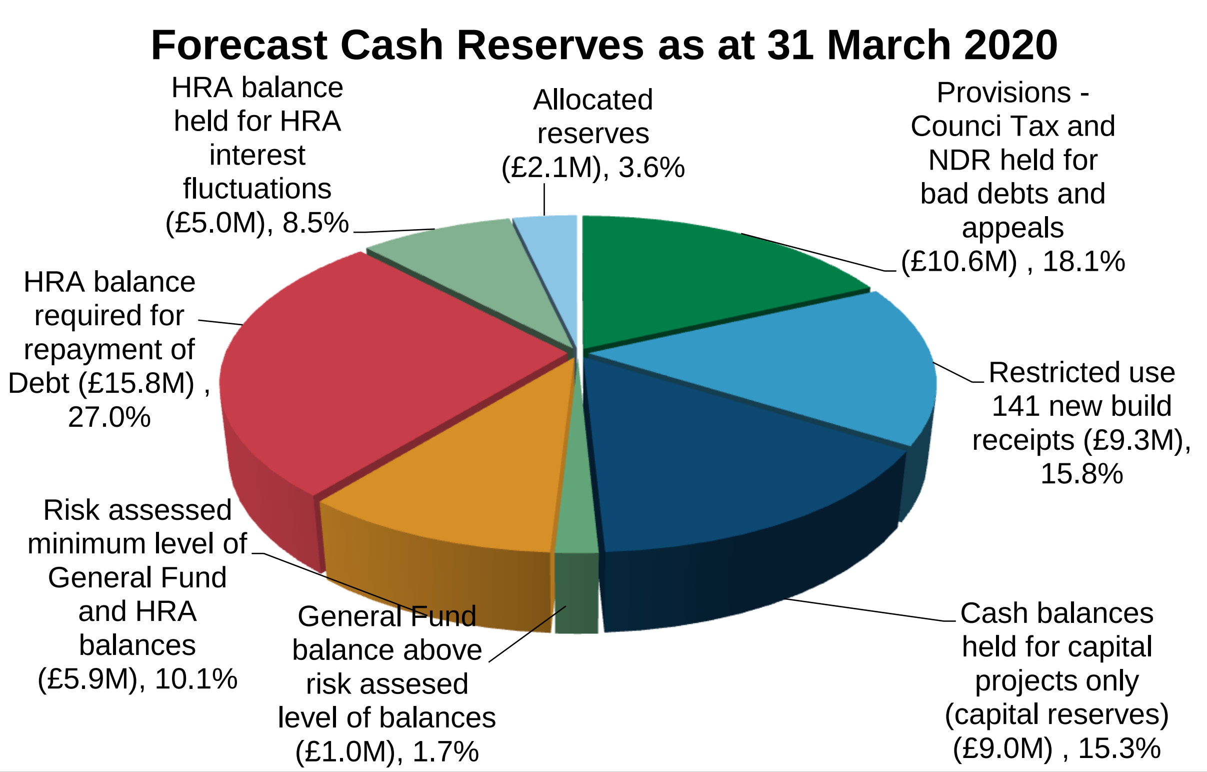


Note 1: General Fund and HRA balances are net of internal borrowing at year end

4.3.4 In addition to the balances projected to be held as at 31 March 2020 there are other balances invested that cannot be used to run services. These may be balances related to restricted RTB receipts which in 2019/20 total £9.3Million. There are also balances held for future events such as business rate appeals yet to be realised and again these balances cannot be used to fund services.

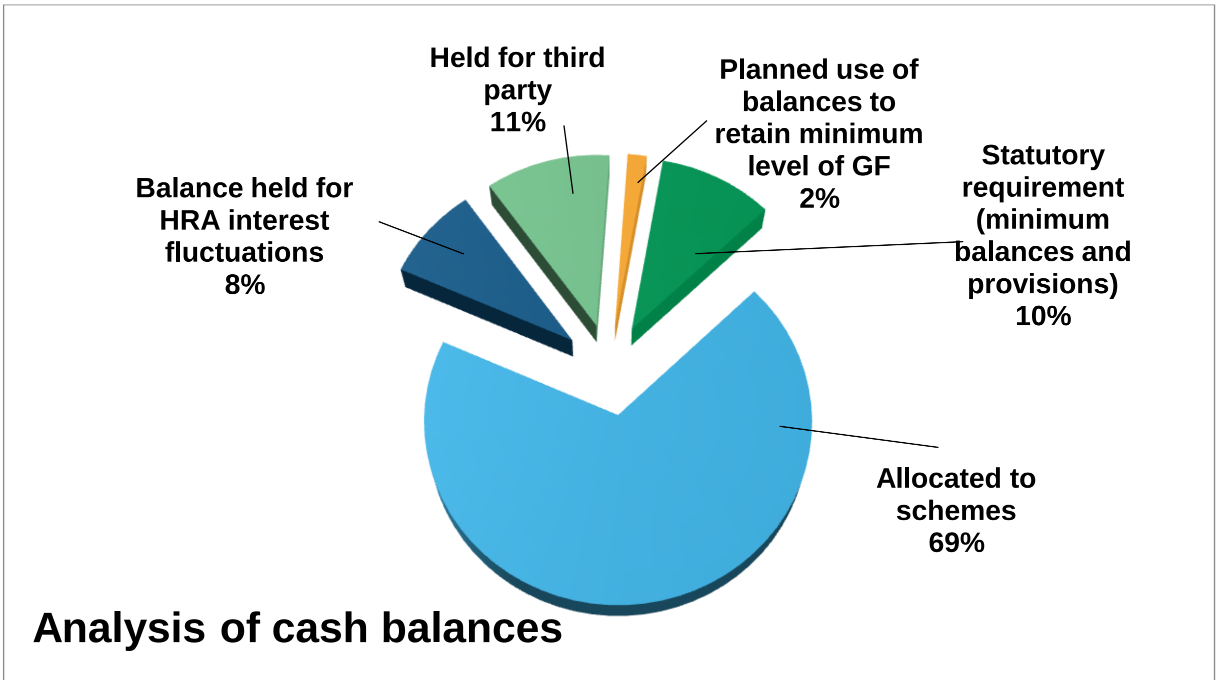
4.3.5 Reserves and provisions forecast to total £58.8Million as at 31 March 2020, however the actual cash held is forecast to be £50.7Million, a difference of £8.1Million. This is because both the HRA and the General Fund have used investment (cash) balances totalling £8.1Million rather than take external borrowing as interest rates are so low, (see also para 4.7.3).

4.3.6 The majority of cash balances are held for the repayment of HRA debt (27.0%) and to fund the Council's capital programme (31.1%, which includes 15.8% restricted RTB receipts for new build). Despite these sums held for the capital programme, external borrowing is still required as detailed in the 2020/21 capital strategy report. The forecast balances are summarised in the following chart.



Note 2: balances gross of internal borrowing of £8.1Million

4.3.7 These cash balances can be further analysed between allocated, held for statutory requirements and held for third parties. This identifies that of the £58.8Million, all cash balances have been allocated, so unless allocated reserves are no longer needed in the future, there are currently no cash resources available for new projects. In addition the capital strategy identifies the need for external borrowing and a number of capital schemes have not been approved due to the lack of funding resources.



4.3.8 The Council's current investment portfolio consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix D), partly due to the "above base rate" investment returns which are being offered for standard cash deposits, and those being achieved by the TM team.

4.3.9 There have been no breaches of treasury counter party limits during 2019/20, with the investment activity during the year conforming to the approved strategy. Any breach would be notified to the Chief Finance Officer. The Council has had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO) during 2019/20, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy are working as at the time of writing this report.

4.4 **Review of the Treasury Management Strategy and Proposed changes**

4.4.1 The 2019/20 TMS was revised to maintain the key principles of security and liquidity to accommodate the cash balances forecast to be held by the Council. In accordance with the prudential code the Council will continue to apply credit criteria in order to generate a list of highly credit worthy counterparties whilst maintaining diversification.

4.4.2 To comply with the new Code requirement a list of non-treasury investments is included in Treasury Management Practices. The non- treasury investments have been defined as properties solely held for rental income either directly by Stevenage BC or held via a wholly owned company. Stevenage BC holds no other types of "non-treasury" investments.

4.4.3 The Chief Finance Officer proposes to increase the maximum level of long term (invested for longer than 12 months) investments from £10Million to £20Million when cash balances are higher than £30Million. This is to enable greater flexibility to use opportunities to invest longer term when forecast balances are expected to be higher due to the timing of expenditure. The Chief Finance Officer proposes no changes to the other treasury limits contained in the Treasury management Strategy (Appendix D).

4.5 Prudential Indicators

4.5.1 It is a requirement of the Local Government Act 2003 that Councils must 'have regard to the Prudential Code and set prudential indicators to ensure capital investment plans are affordable, prudent and sustainable'.

4.5.2 This Strategy's Prudential Indicators are included in Appendix C and are based on the Final Capital Strategy reported to the Executive in February 2020 approved by Council on 26th February 2020. Should changes be made to the capital strategy prior to Council approval these changes will be incorporated into the final treasury management strategy to be approved by Council on 26th February 2020

4.5.3 **The Operational boundary** is the limit beyond which external debt is not normally expected to exceed and is most cases will be similar to the Council's Capital Financing Requirement (CFR). Officers recommend that the operational borrowing limit is increased to:

- to accommodate continued uncertainty regarding the release of GD3 LEP monies and the cost of relocating the Bus Station, an essential requirement to progress the SG1 regeneration phase of the town centre.
- To accommodate uncertainty regarding the timing of significant land sales.
- To reflect the identified borrowing requirement in the capital strategy.
- To reflect the capital programme financing requirement includes capital receipts and the uncertainty of when these receipts may materialise.
- To reflect the valuation of the finance lease of Queensway properties in the town centre.

4.5.4 The **Authorised limit** for external debt has in turn been increased and represents a control on the maximum level of borrowing. This represents the legal limit to which the Council's external debt cannot exceed.

4.5.5 The Council is asked to approve the following authorised limit.

Authorised Limit for external debt	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£000	**£000**	**£000**	**£000**
General Fund Finance lease (accounted for as borrowing)	11,875	26,875	26,875	26,875
General Fund – Borrowing for capital expenditure	43,442	46,669	47,448	50,665
Total Borrowing - General Fund	**55,317**	**73,544**	**74,323**	**77,540**
Borrowing - HRA	223,824	247,627	274,229	289,869
Total	**279,141**	**321,171**	**348,552**	**367,410**

4.6 The Council's Borrowing Position

4.6.1 The Council had external debt of £205.351Million as at 31 December 2020 and is broken down as follows:

Purpose of Loan	**PWLB Loan £'000**
General Fund Regeneration Assets	**2,677**
HRA	
Decent Homes	7,763
Self Financing	194,911
Total HRA Loans	**202,674**
Total Debt at 31st December 2020	**205,351**

4.6.2 The HRA borrowing of £1.81million in 2018/19 has not been taken to date, internal (cash) balances have been used and the timing of taking external borrowing is being dependent on cash balances held and forecast borrowing rates.

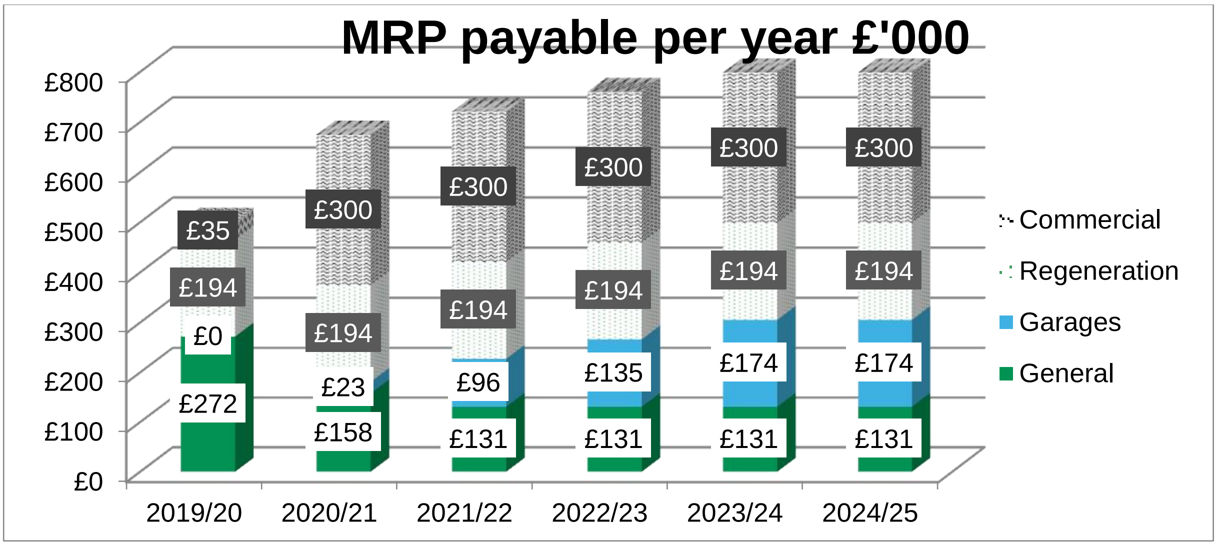
4.6.3 In 2019/20 there has been a General Fund loan repayment of £131,579 in August 2019, and a further £131,579 is due to be repaid in February 2020. In addition approved prudential borrowing for the investment property portfolio and garage strategy is due to be taken, the timing of which is dependent on actual spend.

4.6.4 Cash and investment balances have been used in preference to external borrowing as the costs of internal debt (investment interest foregone at 0.93%) is significantly lower than external borrowing (3.02% based on 25 year loan). It is the view of the Chief Financial Officer that this approach will continue to be considered while interest rates remain low.

4.7 Minimum Revenue Provision

4.7.1 Where capital expenditure has been funded from borrowing, whether this be actual external borrowing or internal borrowing the Council is required to set aside a Minimum Revenue Provision (MRP). This amount is calculated based on the approved MRP policy (appendix B) based on the life of the asset.

4.7.2 Borrowing decisions and subsequent MRP payments impact on the affordability of capital schemes. The MRP policy was updated as part of the mid-year Treasury Management review of 2019/20 to reflect the revised useful lives of assets financed through borrowing. Current projections of MRP payments based on the updated policy are detailed in the following chart.



4.8 Future borrowing requirements

4.8.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded by taking loans out with PWLB. Instead the Council's reserves, balances and cash flow have been used (as mentioned above).

This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.8.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Assistant Director (Finance and Estates) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

4.8.3 It is the Council's intention not to borrow in advance of need. However, should this happen as part of the optimising treasury management position of the Council and minimising borrowing risks, the transaction will be accounted for in accordance with proper practices.

4.8.4 The Council's treasury advisors now forecast the Bank of England base rate to increase to 1.0% in March 2021. Base rate and borrowing rate forecasts are shown in the table below. However there is volatility and uncertainty over Brexit and rates are monitored regularly.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

Source: Link Asset Services 23 December 2019

4.8.5 The Treasury's Certainty Rate for borrowing remains available and enables the Council to take PWLB loans at 20 basis points (0.2%) below the standard PWLB rate. The rates shown in the table above do not include that adjustment. There have been no further rate changes since the 100bps change in October 2019, increasing the PWLB margin over gilt yields from 80bps to 180bps. This change may result in other sources of borrowing being preferential to PWLB, such as the Municipal Bond Agency.

4.8.6 The HRA Business Plan's (HRA BP) existing loans have an average interest rate of 3.38% based on £202.674Million of borrowing. The current business plan makes allowance for new loans totalling £8,556,508 in 2019/20 and £23,802,670 in 2020/21. The decision when to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing borrowing rate. The interest payable in 2019/20 and 2020/21 is estimated to be £6,866,810 and £7,837,130 respectively.

4.8.7 The HRA Business Plan presented to Executive on 16 December 2019 identified that the lifting of the HRA borrowing cap meant that the HRA was not constrained by the £217.685Million cap set as part of the self-financing settlement. The 2019 HRA Business Plan looked at a revised approach to borrowing, versus using revenue contributions to capital. This was based on the HRA need to borrow and affordability as identified in the BP action plan.

4.9 Investments

4.9.1 The Council complies fully with CIPFA Treasury Management Code 2017. The Council also complies with guidance on self-financing and the investment guidance issued by Ministry of Housing, Communities and Local Government (MHCLG).

4.9.2 In managing the TM function other areas kept under review include:

- Training opportunities available to Members and officers (the most recent training for Members took place on 5th September 2019)
- That those charged with governance are also personally responsible for ensuring they have the necessary skills and training
- A full mid-year review of the TMS will be reported in 2020/21

4.9.3 The 2020/21 Strategy uses the credit worthiness service provided by Link Asset Services (formerly known as Capita Treasury Solutions) the Council's treasury advisors. This service uses a sophisticated modelling approach which utilises credit ratings from the three main credit rating agencies and is compliant with CIPFA code of practice.

4.9.4 While Link Asset Services may advise the Council, the responsibility for treasury management decisions remains with the Council at all times and officers do not place undue reliance on the external service advice.

4.9.5 The TM limits for 2020/21 (Appendix D) have been reviewed and no changes to these limits are being proposed.

4.9.6 The latest list of "Approved Countries for Investment" is detailed in Appendix E. This lists the countries that the Council may invest with providing they meet the minimum credit rating of AA- . The Council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues.

4.10 **Non Treasury Investments**

4.10.1 The update to the Prudential Code introduced the requirement for local authorities to produce a capital strategy to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and considers prudence, sustainability and affordability. As mentioned in paragraph 3.2.3 the definition of investments has been widened to include non- treasury investments. The 2020/21 Capital Strategy (Council 26 February 2020) includes more details on the Councils non treasury investments.

4.11 **Other Treasury issues**

4.11.1 **Brexit - UK Sovereign rating and investment criteria:** If there were to be a negative reaction to Brexit, then it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA (or equivalent). The Council's investment criteria only use countries with a rating of AA- or above. The UK current Sovereign rating is AA as at 23-1-2020. There is a possibility that this may change due to reactions to Brexit. The UK rating will be exempt from the sovereign rating investment criteria so in this event if it were to result in the UK being downgraded below AA- it would not impact on the Council's ability to invest with UK institutions. Other investment criteria will be considered in this event to ensure security of funds for the Council.

4.11.2 **Queensway Properties LLP** -In December 2018 the Council entered into a 37 year agreement with Aviva to facilitate the regeneration of Queensway in the town centre. A separate legal entity, Queensway Properties LLP, was incorporated to manage the rental streams and costs associated with the scheme. The Council's treasury management team offered its services to the LLP to manage and invest its surplus cash flows through a service level agreement, however to date no investment activities have been undertaken on their behalf.

4.11.3 **Queensway Properties LLP 2nd phase** –the first phase of the head lease has been recognised on the Council's balance sheet and the operational borrowing limit was increased to reflect the valuation. When the second phase of residential properties becomes available to let the Council's lease payments will increase to reflect this. As such the balance sheet valuation of the finance lease will increase and the operational and authorised borrowing limits for the General Fund will need to be increased accordingly. This has been reflected in the TM indicators but may be subject to change after external audit review. Any updates regarding the valuation of the Queensway head lease will be reported in future treasury management reports.

4.11.4 **IFRS16 – Leasing** – Some currently off balance sheet leased assets may need to be brought onto the balance sheet under IFRS 16. This will be a requirement for closing of the accounts for 2020/21, and could impact the Capital Financing Requirement and external debt (Other long-term liabilities), and the authorised limit and operational boundary would need to allow for these.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is if a financial nature and outlines the Prudential Code indicators and the principles under which the treasury management functions are managed.

5.2 Legal Implications

5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy is intended to ensure that the Council complies with relevant legislation.

5.3 Risk Implications

5.3.1 The current policy of not borrowing externally only remains financially beneficial while prevailing differentials between investment income rates and borrowing rates remain, and balances remain buoyant. When this changes, the Council may need to borrow at a higher rate, leading to a significant additional revenue cost in year.

5.3.2 There remains uncertainty on the impact of exiting the EU on UK economy and borrowing rates. Officers monitor interest rate forecasts to inform he timing of borrowing decisions.

5.3.3 The Council’s Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

5.3.4 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to take into account the relative risk of investments and also to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

5.4 Equalities and Diversity Implications

5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues.

5.5 Climate Change Implications

5.5.1 The council’s investment portfolio is sterling investments and not directly in companies. However the TM team will review the use of Money Market funds in 2020/21 to ensure, where possible, money market funds that invest in environmentally sustainable companies are used. In this way the TM team will align with the Councils ambition to attempt to be carbon neutral by 2030.

Background documents

BD1 Annual Treasury management Review of 2018/19

BD2 2019/20 Mid Year Treasury Management Review

BD3 Draft Capital Strategy 2019/20 – 2024/25 (Executive 22 January 2020)

Appendices

A Treasury Management Strategy

B Minimum Revenue Provision Policy

C Prudential Indicators

D Specified and Non-Specified Investment Criteria

E Approved Countries for investment

Appendix A Treasury Management Strategy 2020/21

Treasury Management Policy Statement

1.1 The Council defines its treasury management activities as: "*The management of the 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*".

1.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

1.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.4 This Strategy has been prepared in accordance with the CIPFA Treasury Management Code 2017. This requires the Council to approve the Treasury Management Strategy annually and to produce a mid-year report. In addition, Members in both Executive and Scrutiny functions receive monitoring reports and regular reviews. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.5 The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy to set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2. Annual Investment Strategy

2.1 The Council is required to prepare an Annual Investment Strategy. The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

2.2 The guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

a. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b. **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 Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

c. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix D under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

The Council has determined that it will limit the maximum total exposure to non-specified investments as detailed in Appendix D.

e. **Lending limits and Transaction Limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix D and will consider investments longer than 365 days

f. This authority has engaged **external consultants**, Link Asset Services, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

g. All investments will be denominated in **sterling**.

h. The Council only invests in counterparties with a high credit quality in the UK or other countries meeting minimum AA- sovereign rating. The Council understands that changes have taken place to the ratings agencies and that their new methodologies mean that sovereign ratings are now of lesser importance in the assessment process. However, the Council continues to specify a minimum sovereign rating as the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution (see Appendix E).

i. As a result of the change in accounting standards for 2018/19 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. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

2.3 The borrowing of monies purely to invest or on-lend in order to make a return is unlawful and this Council will not engage in such activities.

3 Creditworthiness policy

3.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. Based on this this main principle, the Council will ensure that:

- It maintains a policy covering the categories of financial instruments it will invest in, maximum investment duration, criteria for choosing counterparties with adequate security, and monitoring their security.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's Prudential indicators of the maximum principal sums invested in excess of 364 days.

3.2 The Assistant Director (Finance and Estates) will maintain a counterparty list in compliance with the criteria in the Strategy for Specified and Non-Specified Investment and will revise the criteria and submit them to Council for approval as necessary.

3.3 In determining the credit quality, the Council uses the Fitch credit ratings, together with Moody and Standard & Poor's equivalent where rated. Not all counterparties are rated by all three agencies and the Council will use available ratings.

3.4 The Council also applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Link Asset Services's modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

3.6 Credit ratings will be monitored whenever an investment is to be made, using the most recent information. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

3.8 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data including information on government support for banks and the credit ratings of that government support.

3.9 The Council receives updates from Link on future changes to Money Market Funds (MMF) that might affect the liquidity or risk of the fund. The Council is likely to change its approach to the use of MMF should liquidity or risk be adversely affected.

3.10 The Municipal Bond Agency is currently in the process of being set up and it is likely to be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loans Board (PWLB). The Council intends to make use of this new source of borrowing as and when appropriate.

3.11 In-house funds. Investments will be made with reference to the core balance and cash flow requirements, anticipated capital financing requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

4 Country limits

4.1 The Council has determined that it will only use approved counterparties from UK or selected countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This is part of the criteria used to produce the Council's Counterparty List.

5 Current Investments and Interest Rate Forecast

5.1 At the 31 December 2019 the Council had £63.03Million on deposit with various the institutions.

5.2 **Interest Rate Forecast** - The Bank of England base rate remains at 0.75% as at 31 December 2019. Link now forecast that Bank Rate will increase gradually over the next few years to reach 1.25% by 2nd quarter 2022.

Bank Rate forecasts (source: Link 23rd December 2019) for financial year ends (March) are:

- 2019/20 0.75%
- 2020/21 1.00%
- 2021/22 1.00%
- 2022/23 1.25%

5.3 Investment returns expectations.

The Council has budgeted for investment returns of 0.93% in 2019/20 and is budgeting for returns of 1.06 % in 2020/21. For comparison Link's suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	As at 23-12-19
2019/20	0.75%
2020/21	1.00%
2021/22	1.20%
2022/23	1.30%

And are based on the following assumption:

There is still ongoing uncertainty over Brexit, and the impacts after the transition period that may effect sterling. It may result in higher borrowing costs in future PWLB (Public Works Loan Board) rates as these rates are linked to gilts. The HRA and General Fund capital strategies both have significant borrowing requirements over the next few years and officers continue to monitor movements in the borrowing rates.

6 Borrowing Strategy and Policy on Borrowing in Advance of Need

6.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Assistant Director (Finance and Estates) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.3 The Operational Boundary and Authorised Borrowing Limits must be approved as part of the Prudential Code Indicators before the start of each financial year. The revised 2019/20 limits and proposed limits for 2020/21 are:-

	2019/20 Revised	2020/21
	£000	£000
Operational Boundary	271,141	313,171
Authorised Limit	279,141	321,171

6.4 Based on the capital programme 2020/21 (February 2020 Update) resourcing projections, the Council has the following borrowing requirements in 2020/21 are projected:

- General Fund £4,118,770 (£2,534,400 in relation to the10 year plan for the garages estates approved by Council on 20 July 2016, and £1,584,370 in relation to the wholly owned housing development company).
- HRA £23,802,670 (£14,116,204 on work to existing housing stock and £9,686,466 on housing development).

6.5 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

6.6 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

6.7 Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members

7 End of year investment report

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

8 Policy on the use of external service providers

8.1 In July 2016, the Council tendered for its treasury management advisors. As a result of which, Link Asset Services (formerly known as Capita Asset Services) was reappointed on a five year contract. The new contract commenced on 26

October 2016.

8.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

9 Scheme of Delegation and Role of Section 151 officer

9.1 **The Council** has the role of:

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

9.2 **The Audit Committee** has the role of reviewing the policy and procedures and making recommendations to Council.

9.3 **The Section 151 Officer** has the role of:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the

authority

- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (covered in Annual Capital Strategy Report).

9.4 Reporting arrangement to the Council and the Audit Committee is as below:

Area of Responsibility	Council Committee	Frequency
Treasury Management Policy Statement (revised)	Council	Initial adoption in 2010
Treasury Management Strategy / Annual Investment Strategy / Minimum Revenue Provision (MRP) policy	Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid-year report	Council	Annually before the end of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Council	As required.
Annual Treasury Outturn Report	Council	Annually by 30th November
Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of Treasury Management performance	Audit Committee	Quarterly (General Fund updates)

Appendix B

Minimum Revenue Provision Policy

Minimum Revenue Provision Policy Statement 2020/21

Note: It may be necessary to take a revised strategy and/or MRP policy to Council at a later date subject to progression of the wholly owned housing company and regeneration schemes to reflect the longer life of regeneration assets .

From 2013/14, the council has not had a fully funded capital programme, and although there has not been a need to borrow in full externally, due to the use of investment balances, it will be necessary to make adequate provision for the repayment of debt in the form of Minimum Revenue Provision in 2019/20 for the unfunded element of 2013/14 and 2014/15 expenditure. The **preferred method for existing underlying borrowing is Option 3 (Asset Life Method**) whereby the MRP will be spread over the useful life of the asset. Useful life is dependent on the type of asset and has been reviewed in 2019/20 to ensure that the useful life is still appropriate. Following this review asset lives now ranges from 7 years (ICT equipment) to 50 years (Investment properties, regeneration sites and carparks for example).

In applying the new asset lives historic MRP has been overpaid and in accordance with MHCLG MRP Guidance can be reclaimed in future years. The council has a policy to ring fence costs and income associated with regeneration assets and as such has shown these MRP changes separately (see table below).

The Council has approved a **Property Investment** Strategy – an investment of £15Million in property funded from prudential borrowing. The MRP calculation will be calculated under **Option 3 (Asset Life Method) and the annuity method** which links the MRP to the flow of benefits from the properties.

The forecast annual MRP for 2019/20 is £634,324 based on the Draft 2019 Capital Strategy Update having the need to borrow for the General Fund.
In addition finance lease payments due as part of the Queensway regeneration project made in 2018/19 and 2019/20 will be applied as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Following the review of asset lives MRP overpayments have arisen on regeneration assets and a small underpayment of MRP on other assets. A voluntary in year (2019/20) payment to cover the underpayment is proposed. The resulting overpayments on regeneration assets is shown in the following table.

voluntary MRP made		
	Regeneration	**Other Assets**
2012/13	£46,929.65	nil
2013/14	£140,788.95	nil
2014/15	£163,165.30	nil
2015/16	£141,355.30	nil
2016/17	£141,355.30	nil
2017/18	£141,355.30	nil
2018/19	£141,355.30	nil
2019/20	£141,355.30	£11,811.71
cumulative total	**£1,057,660.39**	**£11,811.71**

Additional Information

1. What is a Minimum Revenue Provision (MRP)?
The Minimum Revenue Provision is a charge that Councils which are not debt free are required to make in their accounts for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). The underlying debt is needed to finance the capital programme. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure, allowing borrowing to be matched to asset life. Setting aside an amount for the repayment of debt in this manner would then allow for future borrowing to be taken out to finance the asset when it needs replacing at no incremental cost. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and is now determined by Guidance.

2. Statutory duty
Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.

The share of Housing Revenue Account CFR is not subject to an MRP charge.

3. Government Guidance
Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

The four recommended options are thus:

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity).

This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure (SCE) annual allocation.

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

This is not applicable to the Council as it is for existing non supported debt

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -
Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:
equal instalment method – equal annual instalments,
annuity method – annual payments gradually increase during the life of the asset.

This is the preferred method as it allows costs to be spread equally over the life of the asset.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

This method is not favoured by the Council as if the asset is subject to a downturn in value, then that amount would have to be written off in that year, in addition to the annual charge

4. Date of implementation
The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). The CLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Appendix C
Treasury Management Prudential Indicators

Capital Expenditure (Based on Final Capital Strategy February 2020):	2019/20 Revised Mid year review 19-20	2019/20 Revised Final Cap Feb 20 Exec	2020/21 Revised Final Cap Feb 20 Exec	2021/22 Revised Final Cap Feb 20 Exec	2022/23 Revised Final Cap Feb 20 Exec
	£000	£000	£000	£000	£000
General Fund	32,923	31,224	20,429	6,604	17,168
HRA	33,706	33,249	50,384	58,252	37,575
Total	**66,629**	**64,473**	**70,813**	**64,856**	**54,743**

Ratio of financing costs to net revenue stream:	2019/20 Revised Mid year review 19-20	2019/20 Revised Final Cap Feb 20 Exec	2020/21 Revised Final Cap Feb 20 Exec	2021/22 Revised Final Cap Feb 20 Exec	2022/23 Revised Final Cap Feb 20 Exec
	%	£000	£000	£000	£000
General Fund Capital Expenditure	6.77%	5.60%	6.43%	7.62%	7.73%
HRA Capital Expenditure	16.78%	16.83%	18.68%	20.56%	21.18%

General Fund: Net revenue stream is the RSG, NNDR grant and Council Tax raised for the year.

HRA: The net revenue stream is the total HRA income shown in the Council's accounts from received rents, service charges and other incomes. The ratio of financing costs to net revenue stream reflects the high level of debt as a result of self financing.

Authorised Limit for external debt	2019/20 Revised Mid year review 19-20	2019/20 Revised Final Cap Feb 20 Exec	2020/21 Revised Final Cap Feb 20 Exec	2021/22 Revised Final Cap Feb 20 Exec	2022/23 Revised Final Cap Feb 20 Exec
	£000	£000	£000	£000	£000
Borrowing - General Fund	48,407	55,317	73,544	74,323	77,540
Borrowing - HRA	224,034	223,824	247,627	274,229	289,869
Total	**272,441**	**279,141**	**321,171**	**348,552**	**367,410**

The authorised limit in that it is the level up to which the Council may borrow without getting further approval from Full Council. The Council may need to borrow short term for cash flow purposes, exceeding the operational boundary. The authorised limit allows for £8m headroom above the Operational Boundary (£2m General Fund and £6m HRA), which is in addition to our capital plans. The Operational Boundary and Authorised Limit include £15m for the Queensway residential lease, and £6m for the Bus Station.

Operational Boundary for external debt	2019/20 Revised Mid year review 19-20	2019/20 Revised Final Cap Feb 20 Exec	2020/21 Revised Final Cap Feb 20 Exec	2021/22 Revised Final Cap Feb 20 Exec	2022/23 Revised Final Cap Feb 20 Exec
	£000	£000	£000	£000	£000
Borrowing - General Fund	46,407	53,317	71,544	72,323	75,540
Borrowing - HRA	218,034	217,824	241,627	268,229	283,869
Total	**264,441**	**271,141**	**313,171**	**340,552**	**359,410**

The operational boundary differs from the authorised limit in that it is the level up to which the Council expects to have to borrow. The Council may need to borrow short term for cash flow purposes, exceeding the operational boundary. The operational boundary allows for £7m headroom in addition to our capital plans (£5m General Fund and £2m HRA) plus £15m from 20/21 for the Queensway residential lease (acquisition values), and £6m for the Bus Station. £11.75m for the Queensway commercial lease is in the 19/20 opening figures.

Gross & Net Debt	31/03/2020 Revised Mid year review 19-20	2019/20 Revised Final Cap Feb 20 Exec	2020/21 Revised Final Cap Feb 20 Exec	2021/22 Revised Final Cap Feb 20 Exec	2022/23 Revised Final Cap Feb 20 Exec
	£000	£000	£000	£000	£000
Gross External Debt - General Fund	30,124	16,896	20,752	22,191	26,137
Gross External Debt - HRA	211,231	211,231	235,033	261,636	277,276
Gross External Debt	**241,355**	**228,127**	**255,785**	**283,826**	**303,413**
Less Investments	(63,741)	(50,564)	(46,688)	(45,201)	(49,373)
Net Borrowing	**177,614**	**177,562**	**209,097**	**238,625**	**254,040**

The Gross External Debt is the actual debt taken out by the Council plus any relevant long term liabilities. The Gross External Debt should not exceed the Operational Boundary for external debt. For 2019/20 there is estimated borrowing of £14.35m for the General Fund and £8.6m for the HRA, none of which has been taken to date.

The Net Borrowing is defined as gross external debt less investments. The net borrowing requirement may not, except in the short term, exceed the total capital financing requirement in the preceding year, plus the estimates of any additional financing.

Capital Financing Requirement	31/03/2020 Revised Mid year review 19-20	2019/20 Revised Final Cap Feb 20 Exec	2020/21 Revised Final Cap Feb 20 Exec	2021/22 Revised Final Cap Feb 20 Exec	2022/23 Revised Final Cap Feb 20 Exec
	£000	£000	£000	£000	£000
Capital Financing Requirement GF	41,407	42,317	45,544	46,323	49,540
Capital Financing Requirement HRA	216,034	215,824	239,627	266,229	281,869
Total Capital Financing Requirement	**257,441**	**258,141**	**285,171**	**312,552**	**331,410**

The Capital Financing Requirement (CFR) reflects the amount of money the Council would need to borrow to fund it's capital programme. This is split between the Housing Revenue Account CFR (HRACFR) and the General Fund CFR (GFCFR).

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Appendix D **2020/21 Treasury Management Strategy**
Specified and Non-specified Investment Criteria
(including Treasury Limits and Procedures)

Table 1 **Specified Investments** are sterling denominated with maturities up to maximum of one year and must meet the following minimum high credit quality criteria:

Investment Counterparty	Investment Instrument	Minimum High Credit Quality Criteria	Investment Duration
Banks or Building Societies	Overnight Deposit Notice Account Short Term Deposit	Fitch: Short Term F1 and Long Term A and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different OR Part-nationalised or Nationalised UK banking institutions (subject to regular reviews of government share percentage).	Maximum duration as per Treasury Advisor's (Capita's) colour coded Credit List, and less than one year
Debt Management Office or UK Local Authority	Any deposit	No limit	
Money Market Funds	Instant Access	AAA rated	Instant Access

Table 2 **Non-Specified Investment** are sterling denominated with a maturity longer than one year but no longer than five years, and must meet the following criteria:

Investment Counterparty	Investment Instrument	Minimum High Credit Quality Criteria	Investment Duration
Banks or Building Societies	Any deposits with maturity up to a maximum of five years	Fitch: Short Term F1+ and Long Term AA- and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different	Maximum duration suggested by Treasury Advisor's (Capita's) colour coded Credit List, and not in excess of five years
Debt Management Office or UK Local Authority		No Limit	

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Table 3 **Treasury Limits**

Investment Instrument	Cash balances less than £30Million Limits	Cash balances higher that £30Million Limits
Variable Rate Investments (Excluding Enhanced Cash Funds)	Maximum holding £30M	Maximum holding 100%
Counterparty limits (to encompass all forms of investment)	Maximum £5M	Maximum £8M
Instant Access Or Overnight Deposit	Maximum holding 100%	
Fixed Rate less than 12 month maturity	Maximum holding 100%	
Fixed Rate more than 12 months to maturity (includes all types of Fixed Rate Investments i.e. Certificates of Deposits)	Maximum £5M	Maximum £20M
Money Market Funds - Traditional Instant Assess (Counterparty Limit per Fund)	Maximum £5M per MMF	Maximum £8M per MMF
	No limit on total cash held	
Enhanced Cash Funds	Maximum £3M	
Certifcates of Deposits	Maximum £5M	
Property Funds	Maximum of £3M - No durational limit. Use would be subject to consultation and approval	

	Procedures of Applying the Criteria and Limits
	Before the Treasury Team makes an investment, the Team will follow the follow procedure to ensure full compliance with the Specified and Non-Specified Criteria and Treasury Limits:
1	Check that the Counterparty is on the Counterparty List (also known as Current Counterparty Report for Stevenage) produced by Link Asset Services (LAS), specifically meeting the Council's Specified and Non-specified Minimum High Credit Quality Criteria in the above Table 1 & 2. If it is not on the list, the Treasury Team will not invest with them.
2	If the Counterparty is on the list, then the Treasury Team refers to the Credit List produced by LAS in colour coding, to determine the maximum investment duration suggested for the deposit, as per the column of Suggested Duration (CDS Adjusted with manual override).
3	Refer to the Treasury Limits in the above Table 3 to ensure the amount invested complies with the Treasury Limits.

APPENDIX E: Approved Countries (with Approved counterparties) for Investments (as at 17th January 2020)

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Finland

AA

- France
- United Arab Emirates
- U.K.

AA-

- Belgium
- Qatar

The above list includes the possible countries the Council may invest with. Not all of these countries are used or will be used in treasury management investments

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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