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AUDIT COMMITTEE

Date: Tuesday, 9 February 2021
Time: 6.00pm
Location: Virtual (via Zoom)
Contact: Ian Gourlay (01438) 242703
committees@stevenage.gov.uk

Members: Councillors: T Callaghan (Chair), J Gardner (Vice-Chair), S Barr, S Booth, L Chester, D Cullen, L Kelly and G Lawrence.
Mr G Gibbs (Independent Non-voting Member)

AGENDA

PART I

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES - 17 NOVEMBER 2020

To approve as a correct record the Minutes of the meeting of the Audit Committee held on 17 November 2020.
Pages 3 – 8

3. EXTERNAL AUDIT OF ACCOUNTS 2019/20

To receive a verbal update from Ernst & Young on the External Audit of the 2019/20 accounts.

4. INTERNAL AUDIT PLAN 2020/21 - PROGRESS REPORT

To consider a progress report on the 2020/21 Internal Audit Plan.
Pages 9 – 24

5. ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2021/22

To consider the Annual Treasury Management Strategy including Prudential Code Indicators 2021/22.
Pages 25 – 60

6. URGENT PART I BUSINESS

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

7. EXCLUSION OF PUBLIC AND PRESS

To consider the following motions –

1. That under Section 100A 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 Paragraphs 1 – 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.

8. PART II MINUTES - AUDIT COMMITTEE - 17 NOVEMBER 2020

To approve as a correct record the Part II Minutes of the meeting of the Audit Committee held on 17 November 2020.
Pages 61 - 62

9. URGENT PART II BUSINESS

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

Agenda Published 1 February 2021

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE
MINUTES

Date: Tuesday, 17 November 2020
Time: 6.00pm
Place: Virtual (via Zoom)

Present:	Councillors: Teresa Callaghan (Chair), John Gardner (Vice-Chair), Sandra Barr, Stephen Booth, Laurie Chester, Lizzy Kelly and Graham Lawrence. Independent Member: Mr Geoff Gibbs.
Start / End Time:	Start Time: 6.00pm End Time: 7.29pm

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

Apologies for absence were received from Councillor Dave Cullen.

There were no declarations of interest.

2 **MINUTES - 10 SEPTEMBER 2020**

It was **RESOLVED** that the Minutes of the Audit Committee meeting held on 10 September 2020 be approved as a correct record and signed by the Chair.

3 **THE REDMOND REVIEW: INDEPENDENT REVIEW ON THE QUALITY OF LOCAL AUTHORITY REPORTING AND EXTERNAL AUDIT**

The Strategic Director (CF) presented a report updating the Committee on the Redmond Review and advising Members of any impending changes to future Statement of Accounts and External Audit.

The views of the Council's Chief Financial Officer (CFO) were reported along with Ernst and Young's comments on the Redmond Report. The main issues raised on the recommendations within the Redmond Report by the CFO included:

- The recommendation to simplify the oversight of accounts could have been made stronger;
- The deadline for publishing audited local authority accounts would be revisited with a view to extending it to 30 September from 31 July each year. This was seen as a backward step by the CFO as it would impact on other functions provided by the Council such as budget monitoring and medium term planning and budget setting.

The main points raised on the recommendations by Neil Harris - Ernst and Young (EY) included:

- The standardisation and simplification of accounts should be further considered;
- A liaison committee set up by MLCLG, which would bring together all key stakeholders, to bring in primary legislation to oversee public audits was welcomed;
- The current timetable was currently unsustainable and the revised deadline was necessary.

In response to a question from a Member regarding staffing levels at EY, Neil Harris advised that steps had been taken and a programme of recruitment undertaken to ensure investment in the Company which was now fully staffed at a senior level.

In response to a question on fees, Neil Harris advised that EY had advised the PSAA of the scale fee required for each individual organisation. They were currently looking at whether the scale fees should be revisited taking into account local variations.

Members asked whether as well as the fees being increased the work content would also increase to reflect the fees. EY advised that the level of work was much more significant than the prior year due to the unprecedented environment everyone was operating in.

Members asked if there was scope to simplify the presentation of local authority accounts prior to communication of the information to council taxpayers/service users.

The Independent Member advised his disappointment with the report particularly in relation to the transparency of the report.

It was **RESOLVED**:

(1) That the outcome of the review is noted by the Audit Committee;

(2) That the views of the Council's Chief Finance Officer (CFO) are noted;

(3) That the views of the Council's External Auditors are noted.

4 INTERNAL AUDIT PLAN 2020/21 - PROGRESS REPORT

The Committee considered a progress report on the Shared Internal Audit Service (SIAS) Audit Plan 2019/20 for the period to 30 October 2020.

The SIAS Client Audit Manager advised that, since the preparation of the report, 3 audits had been finalised in relation to procurement activity, garage lettings and void management. All 3 Audits provided a positive level of assurance with no high priority recommendations made.

20 out of 31 audits were currently in progress. The remaining 11 audits had staff resource allocated to them with a start date scheduled for each one.

The Committee was advised that due to the response to the Pandemic, it had been agreed that a number of audits would have to be cancelled. In response to a request from the Chair, the SIAS Client Audit Manager agreed that the Community Safety Audit which had been intended for Quarter 1 would be added to the reserve list of audits for this year.

It was **RESOLVED:**

1. That the Internal Audit Progress Report be noted.

2. That the amendments to the Internal Audit Plan, as at 30 October 2020, be approved.

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

4. That the Community Safety Audit which had been intended for Quarter 1 would be added to the reserve list of audits for this year.

5 SECTION 106 (S106) ALLOCATION UPDATE

The Assistant Director (Planning and Regulation) submitted a report providing Members with an update to how the S106 allocations could more effectively work.

The Committee was informed that a number of S106 funds had been previously allocated to identified schemes which were detailed in the report. It was noted that the challenge of spending these as part of wider budgets was being looked at by the Finance Department along with delivery partners on how best to spend those allocations.

In relation to the deadlines to spend these allocations, the Assistant Director advised that each project was on an individual basis although most had a 5-7 year deadline to spend. Following a request, the Assistant Director agreed that an update would be provided to the next committee on the breakdown of the remaining funding and the requirements of each specific scheme.

It was **RESOLVED**:

(1) that the report be noted.

(2) that the Assistant Director (Planning and Regulation) report to the next Committee on the breakdown of Section 106 balances and the requirements of each specific scheme.

6 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 2020/21 Corporate Governance Actions and 2019/20 Service Governance

Actions, respectively.

In response to a question from the Chair, the Corporate Performance & Improvement Officer (SB) agreed that an interim report would be submitted to the March 2021 meeting of this Committee and would include a mid year review of the Council's response to Covid-19 along with a summary of the decisions made by the Council during the Pandemic.

It was **RESOLVED:**

1. That the progress to date of corporate governance actions to strengthen the Council's corporate governance arrangements, as identified in the Council's 2019/20 Annual Governance Statement reported to the Audit Committee on 9 June 2020, be noted.

2. That the progress to date of service governance actions identified by the 2019/20 Service Assurance reviews carried out at business unit level to strengthen the Council's service governance arrangements reported to the Audit Committee on 9 June 2020, be noted.

3. that Officers submit an interim report to the March 2021meeting of the Committee including a mid year review of the Council's response to Covid-19 and a summary of decisions made by the Council during the Pandemic.

7 MID YEAR REVIEW OF 2020/21 TREASURY MANAGEMENT STRATEGY

The Finance Manager (Technical) presented a report in respect of the 2020/21 Mid Year Treasury Management Review.

She drew attention to Paragraph 4.1.3 of the report which showed the original capital programme, the revised capital programme and financing.

The Finance Manager (Technical) then referred to the Council's cash balances, forecasted to be £60m at the end of March 2021 and advised that those balances were already earmarked for approved schemes so were not available for new projects.

In relation to prudential indicators the Committee noted that there had been no breaches to the approved strategy this year.

In response to a question regarding investments within the EU, Officers advised that although one fund in Luxembourg had closed, the Council's Treasury Management Advisors did not anticipate any further problems but that the situation would continue to be monitored.

A member asked for clarification in terms of how much money had been paid in interest on the housing stock debt. Officers advised that the annual interest cost on the borrowing was £7m. There was a phased repayment plan for the borrowing. Early repayment of some debts had been looked at but due to the early repayment penalties this was not viable.

It was **RESOLVED:**

1. That Council be recommended to approve the 2020/21 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).

8 URGENT PART 1 BUSINESS

The Chair asked for a progress update from Ernst &Young (EY) on the current Audit.

Nick Harris (EY) advised that it had been agreed with the Council's Chief Finance Officer that in order to safeguard the Audit and due to the impact of the Pandemic and the significant increase in the work required, a further period of time was necessary to conclude the Audit. In response to a question from the Chair, Nick Harris confirmed that they were on target to complete the Audit by the end of January 2021. The Audit Committee/Statement of Accounts Committee meeting originally scheduled for 26 November 2020 would now meet in January 2021.

9 EXCLUSION OF PUBLIC AND PRESS

It was **RESOLVED:**

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 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. That 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.

10 PART II MINUTES - AUDIT COMMITTEE - 10 SEPTEMBER 2020

It was **RESOLVED** that the Part II Minutes of the Audit Committee meeting held on 10 September 2020 be approved as a correct record and signed by the Chair.

11 STRATEGIC RISK REGISTER

The Committee received the Council's latest Strategic Risk Register, relating to Quarter 2 of 2020/21 (July – September 2020).

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.

12 URGENT PART II BUSINESS

None.

CHAIR

Stevenage Borough Council
Audit Committee

9 February 2021
Shared Internal Audit Service –
Progress Report

Recommendation

Members are recommended to:
a) Note the Internal Audit Progress Report
b) Approve Amendments to the Internal Audit Plan as at 22 January 2021
c) Note the Status of Critical and High Priority Recommendations

Contents

1 Introduction and Background

Purpose of Report

1.1 To provide Members with:

a) The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2020/21 Internal Audit Plan as at 22 January 2021.
b) The findings for the period 1 April 2020 to 22 January 2021.
c) The changes required to the approved Internal Audit Plan.
d) The implementation status of previously agreed audit recommendations.
e) An update on performance management information as at 22 January 2021.

Background

1.2 Internal Audit's Annual Plan for 2020/21 was approved by the Audit Committee at its meeting on 9 June 2020. The Audit Committee receive periodic updates against the Internal Audit Plan.

1.3 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit function is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed changes to the agreed Annual Internal Audit Plan.

2 Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

2.1 As at 22 January 2021, 58% of the 2020/21 Audit Plan days have been delivered (the calculation excludes contingency days that have not yet been allocated).

2.2 The following final reports have been issued so far during 2020/21:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Procurement Activity	Sept 2020	Good	None
Garage Lettings	Sept 2020	Satisfactory	Four Medium priority
Void Management	Oct 2020	Satisfactory	One Medium, one Low/Advisory priority
Climate Change & Sustainability	Dec 2020	Good	One Medium priority
Housing Benefits	Jan 2021	Satisfactory	One Medium, two Low/Advisory priority

2.3 The table below summarises the position regarding 2020/21 projects as at 22 January 2021. Appendix A provides a status update on each individual project within the 2020/21 Internal Audit Plan.

Status	No. of Audits at this Stage	% of Total Audits
Final Report Issued	5	14%
Draft Report Issued	6	17%
In Fieldwork/Quality Review	10	29%
In Planning/Terms of Reference Issued	7	20%
Allocated	1	3%
Not Yet Allocated	0	0%
Cancelled	6	17%
Total	35	100%

Proposed Audit Plan Changes

2.4 The following Audit Plan changes were agreed with management and are proposed to the Committee:

a) Homelessness & Housing Advice (10 days) – audit intended for Q4 2020/21 but deferred to Q1 or Q2 of 2021/22 due to operational pressures arising from the Council's pandemic response. Days returned to contingency.
b) Housing Allocations (10 days) – as above.
c) Ad hoc Advice (10 days) – days assigned from contingency to map a number of processes subject to transformational change.

Critical and High Priority Recommendations

2.5 Members will be aware that a Final Audit Report is issued when it has been agreed ("signed off") by management; this includes an agreement to implement the recommendations that have been made.

2.6 The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations.

Performance Management

2.7 The 2020/21 annual performance indicators were approved at the SIAS Board meeting in March 2020.

2.8 The actual performance for Stevenage Borough Council against the targets that can be monitored in year is set out in the table overleaf:

Performance Indicator	Annual Target	Profiled Target	Actual to 22 January 2021
1. Planned Days – percentage of actual billable days against planned chargeable days completed	95%	60% (178/298 days) Note (1)	58% (172/298 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	44% (13/29 projects) Note (1)	38% (11/29 projects)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (7 received) Note (2)
4. Number of Critical and High Priority Audit Recommendations agreed	95%	95%	No High priority recommendations have been made

Note (1) - this reflects the delay in starting to deliver the 2020/21 Internal Audit Plan and subsequent re-programming due to the pandemic.
Note (2) - 4 received in 2020/21 relate to 2019/20 audits.

APPENDIX A - PROGRESS AGAINST THE 2020/21 AUDIT PLAN

2020/21 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Key Financial Systems – 74 days									
Main Accounting System						8	Yes	3	In Fieldwork
Debtors						8	Yes	1.5	In Fieldwork
Creditors						8	Yes	1.5	In Fieldwork
Treasury Management						6	Yes	1.5	TOR Issued
Payroll						10	Yes	1.5	In Fieldwork
Council Tax						6	Yes	5.5	In Fieldwork
Business Rates						6	Yes	2	In Fieldwork
Housing Benefits	Satisfactory	0	0	1	2	6	Yes	6	Final Report
Housing Rents						8	Yes	1.5	TOR Issued
Cash & Banking						8	Yes	7.5	Draft Report
Operational Audits – 104 days									
Climate Change & Sustainability	Good	0	0	1	0	7	Yes	7	Final Report
Matters Identified by SAFS – follow up						7	Yes	6.5	Draft Report
Community Development						0	N/A	0	Cancelled
Community Safety						0	N/A	0	Cancelled
Compliant Homes						10	Yes	9.5	Draft Report
Digitalisation Programme						10	Yes	1.5	TOR Issued
Garage Lettings	Satisfactory	0	0	4	0	10	Yes	10	Final Report
Homelessness & Housing Advice						0	N/A	0	Cancelled
Housing Allocations						0	N/A	0	Cancelled
Housing Repairs						10	Yes	9.5	Draft Report
Leasehold Properties						10	Yes	0	Allocated

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Licensing						10	Yes	4.5	In Fieldwork
On-Street Parking						0	N/A	0	Cancelled
Play Service						0	N/A	0	Cancelled
Statutory Compliance – GF Property						10	Yes	7	In Fieldwork
Tree Management						10	Yes	9.5	Draft Report
Void Management	Satisfactory	0	0	1	1	10	Yes	10	Final Report
Procurement, Contract Management and Project Management – 33 days									
Partnerships/Shared Services						10	Yes	1.5	TOR Issued
Procurement Activity	Good	0	0	0	0	5	Yes	5	Final Report
Regeneration – SG1						10	Yes	0.5	In Planning
Stevenage Bus Interchange						8	Yes	6	In Fieldwork
Risk Management and Governance – 12 days									
Risk Management						6	Yes	1	In Planning
Corporate Governance						6	Yes	1	In Planning
IT Audits – 12 days									
Payment Card Industry Compliance						6	Yes	5.5	Draft Report
Hardware Acquisition, Movement & Disposal						6	Yes	1	TOR Issued
Shared Learning and Joint Reviews – 0 days									
Joint Reviews						0	N/A	0	Cancelled
Shared Learning						0	N/A	0	Cancelled

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Ad Hoc Advice – 13 days									
General Advice and Process Mapping						13	Yes	7	In Progress
Completion of 19/20 Projects – 3 days									
Various						3	Yes	3	Complete
Contingency – 20 days									
Contingency						20	N/A	0	Through Year
Strategic Support – 47 days									
Head of Internal Audit Opinion 2019/20						3	Yes	3	Complete
Audit Committee						12	Yes	7.5	Through Year
Client Liaison						8	Yes	5	Through Year
Liaison with External Audit						1	Yes	1	Through Year
Plan Monitoring						12	Yes	9	Through Year
SIAS Development						5	Yes	5	In Progress
2021/22 Audit Planning						6	Yes	3.5	In Progress
SBC TOTAL		**0**	**0**	**7**	**3**	**318**		**172**	

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (January 2021)
1	Cyber Security follow up (2018/19).	Network access control. Management should establish a network access control to block unknown or unauthorised devices from connecting to the Council's IT network. This should include restricting the ability to physically connect to the IT network. Where there is a demonstrable need for a device to connect to the IT network, the Service should require: The purpose for the connection has been recorded Appropriate security controls have been enabled on the device connecting to the IT network The period of time that the device will require the connection All connections are approved before being allowed to proceed. Devices connected to the IT network should be reviewed on a routine basis.	The Council has created a Security & Network Team who has been tasked to look at security / network tools. There is also a planned upgraded Office 365 and in particular Intune to manage all mobile (non-network connected) devices. The plan is to ensure that only known devices are allowed to access Council systems.	ICT Strategic Partnership Manager.	Network Tools July 2019. Intune October 2019. Procurement of network tools revised to November 2020.	July 2019. This is a new addition and the management response opposite is therefore the latest comment. September 2019. Intune MDM has been installed and will be rolled out to manage all mobile devices and Windows 10 laptops. Plan in place to upgrade all Laptops to windows 10 is in place to ensure control via Intune encryption using Bitlocker. Financial and resource restrictions have forced the procurement of network tools to financial year 2020/21. December 2019. Revised date as above. It is very rare (if ever) that someone connects	Partially implemented – continue to monitor.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (January 2021)
						an external device to the IT network. The Zero Clients do not allow the transfer of data to anything plugged into it. February 2020. Revised implementation date as above. July 2020. Budget obtained to purchase networking tools to cover this and other security areas. The procurement will start shortly. October 2020. Project has a dependency on completion of the networking/Firewall upgrade. As any tools need to be able to work within those systems capabilities. The Networking project is at the end of the procurement phase but has come under some procurement and technical issues which are holding up	

APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (January 2021)
						implementation. January 2021. Access remotely: Our VDI Hosted desktop solution gives good security controls over who can access our systems. This will be strengthened with the installation of an upgraded system this year which will force Multi Factor authentication. Access via our buildings WiFi: This security is enforced as above, stopping any access. Physical access: Due to current lockdown and the decision to focus on our network and hosted desktop upgrade, the project to purchase network monitoring tools has been put on hold. The ability to access our system by plugging in a device to our system is reduced by our hosted desktop solution, as this is	

APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (January 2021)
						inaccessible without authentication. The tool to monitor and restrict physical access is scheduled for Q3 2021.	
2	Incident Management follow up (2018/19).	Updating the disaster recovery plan. Management should update the Council's IT disaster recovery plan to include the procedure for establishing all IT services at a single data centre. A complete IT Disaster Recovery scenario test on all applications and systems should take place to provide assurance that recovery could happen within the expected time frame. The Service should document the results of the test to determine the further actions required to improve the efficacy of the plan.	With our upgrade to horizon VDI, we are installing hardware which will allow either site to run 100% of capacity allowing the complete downing of one site for upgrade work but will of course allow for full capacity in the event on one data centre being of offline.	ICT Strategic Partnership Manager.	August 2019 – DR review. April 2020 - VDI upgrade.	July 2019. This is a new addition and the management response opposite is therefore the latest comment. September 2019. VDI upgrade out to tender with award scheduled for October 2019. December 2019. Expected completion for this work is now April 2020. February 2020. As above. July 2020. A verbal update will be provided at the committee meeting. October 2020. Project dependant on upgrade of infrastructure as	Partially implemented – continue to monitor.

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (January 2021)
						above. However limited pilot has been started and work on preparing applications is underway. £5,000 has been obtained from Local Government funding source to train 2 staff on DR planning. January 2021. ICT has a solid incident management response procedure, but this is not fully documented into a recognised Disaster Recovery Plan due to the changes being made to our systems and network. Any plan created now will be out of date in a few months, hence the delay.	

APPENDIX C – AUDIT PLAN ITEMS (APRIL 2020 TO MARCH 2021) – START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept
2019/20 Projects Requiring Completion	On-Street Parking Cancelled	Play Service Cancelled	Void Management Final Report Issued	Climate Change & Sustainability Final Report Issued	Follow Up on Matters Identified by SAFS Draft Report Issued
	Community Safety Cancelled	Housing Repairs Draft Report Issued	Procurement Activity Final Report Issued	Community Development - Youth Council Cancelled	Compliant Homes Draft Report Issued
	Process Mapping Complete		Garage Letting Final Report Issued		Payment Card Industry Compliance (c/f from May) Draft Report Issued

Oct	Nov	Dec	Jan	Feb	Mar
Tree Management (c/f from Apr) Draft Report Issued	Council Tax In Fieldwork	Creditors In Fieldwork	Main Accounting In Fieldwork	Regeneration – SG1 In Planning	Digitalisation Programme TOR Issued
Statutory Compliance – GF Property In Fieldwork	Cash & Banking (c/f from Oct) Draft Report Issued	Debtors In Fieldwork	Payroll In Fieldwork	Risk Management In Planning	Leasehold Properties (c/f from July) Allocated to Auditor
Stevenage Bus Interchange In Fieldwork	Housing Benefits Final Report Issued	Partnerships/Shared Services (c/f from Oct) TOR Issued	Hardware Acquisition, Movement & Disposal TOR Issued	Housing Rents In Fieldwork	Housing Allocations Cancelled
		Licensing (c/f from Aug) In Fieldwork	Corporate Governance In Planning	Homelessness & Housing Advice (c/f from July) Cancelled	
			Treasury Management TOR Issued	Business Rates (c/f from November) In Fieldwork	

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	**Critical**		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	**High**		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

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Part I – Release to Press

Agenda item: ##

Meeting Audit/ Executive/ Council

Portfolio Area Resources

Date 09 February/ 10 February/ 24 February 2021

ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2021/22

NON KEY DECISION

Author –Belinda White Ext 2430
Contributors – Lee Busby Ext.2933
Lead Officer – Nick Penny
Contact Officer – Nick Penny

1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management[1] Strategy 2021/22, 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 and Executive, the Treasury Management Strategy is recommended to 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 the prudential indicators for 2021/22.

2.3 That Members approve the minimum revenue provision policy.

2.4 That Members approve an increase to counterparty limits for short term investments (invested for up to one year) from £8Million to £10Million 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 for 2021/22

3.2.1 The strategy for 2021/22 covers two main areas:

Capital issues

i) the capital programme and the associated prudential indicators;

ii) the minimum revenue provision (MRP) policy.

Treasury management issues

i) the current treasury position;

ii) treasury indicators which limit the treasury risk and activities of the Council;

iii) prospects for interest rates;

iv) the borrowing strategy;

v) policy on borrowing in advance of need;

vi) the investment strategy;

vii) creditworthiness policy; and

viii) the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

3.2.2 The Council's Capital Strategy is reported separately from the Treasury Management Strategy. Non-treasury investments are reported through the former, ensuring the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

3.2.3 CIPFA defines treasury management as:

"The management of the local authority's borrowing, 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."

3.2.4 The contribution of Treasury Management to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. Treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

3.2.5 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 (Bank Rate) since it was cut to 0.10% on 19 March 2020 in response to the Coronavirus pandemic. In 2020/21 investment returns of 0.67% are forecast with a target of 0.35% for 2021/22.

3.2.6 Despite an exit deal being agreed between the UK and the EU just before the end of the transition period on 31 December 2020, there is still ongoing uncertainty regarding all the impacts of Brexit, including how it may affect the strength of the UK currency. In addition to impacting the investment return forecast in paragraph 3.2.5, it may also result in higher borrowing costs in future PWLB (Public Works Loan Board) rates, as these 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, however new investment guidance was issued by the Ministry of Housing, Communities and Local Government (MHCLG) on 26 November as a response to the consultation on the future lending terms of the PWLB.

4.1.2 Each Local Authority is asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. As part of this, the PWLB will ask the CFO to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on the CFO's professional interpretation of guidance issued alongside the PWLB lending terms. Local Authorities cannot have any scheme in the Capital Strategy where the investment is primarily for financial gain, regardless of whether the transaction would notionally be financed from a source other than the PWLB. If they have such a scheme then the Council will not be eligible to borrow from the PWLB meaning they will no longer be able to access borrowing at favourable rates.

4.2 Comments from the Audit Committee and Executive

4.2.1 Comments from the Audit Committee meeting of 9 February and Executive meeting of 10 February will be updated (including any updates to the Capital Strategy) and incorporated into the report to Council on 24 February.

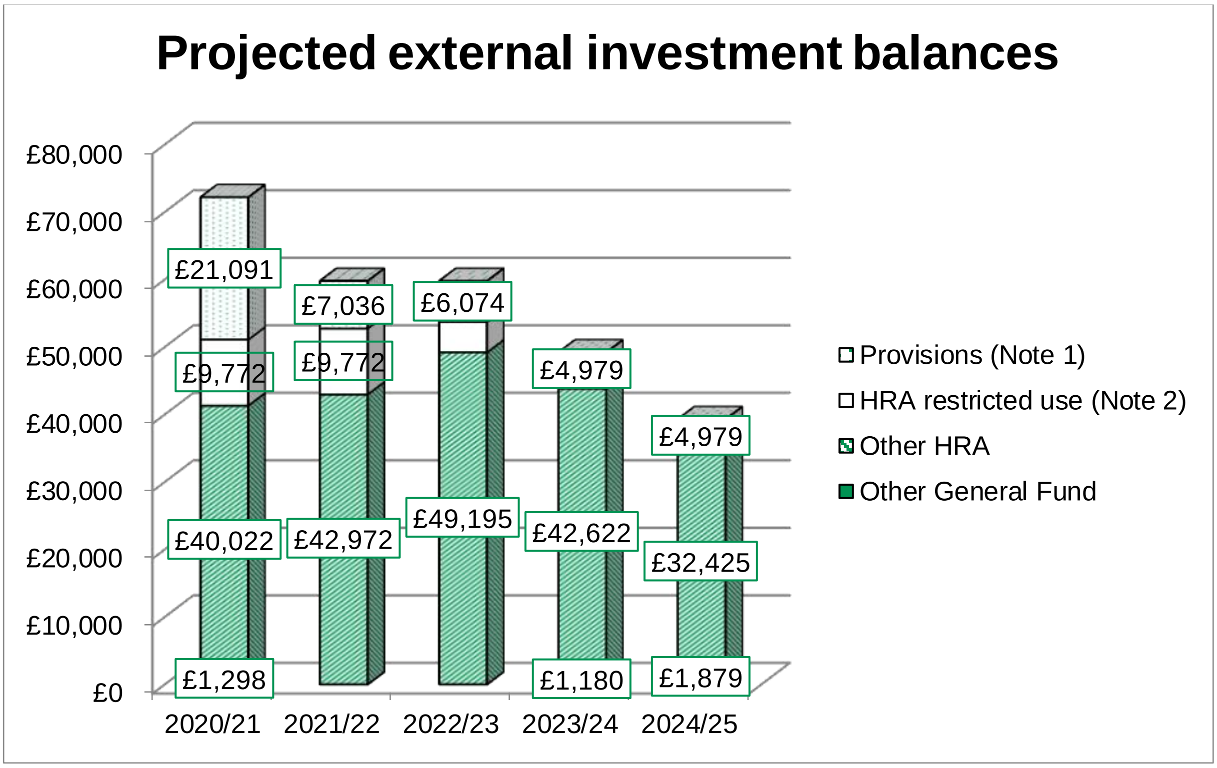
4.3 Performance of Current Treasury Strategy

4.3.1 For the financial year 2020/21 to 31 December 2020 returns on investments have averaged 0.71% and total interest earned was £330,511 contributing to General Fund and Housing Revenue Account revenue income.

4.3.2 Cash balances as at 31 December 2020 were £63.24Million and are forecast to be £72.2Million as at 31 March 2021. 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. The cash balances figure available for investment of £72.2Million is less than the total forecast Reserves and Balances figure of £88.1Million because the HRA and the General Fund have used balances totalling £15.9Million in lieu of external borrowing due to low interest rates leading to a poor return on investments (see also para 4.6.8).

4.3.3 In considering the Council's level of cash balances, Members should note that the General Fund MTFS and Capital Strategy have a planned use of resources over a minimum of 5 years and the HRA Business Plan (HRA BP) a planned use of resources over a 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 £72.2Million as at 31 March 2021 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.

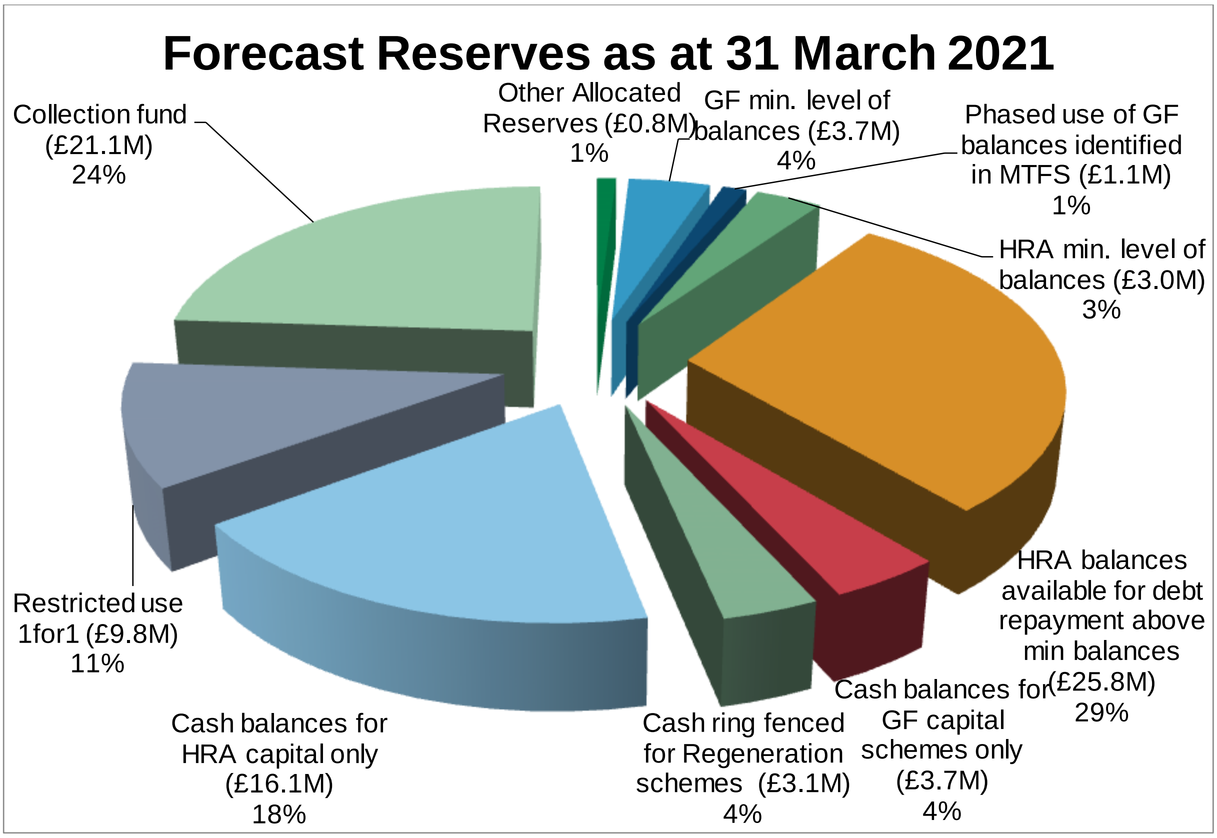


Note 1: Council Tax & NNDR held for bad debts and appeals

Note 2: 141 new build receipts

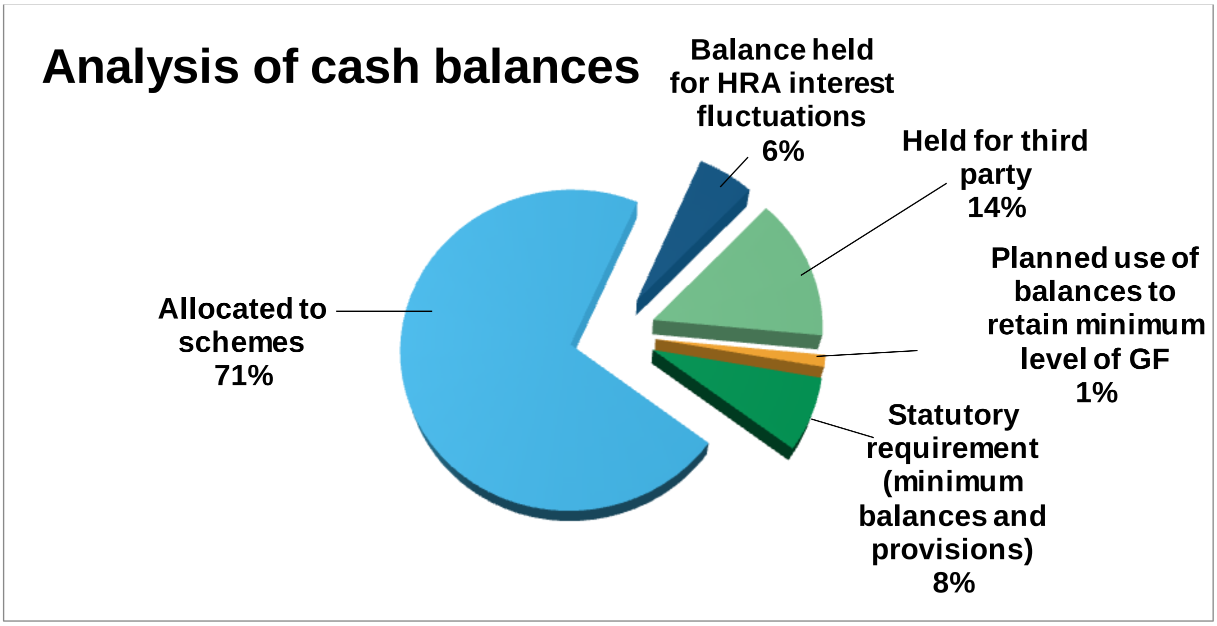
4.3.4 The balances projected to be held as at 31 March 2021 include balances invested that cannot be used to run services. These include balances related to restricted RTB receipts which in 2020/21 total £9.8Million. There are also balances held for future events such as business rate appeals yet to be realised and again these balances cannot be used to fund services.

4.3.5 The majority of balances are held for the repayment of HRA debt (29.3%) and to fund the Council's capital programme (33.5%, which includes 11.1% restricted RTB receipts for new builds). Despite these sums held for the capital programme, external borrowing is still required as detailed in the 2021/22 capital strategy report. The forecast balances are summarised in the following chart.



Note: balances include internal borrowing of £15.9Million

4.3.6 These cash balances can be further analysed between allocated, held for statutory requirements and held for third parties. This identifies that 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.



4.3.7 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 Treasury Management team.

4.3.8 There have been no breaches of treasury counter party limits during 2020/21 to-date, 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 2020/21, 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 Government has provided grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances (which required investment), normally for a very short period of time until those sums were passed on to the recipients. In order to remain flexible it is proposed to increase counterparty limits as proposed in recommendation 2.4, set out further in paragraph 4.9.5 and increase the number of Money Market Fund accounts.

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 report to the Executive on 10 February 2020 to be approved at Council on 24 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 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 for the residential phase of the Queensway development in the town centre.
- The Housing Wholly Owned Company (WOC) Model (report on the agenda for February Council) is for development schemes totalling £8.0 Million, which has been included in the Final Capital Strategy funded by

borrowing, the WOC report requests a maximum investment of up to £15Million which is included in the borrowing limits.

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	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
General Fund Finance lease (accounted for as borrowing)	15,000	15,000	15,000	15,000	15,000
General Fund additional borrowing facility available to the Housing WOC Wholly Owned Company		6,985	6,985	6,985	6,985
General Fund Borrowing for capital expenditure	34,726	39,313	44,089	45,441	44,683
Total Borrowing - General Fund	**49,726**	**61,298**	**66,074**	**67,426**	**66,668**
Borrowing - HRA	245,474	272,076	287,716	299,653	304,524
TOTAL	**295,200**	**333,374**	**353,790**	**367,079**	**371,192**

4.6 The Council's Borrowing Position

4.6.1 The Council had external debt of £209.098Million as at 31 December 2020 and is broken down as follows:

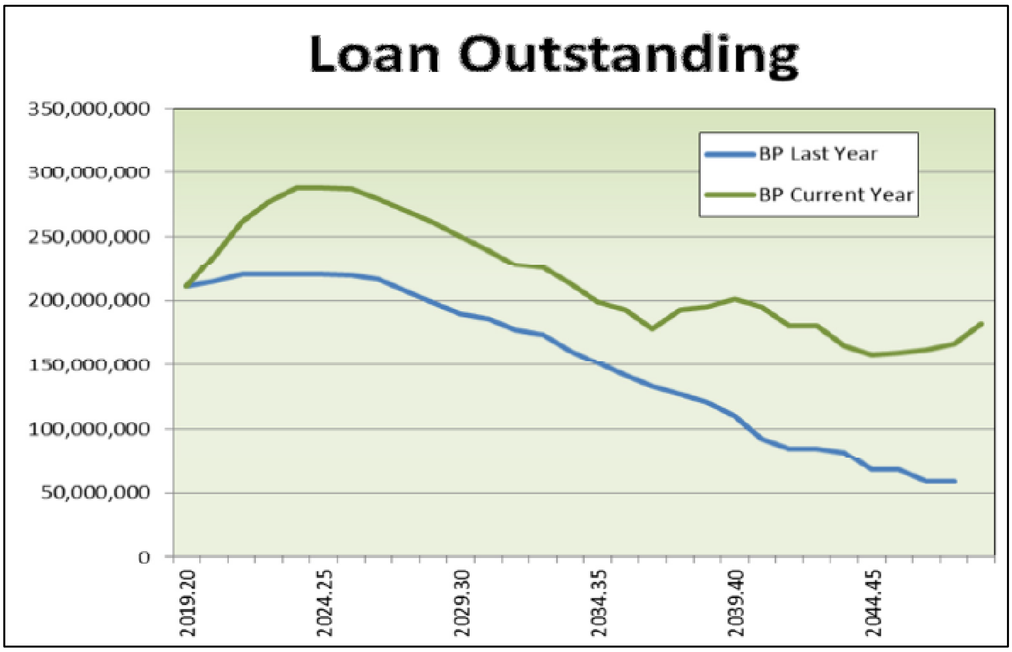
Purpose of Loan	PWLB Loan £'000
General Fund Regeneration Assets	**2,414**
HRA	
Decent Homes	11,773
Self Financing	194,911
Total HRA Loans	**206,684**
Total Debt at 31st December 2021	**209,098**

4.6.2 The HRA borrowing of £1.810million in 2018/19 was not taken externally neither was £3.047Million of the £7.057Million borrowing included in the 2019/20 HRA Business Plan and to finance the 2019/20 capital programme. To date none of the £23.802Million forecast for 2020/21 in the most recent HRA BP has been borrowed externally. External borrowing has not been taken, partly due to slippage in the HRA Capital Programme and partly because internal reserves and balances have been used instead. The timing of taking external borrowing is dependent on the level of cash balances held and forecast borrowing rates.

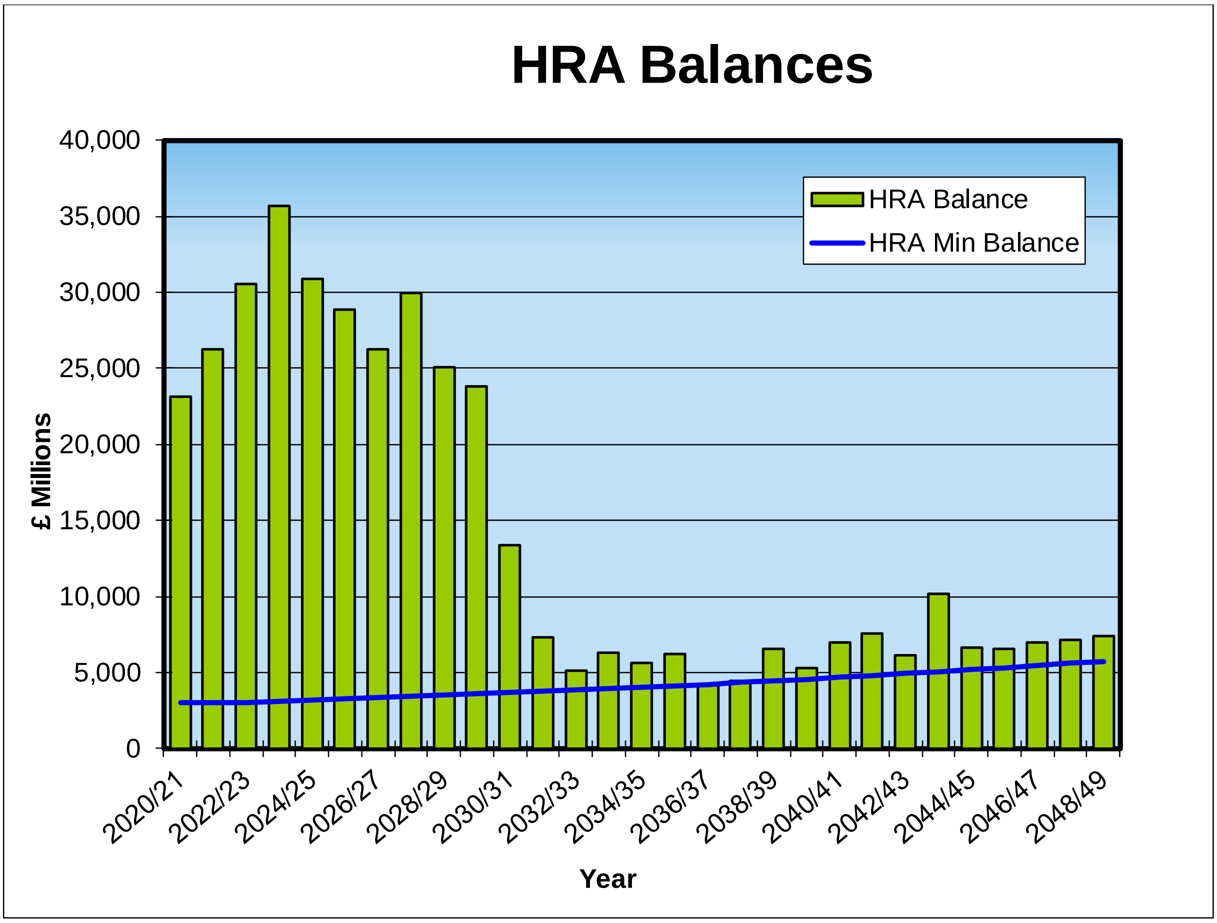
4.6.3 The following table shows the new borrowing included in the HRA BP, along with the total interest payable by the HRA over the next 5 years if all the borrowing in the current HRA capital programme is taken out externally.

HRA Borrowing and Interest		
Financial Year	**New Borrowing**	**Interest Payable**
	£'000	**£'000**
2020/21	£23,803	£7,329
2021/22	£26,602	£7,800
2022/23	£15,640	£8,127
2023/24	£11,937	£8,319
2024/25	£4,871	£8,319

4.6.4 The following graph shows the loan outstanding over the life of the HRA BP. This shows that taking additional debt early in the life of the plan will lead to higher levels of loans over the 30 years. However, this will enable significantly needed investment in the existing stock and the ability to build and purchase new housing within the next 10 years. The maximum debt in the plan is now £288Million (£220Million previous HRA BP) and the debt at year 30 is £182Million (£59Million previous HRA BP).

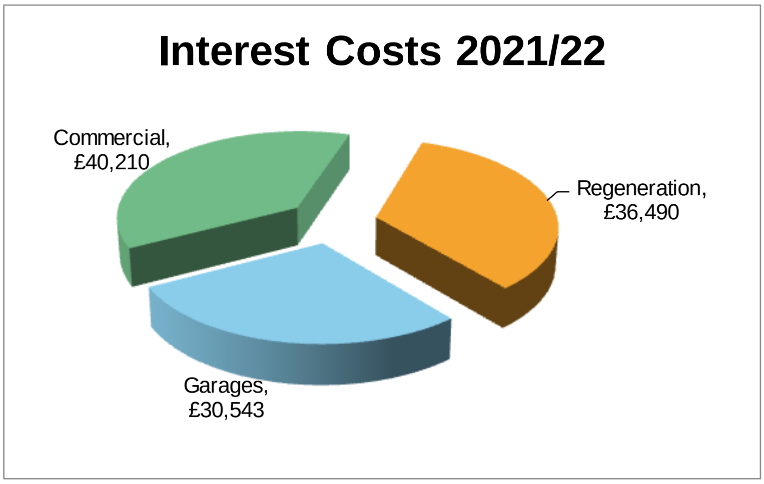


4.6.5 The 30 year business plan for the HRA budgets for debt repayments based on current and new borrowing (detailed above), taking into account assumptions on rent income, associated expenditure and estimates on interest rates. The HRA is balanced across the 30 years, with significant reserves in place to repay the self-financing debt. The graph below shows the estimated HRA balances on an annual basis, how this is above or in line with the level of minimum balances required to ensure the HRA can fund its expenditure and repay the self-financing debt.



4.6.6 In 2020/21 there has been a General Fund loan repayment of £131,579 in August 2020, and a further £131,579 is due to be repaid in February 2021. In addition approved prudential borrowing for the Garage strategy and Housing WOC is due to be taken, the timing of which is dependent on when the expenditure is incurred. The primary aim of the Housing WOC is for housing rather than yield so borrowing from the PWLB is still permitted as set out in paragraph 4.3.2. To optimise the cash benefits to the General Fund revenue account it may be beneficial to fund the investment from other capital receipts rather than borrowing. To that extent funding will be a treasury management decisions and Members are asked to note that the final financing arrangements for the Housing WOC investment will be considered by the S151 officer.

4.6.7 The majority of the interest payable on General Fund borrowing is funded by the assets associated with the expenditure. This includes the Town Square and Town Plaza Regeneration assets and the Commercial Property Essex House. The Housing WOC will pay interest on borrowing taken in relation to the loans made to the Housing WOC, as does Queensway Properties LLP. The 2021/22 projected interest costs on borrowing is estimated to be £107,243 (2020/21 £96,105).

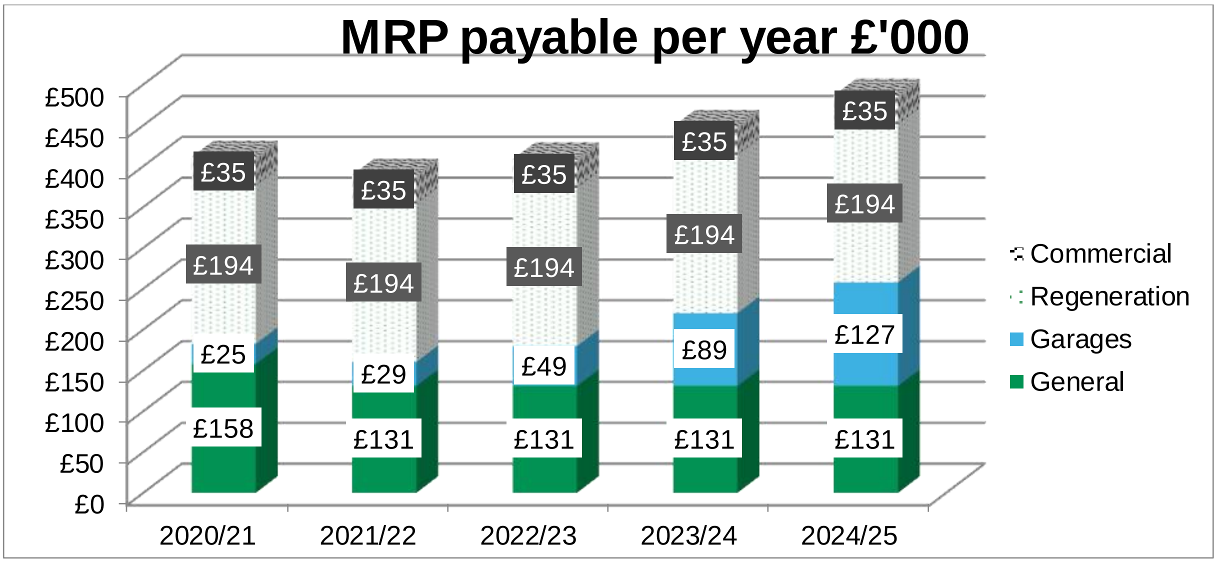


4.6.8 Cash and investment balances have been used in preference to external borrowing as the costs of internal debt (investment interest foregone at 0.71%) is lower than external borrowing (1.72% based on 25 year loan). It is the view of the Chief Financial Officer that this approach will continue to be considered while interest rates remain low.

4.7 Minimum Revenue Provision

4.7.1 Where General Fund 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. 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 set out in paragraphs 4.3.2 and 4.6.8). 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 2021/22 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 Although some forecasters had suggested that a cut of the Bank of England Base Rate (currently 0.10%) into negative territory could happen, indications are that the Monetary Policy Committee (MPC) is unlikely to do so as such a move could do more damage than good, and that further quantitative easing is more likely if further action becomes necessary. The Council's treasury advisors forecast that no increase in Bank Rate is expected. Base rate and borrowing rate forecasts are shown in the table below. However there is volatility and uncertainty, over Brexit in particular, and rates are monitored regularly.

Link Group - December 2020	End Q1 2021	End Q2 2021	End Q3 2021	End Q4 2021	End Q1 2022	End Q2 2022
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB Rate	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%
10yr PWLB Rate	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%
25yr PWLB Rate	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%
50yr PWLB Rate	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%

Source: Link Asset Services 04 January 2021

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 include that adjustment. Following the 100 basis points increase to PWLB rates in October 2019, the response to the consultation on the future lending terms of the PWLB (as detailed out in paragraph 4.1) has resulted in the PWLB margin returning to gilts +80 basis points. There are also other potential sources of borrowing for Local Authorities, such as the Municipal Bond Agency.

4.8.6 The HRA BP existing loans have an average interest rate of 3.32% based on £206.684Million of borrowing. As set out in the table in paragraph 4.6.3, the current business plan includes allowance for new loans totalling £23,802,670 in 2020/21 and £26,602,339 in 2021/22. 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 2020/21 and 2021/22 is estimated to be £7,328,771 and £7,800,274 respectively.

4.8.7 The HRA BP continues to include borrowing based on affordability as identified in the BP action plan. This has resulted in lower levels of revenue contributions to capital than before the lifting of the HRA Debt Cap.

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 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 2021/22

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 2021/22 (Appendix D) have been reviewed. In order to remain flexible for volatile cash balances, it is recommended that the limit for each counterparty be increased (recommendation 2.4), for investments of up to one year including Money Market Funds, from £8Million to £10Million, while cash balances are higher than £30Million. If cash balances are less than £30Million it is recommended that the limit remains at £5Million per counterparty.

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 CIPFA Prudential and Treasury Codes recommend that authorities' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local authority investment:

- Treasury management investments, which are taken to manage cashflows and as part of the Council's debt and financing activity
- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return (previously purchased commercial investments only as Council's are no longer permitted to access PWLB rates if they invest in commercial investments primarily for gain.
- Service investments, which are taken mainly to support service outcomes

4.10.2 The Government issued revised investment guidance on 2 February 2018, which strengthens the management and reporting framework relating to commercial and service investments and further guidance on 26 November 2020 as a response to the consultation on the future lending terms of the PWLB. The 2021/22 Capital Strategy includes more details on the Councils non treasury investments.

4.11 Other Treasury issues

4.11.1 **UK Sovereign rating and investment criteria:** The UK sovereign rating could come under pressure from the impact of COVID and / or following the trade agreement agreed between the UK and the EU on 31st December 2020. In October 2020, Moody's downgraded the rating to Aa3 (AA- equivalent), the same as Fitch, while Standard & Poor's has it rated at AA. The Council's investment criteria only use countries with a rating of AA- or above. 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 was 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 have been increased accordingly. This has been reflected in the TM indicators.

4.11.4 **Housing WOC** – as set out in paragraphs 4.5.3 and 4.6.6, the Housing Wholly Owned Company (WOC) report seeks approval for up to £15Million of investment from the Council, which would be in the form of a mix of equity funding and loans. The proof of concept included in the Housing WOC Model is for development schemes totalling £8.0 Million, and the Council's funding of this investment has been included in the Final Capital Strategy as all funded by borrowing. £7.0 Million, the balance of the £15Million potential investment in the Housing WOC is included in the borrowing limits. However as set out in paragraph 4.6.6, it may be beneficial to fund the Council's investment from other capital receipts rather than borrowing.

4.11.5 **IFRS16 – Leasing** – As reported previously, some currently off balance sheet leased assets may need to be brought onto the balance sheet under IFRS 16, however this has been deferred and is no longer a requirement for closing of the accounts for 2020/21.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is of a financial nature and outlines the Prudential Code indicators and the principles under which the treasury management functions are managed. Any consequential financial impacts of the Strategy will be incorporated into the Capital Strategy updates and subsequent quarterly budget monitoring reports.

5.1.2 During the financial year to date officers have operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

5.2 Legal Implications

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

5.3 Risk Implications

5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. Should these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

5.3.2 There remains uncertainty on exiting the EU and the potential impact 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.

5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

5.5 Climate Change

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 2019/20

BD2 2020/21 Mid Year Treasury Management Review

BD3 Final Capital Strategy 2020/21 – 2024/25 (Executive 10 February 2021 and Council 24 February 2021)

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

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Appendix A Treasury Management Strategy 2021/22

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 considered 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. No changes were deemed to be required to the use of existing approved investment instruments. (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 ending 31.3.23.).

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;
- Credit Default Swap (CDS) spreads. A CDS is a contract used to insure the holder of a bond against default by the issuer. A CDS can act as an indicator of default risk and provide an early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Link Asset Services 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.

3.5 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.

3.6 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.

3.7 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.

3.8 The Municipal Bond Agency has been established for some time. It began to issue bonds in the last year. To date the borrowing rates available were lower than those offered for comparable loans available from the Public Works Loans Board (PWLB) at the time of issuance. The Council may make use of this alternative source of borrowing as and when appropriate.

3.9 **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 2020 the Council had £63.24Million on deposit with various financial institutions.

5.2 **Interest Rate Forecast** - The Bank of England base rate remains at 0.10% as at 31 January 2021. Link now forecast that Bank Rate will remain at this rate over the next few years.

Link Group - December 2020

	End Q1 2021	End Q2 2021	End Q3 2021	End Q4 2021	End Q1 2022	End Q2 2022
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB Rate	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%
10yr PWLB Rate	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%
25yr PWLB Rate	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%
50yr PWLB Rate	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%

Source: Link Asset Services 04 January 2021

5.3 **Investment returns expectations.**

Despite an exit deal being agreed between the UK and the EU just before the end of the transition period on 31 December 2020, there is still ongoing uncertainty regarding all the impacts of Brexit, including how it may affect the strength of the UK economy. The Monetary Policy Committee (MPC) has not changed the Bank of England base rate (Bank Rate) since it was cut to 0.1% on 19 March 2020 in response to the Coronavirus pandemic, and this low bank rate is a significant factor for investment yields.

The Council has forecast investment returns of 0.67% in 2020/21and is budgeting for returns of 0.35% in 2021/22. This is above current yields due to the investment portfolio including investments which were made when interest yields available were higher than current rates. Current rates are close to zero and are forecast to remain low for some time.

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 2020/21 limits and proposed limits for 2021/22 are:

	2020/21 Revised	2021/22
	£000	£000
Operational Boundary	287,200	325,374
Authorised Limit	295,200	333,374

6.4 Based on the capital programme 2021/22 (February 2020 Update) resourcing projections, the Council has the following borrowing requirements in 2021/22 are projected:

- General Fund £5,079,285 (£967,754 in relation to the 10 year plan for the garages estates approved by Council on 20 July 2016, and £4,111,531 in relation to the wholly owned housing development company).
- HRA £26,602,339 (£13,428,908 on work to existing housing stock and £13,173,431 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).

In addition, high value and/or urgent payments can be made by CHAPS by the Treasury Team, however as these can have a material impact on cash flows on the day, authorisation for this type of payment must be obtained from the S151 or deputy S151 Officer.

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 (January 2021 Update)

Minimum Revenue Provision Policy

Minimum Revenue Provision Policy Statement 2021/22

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 is necessary to make adequate provision for the repayment of debt in the form of Minimum Revenue Provision, including in 2020/21 for the unfunded element of 2011/12 to 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 was reviewed in 2019/20. Following that 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 had 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 overpayment of £1,057,660.39 results in no MRP needing to be charged to the accounts for the regeneration assets until 2025/26, when a partial charge will be required, utilising the remainder of the overpayment balance.

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

Use of overpayment	
	Regeneration
2020/21	£193,703.12
2021/22	£193,703.12
2022/23	£193,703.12
2023/24	£193,703.12
2024/25	£193,703.12
2026/26	£89,144.79
cumulative total	**£1,057,660.39**

The Council approved a **Property Investment** Strategy – an investment of £15Million in property funded from prudential borrowing. As having Investments for Yield in the capital strategy are no longer permitted, only the MRP payable of £35,119 per year on the investment made of £1,755,950 which will be payable. This was 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 2020/21 is £411,021 based on the capital expenditure in the draft 2019/20 Financial Accounts, with the lower figure of £217,318 needing to be charged to the 2020/21 Financial Accounts taking into account the overpayment on the regeneration assets. The forecast annual MRP for 2021/22 is £388,957 with £195,254 to be charged to the 2021/22 Financial Accounts.

Finance lease payments due as part of the Queensway regeneration project are also applied as MRP, funded from the payments received in the year, as will any MRP due on borrowing taken in relation to the Housing Wholly Owned Company.

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

2021/22 Treasury Management Strategy

Treasury Management Prudential Indicators

Capital Expenditure (Based on Final Capital Strategy February 2021):	2020/21 Revised Mid year review 20-21	2020/21 Revised Final Cap Feb 21 Exec	2021/22 Revised Final Cap Feb 21 Exec	2022/23 Revised Final Cap Feb 21 Exec	2023/24 Revised Final Cap Feb 21 Exec	2024/25 Revised Final Cap Feb 21 Exec
	£000	£000	£000	£000	£000	£000
General Fund	35,271	21,467	16,702	20,445	26,137	14,795
HRA	34,057	31,898	0	51,649	55,981	36,339
Total	**69,328**	**53,365**	**16,702**	**72,094**	**82,119**	**51,134**

Ratio of financing costs to net revenue stream:	2020/21 Revised Mid year review 20-21	2020/21 Revised Final Cap Feb 21 Exec	2021/22 Revised Final Cap Feb 21 Exec	2022/23 Revised Final Cap Feb 21 Exec	2023/24 Revised Final Cap Feb 21 Exec	2024/25 Revised Final Cap Feb 21 Exec
	%	%	%	%	%	%
General Fund Capital Expenditure	8.17%	4.14%	4.78%	5.28%	6.12%	6.73%
HRA Capital Expenditure	15.93%	16.01%	16.98%	17.25%	17.06%	16.14%

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	2020/21 Revised Mid year review 20-21	2020/21 Revised Final Cap Feb 21 Exec	2021/22 Revised Final Cap Feb 21 Exec	2022/23 Revised Final Cap Feb 21 Exec	2023/24 Revised Final Cap Feb 21 Exec	2024/25 Revised Final Cap Feb 21 Exec
	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	49,918	34,726	46,298	51,074	52,426	51,668
Borrowing - Queensway residential	15,000	15,000	15,000	15,000	15,000	15,000
Borrowing - HRA	245,474	245,474	272,076	287,716	299,653	304,524
Total	**310,392**	**295,200**	**333,374**	**353,790**	**367,079**	**371,192**

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.

Operational Boundary for external debt	2020/21 Revised Mid year review 20-21	2020/21 Revised Final Cap Feb 21 Exec	2021/22 Revised Final Cap Feb 21 Exec	2022/23 Revised Final Cap Feb 21 Exec	2023/24 Revised Final Cap Feb 21 Exec	2024/25 Revised Final Cap Feb 21 Exec
	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	47,918	32,726	44,298	49,074	50,426	49,668
Borrowing - Queensway residential	15,000	15,000	15,000	15,000	15,000	15,000
Borrowing - HRA	239,474	239,474	266,076	281,716	293,653	298,524
Total	**302,392**	**287,200**	**325,374**	**345,790**	**359,079**	**363,192**

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 the additional borrowing facility that may be drawn down by the Housing WOC.

Gross & Net Debt	31/03/2021 Revised Mid year review 20-21	2020/21 Revised Draft Cap Jan 20 Exec	2021/22 Revised Draft Cap Jan 20 Exec	2022/23 Revised Draft Cap Jan 20 Exec	2023/24 Revised Draft Cap Jan 20 Exec	2024/25 Revised Draft Cap Jan 20 Exec
	£000	£000	£000	£000	£000	£000
Gross External Debt - General Fund	17,353	2,908	7,724	12,960	15,020	15,020
Gross External Debt - HRA	230,487	230,487	257,089	272,729	284,666	288,080
Gross External Debt	**247,840**	**233,394**	**264,813**	**285,689**	**299,685**	**303,100**
Less Investments	(60,629)	(72,184)	(59,780)	(59,770)	(49,194)	(39,283)
Net Borrowing	**187,211**	**161,211**	**205,033**	**225,919**	**250,492**	**263,816**

The Gross External Debt is the actual debt taken out by the Council plus any relevant long term liabilities. The Gross External Debt should

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	31/03/2021 Revised Mid year review 20-21	31/03/2021 Revised Final Cap Feb 21 Exec	31/03/2022 Revised Final Cap Feb 21 Exec	31/03/2023 Revised Final Cap Feb 21 Exec	31/03/2024 Revised Final Cap Feb 21 Exec	31/03/2025 Revised Final Cap Feb 21 Exec
	£000	£000	£000	£000	£000	£000
Capital Financing Requirement GF	42,918	27,726	32,313	37,089	38,441	37,683
Capital Financing Requirement HRA	237,474	237,474	264,076	279,716	291,653	296,524
Total Capital Financing Requirement	**280,392**	**265,200**	**296,389**	**316,806**	**330,094**	**334,207**

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
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:

<table>
<tr><th>Investment Counterparty</th><th>Investment Instrument</th><th>Minimum High Credit Quality Criteria</th><th>Investment Duration</th></tr>
<tr><td rowspan="3">Banks or Building Societies</td><td>Overnight Deposit</td><td rowspan="3">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).</td><td rowspan="4">Maximum duration as per Treasury Advisor's (Capita's) colour coded Credit List, and less than one year</td></tr>
<tr><td>Notice Account</td></tr>
<tr><td>Short Term Deposit</td></tr>
<tr><td>Debt Management Office or UK Local Authority</td><td>Any deposit</td><td>No limit.</td></tr>
<tr><td>Money Market Funds</td><td>Instant Access</td><td>AAA rated</td><td>Instant Access</td></tr>
</table>

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:

<table>
<tr><th>Investment Counterparty</th><th>Investment Instrument</th><th>Minimum High Credit Quality Criteria</th><th>Investment Duration</th></tr>
<tr><td>Banks or Building Societies</td><td rowspan="2">Any deposits with maturity up to a maximum of five years</td><td>Fitch: Short Term F1+ and Long Term AA-
and
Moody, Standard & Poor, equivalent where rated, the lowest rating used where different</td><td rowspan="2">Maximum duration suggested by Treasury Advisor's (Capita's) colour coded Credit List, and not in excess of five years</td></tr>
<tr><td>Debt Management Office or UK Local Authority</td><td>No Limit.</td></tr>
</table>

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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 £10M**
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 £10M
Money Market Funds - Traditional Instant Assess (Counterparty Limit per Fund)	Maximum £5M per MMF	**Maximum £10M 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 (January 2021)

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- United Arab Emirates
- France

AA-

- Belgium
- Qatar

The UK is exempt from the sovereign rating criteria as recommended by Link Asset Services

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.

Agenda Item 8

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