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AUDIT COMMITTEE

Date: Tuesday, 8 February 2022
Time: 6.00pm
Location: Council Chamber, Daneshill House, Danestrete, Stevenage
Contact: Ian Gourlay (01438) 242703
committees@stevenage.gov.uk

Members: Councillors: T Callaghan (Chair), J Gardner (Vice-Chair), M Arceno, Ashley-Wren, S Booth, G Lawrence CC, N Leech, M McKay, C Parris and L Rossati.
Mr G Gibbs (Independent Co-opted non-voting Member).

AGENDA

PART I

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES - 10 NOVEMBER 2021

To approve as a correct record the Minutes of the meeting of the Audit Committee held on 10 November 2021.
Pages 3 – 10

3. SIAS INTERNAL AUDIT PLAN 2021/22 - PROGRESS REPORT

To consider a progress report on the 2021/22 SIAS Internal Audit Plan.
Pages 11 – 34

4. ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2022/23

To consider the Annual Treasury Management Strategy including Prudential Code Indicators 2022/23.
Pages 35 – 74

5. URGENT PART 1 BUSINESS

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

6. 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.

7. PART II MINUTES - AUDIT COMMITTEE - 10 NOVEMBER 2021

To approve as a correct record the Part II Minutes of the meeting of the Audit Committee held on 10 November 2021.
Pages 75 - 76

8. URGENT PART II BUSINESS

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

Agenda Published 31 January 2022

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE
MINUTES

Date: Wednesday, 10 November 2021
Time: 6.00pm
Place: Council Chamber, Daneshill House, Danestrete, Stevenage

Present:	Councillors: Teresa Callaghan (Chair), Myla Arceno, Stephen Booth, Graham Lawrence, Maureen McKay and Claire Parris. Mr Geoffrey Gibbs (Independent Co-opted Non-voting Member).
Start / End Time:	Start Time: 6.00pm End Time: 7.00pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

The Chair welcomed everyone to the meeting, especially Martin Hone (Interim Assistant of Finance & Estates) who was attending his first meeting of the Committee.

Apologies for absence were submitted on behalf of Councillors Julie Ashley-Wren, John Gardner, Nicholas Leech and Lou Rossati.

There were no declarations of interest, although Mr Geoff Gibbs (Independent Co-opted Non-voting Member) stated that, as Item 5 on the agenda related to his position on the Committee, he would be withdrawing from the meeting prior to Members' consideration of that item.

2 MINUTES - 8 SEPTEMBER 2021

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 8 September 2021 be approved as a correct record and signed by the Chair.

3 APPOINTMENT OF EXTERNAL AUDITORS - OPTING IN TO THE PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA) PROCESS

The Interim Assistant Director (Finance & Estates) presented a report in respect of opting in to the Public Sector Audit Appointments (PSAA) process for the appointment of external auditors covering the period April 2023 to March 2028.

The Interim Assistant Director (Finance & Estates) advised that Local Authorities were required under legislation to appoint their own External Auditors. The Local Audit and Accountabilities Act 2014 required Local Authorities to decide between opting from one of the following two options available:

1. The Council running its own procurement exercise; or

2. Utilising the Public Sector Audit Appointments (PSAA), under the appointing persons regime (Local Audit (Appointing Person) Regulations 2015).

The Committee noted that Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 required that a decision to opt-in must be made by Full Council.

The Interim Assistant Director (Finance & Estates) reminded Members that the Council opted-in to the last procurement exercise undertaken by PSAA in 2017 and, under this agreement, External Audit services had been supplied through the PSAA procurement route for the accounts since 2018/2019. This arrangement will end for the accounts for 2022/2023 and PSAA was undertaking the next procurement exercise for the external audit of the accounts from 2023/2024 for a period of 5 years. As Members were aware, the Council's auditors were Ernst & Young.

As outlined in the report, the Interim Assistant Director (Finance & Estates) had concluded that there were no obvious benefits in the Council appointing its own External auditor. The benefits of continuing with the PSAA regime were stated in the report, including the fact that the auditors appointed by the PSAA possessed significant experience of working with public sector organisations and the complexities associated with undertaking local authority audits. This option was therefore recommended.

In response to a series of Members' questions, the Strategic Director (CF) commented as follows:

- the PSAA process for the appointment of auditors would comprise 89 lots and 2 development lots. The PSAA would allocate auditors, and whilst it was possible that Ernst & Young would be appointed again for SBC, there was no way of knowing. The PSAA was endeavouring to attract "new" audit firms to participate in the process;
- the scale annual audit fee was quite low in value (approx. £49,000), but because of the increased rigour required by the Government in the audit of local authority accounts the likelihood of "add-on" fees was increased. This was particularly the case should an authority (like SBC) have a Housing Revenue Account and substantial Capital Programme, which increased the complexities and risk levels of the audit;
- at present, most of the Hertfordshire local authorities were audited by Ernst & Young. Going forward, the authorities in each lot would not necessarily be audited by the same audit company;
- the nationwide shortage of auditors (and the specialist nature of local authority audit) would lead to the conclusion that to opt-in to the PSAA process would seem a prudent approach, both in terms of the resilience and experience of those undertaking the audit. To opt out would place the Council at risk of a sub-standard audit or possibly being in a position where it was unable to appoint any suitable audit firm; and
- there was no monetary fine for being late in the finalisation of an audit, although there would always be a knock-on impact on future audits. The exception was for Housing Benefits audits, whereby the Department of Work & Pensions could fine authorities for a late return. Fortunately, they had chosen not to do so during the Covid pandemic.

It was **RESOLVED:**

1. That Council be recommended to approve that SBC will opt in to the appointing arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of External Auditors covering the period April 2023 to March 2028.

2. That the Strategic Director (Section 151 Officer) confirms SBC's interest in undertaking the opt-in appointing process following ratification by Council.

4 ADOPTION OF AN ANTI-FRAUD & CORRUPTION STRATEGY; ANTI-MONEY LAUNDERING POLICY; AND FRAUD SANCTIONS POLICY

The Interim Assistant Director (Finance & Estates) presented a report seeking approval to the adoption of and Anti-Fraud & Corruption Strategy; an Anti-Money Laundering Policy; and a Fraud Sanctions Policy.

In respect of the Anti-Fraud & Corruption Strategy, the Interim Assistant Director (Finance & Estates) advised that the document had been updated to reflect best practice and was consistent with the strategies adopted by Hertfordshire County Council and the other Hertfordshire Borough/District Councils that participated in the Shared Anti-Fraud Service.

With regard to the Anti-Money Laundering Policy, the Interim Assistant Director (Finance & Estates) commented that, even though there were an increasing number of electronic monetary transactions, it was felt that the policy was robust and fit for purpose. Any suspected money laundering incidents were required to be reported to the Shared Anti-Fraud Service.

In relation to the Fraud Sanctions Policy, the Interim Assistant Director (Finance & Estates) stated that this was mainly geared towards internal processes and procedures. The sanctions in the policy ranged from "no further action" to "criminal prosecution", all as set out in the document. Once commenced, the reporting process would remain confidential.

It was **RESOLVED:**

1. That the proposed Anti-Fraud and Corruption Strategy, as set out at Appendix A to the report, be adopted.

2. That the proposed Anti-Money Laundering Policy, as set out at Appendix B to the report, be adopted.

3. That the proposed Fraud Sanctions Policy, as set out at Appendix C to the report, be adopted.

5 INDEPENDENT MEMBER OF AUDIT COMMITTEE

[Prior to the consideration of the report, the Independent Co-opted Non-voting Member (Mr Geoff Gibbs) withdrew from the meeting for the duration of the

Committee's debate on this item.]

The Interim Assistant Director (Finance & Estates) presented a report in respect of proposed extension for one year of the term of office of the current Independent Co-opted Non-voting Member of the Audit Committee.

The Interim Assistant Director (Finance & Estates) advised that the four year term of office of the current Independent Co-opted Non-voting Member expired in July 2022. The report proposed a one year extension to this term of office. The current incumbent had indicated that he would be willing for his tenure to be extended, and the Chair of the Committee had expressed her support to this course of action. The current incumbent had indicated that he would like to become more involved in the scrutiny work undertaken in support of the activities of the Committee.

In reply to a Member's question as to whether Mr Gibbs could re-apply for the position at the end of his one-year extension, the Strategic Director (CF) advised that best practice was for the rotation of Independent Members. She added that the qualification required to act as the Independent Member was some form of extensive governance/finance experience.

The Strategic Director (CF) undertook to provide Committee Members with the Job Description for the Independent Member, and to seek the views of Mr Gibbs on this document in due course, prior to the commencement of the recruitment process for a new Independent Member.

It was **RESOLVED** that the tenure of the current Independent Member of the Committee (Mr G. Gibbs) be extended for a further year (from July 2022 to July 2023) on the same terms as previously agreed.

6 PROGRESS OF CORPORATE AND SERVICE GOVERNANCE ACTIONS

The Corporate Performance & Improvement Officer presented a Mid Year update report detailing the progress of Corporate and Service governance actions identified in the Council's 2020/21 Annual Governance Statement.

In respect of Corporate Governance enhancement activity, the Corporate Performance & Improvement Officer advised that this was deemed significant if recommended for inclusion in the Annual Governance Statement by the Shared Internal Audit Service following their review of control arrangements to meet the Audit Plan, or if identified as key to the management of 'very high/high level' strategic risks. Appendix A to the report outlined the progress on Corporate Governance enhancement actions included in the 2020/21 Annual Governance Statement from April to September 2021.

With regard to Service Governance Enhancement activity, the Corporate Performance & Improvement Officer explained that this related to business unit level activity and, in order to comply with the principles of good governance, required all Assistant Directors to complete, certify and return a Service Assurance Statement each year. Appendix B to the report outlined the progress of Service Governance enhancement actions identified during the service assurance review of service governance at business unit level from April to September 2021.

The Corporate Performance & Improvement Officer commented that the Committee would receive a full year update on both Corporate and Service Governance actions at its March 2022 meeting.

In response to a question from the Chair, the Strategic Director (CF) replied that a small number of the Service governance actions shown as “not started” within the Finance & Estates service area was primarily due to staffing/resourcing issues, and that once recruitment to key posts took place these actions would be progressed.

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 2020/21 Annual Governance Statement reported to Audit Committee on 8 June 2021, be noted.

2. That the progress to date of service governance actions identified by the 2020/21 Service Assurance reviews carried out at business unit level to strengthen the Council’s service governance arrangements, as reported to Audit Committee on 8 June 2021, be noted.

7 MID YEAR REVIEW OF TREASURY MANAGEMENT STRATEGY 2021/22

The Interim Assistant Director (Finance & Estates) presented a report updating the Committee on Treasury Management activities in 2021/22 and reviewing the effectiveness of the 2021/22 Treasury Management and Investment Strategy, including the 2021/22 prudential indicators.

The Interim Assistant Director (Finance & Estates) had nothing to add to the report, and commented that it was pertinent to the Treasury Management Training undertaken by Audit Committee and Executive Members in October 2021.

In reply to Members’ questions, the Strategic Director (CF) stated:

- the demolition of Swingate House (cost estimate £900,000) referred to in Paragraph 4.1.4 of the report was part of the Development Agreement with Mace, the main contractor for the SG1 regeneration project. These funds needed to be drawn down by February 2022, and the £900,00 figure was the best estimate of costs; and
- it was anticipated that the Council would be advised of its share of the Government’s £4.8Billion grant funding for Local Government for the next three years in mid-December 2021. She had no inkling as to the amount of grant likely to be received by the Council.

It was **RESOLVED:**

1. That Council be recommended to approve the 2021/22 Treasury Management Mid Year review.

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

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

4. That the impact of the outstanding decision set out in Paragraph 4.1.4 of the report be noted.

8 URGENT PART I BUSINESS

None.

9 EXCLUSION OF PUBLIC AND PRESS

It was **RESOLVED:**

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 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 - 8 SEPTEMBER 2021

It was **RESOLVED** that the Part II Minutes of the meeting of the Audit Committee held on 8 September 2021 be approved as a correct record and signed by the Chair.

11 STRATEGIC RISK REGISTER

The Corporate Performance & Improvement Officer presented a report in respect of the latest SBC Strategic Risk Register.

The Corporate Performance & Improvement Officer updated the Committee on changes to key risks and answered Members' questions.

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

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Stevenage Borough Council
Audit Committee

8 February 2022
Shared Internal Audit Service –
Progress Report

Recommendation

Members are recommended to:
a) Note the Internal Audit Progress Report
b) Note the Status of Critical and High Priority Recommendations
c) Approve the Revised Audit Charter for 2021/22

Contents

1 Introduction and Background
1.1 Purpose
1.2 Background

2 Audit Plan Update
2.1 Delivery of Audit Plan and Key Findings
2.4 Internal Audit Plan Changes
2.5 Critical and High Priority Recommendations
2.7 Performance Management

3 Public Sector Internal Audit Standards
3.1 External Quality Assessment Outcomes and Revised Audit Charter 2021/22

Appendices:

A Progress against the 2021/22 Audit Plan
B Implementation Status of Critical and High Priority Recommendations
C Internal Audit Plan Items (April 2021 to March 2022) - Indicative start dates agreed with management
D Assurance Definitions / Priority Levels
E Revised Audit Charter 2021/22

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 2021/22 Internal Audit Plan to 21 January 2022.
b) The findings for the period 21 August 2021 to 21 January 2021.
c) Details of any changes to the approved Internal Audit Plan.
d) The implementation status of previously agreed audit recommendations.
e) An update on performance management information to 21 January 2022.
f) The outcomes of the Public Sector Internal Audit Standards External Quality Assessment and required revisions to the Audit Charter for 2021/22.

Background

1.2 Internal Audit's Annual Plan for 2021/22 was approved by the Audit Committee at its meeting on 24 March 2021. 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 details of changes to the agreed Annual Internal Audit Plan.

2 Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

2.1 As of 21 January 2022, 69% of the 2021/22 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 since the last Audit Committee meeting:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Health & Safety	Aug 2021	Reasonable	One Medium Priority
Homes England grant audit	Aug 2021	Unqualified	None
Follow Up audit (Landlord Health & Safety)	Nov 2021	Limited	Two High, Two Low Priority
Pandemic Response	Dec 2021	Not Assessed	None
Youth Council	Dec 2021	Reasonable	Two Medium, Three Low Priority

Information Governance (Assurance Mapping)	Dec 2021	Reasonable	Two Medium, One Low Priority
Follow Up audit (GF Property Health & Safety)	Dec 2021	Reasonable	None
Business Rates	Jan 2022	Substantial	One Medium Priority
Cash & Banking (Assurance Mapping)	Jan 2022	Substantial	None
Capital Programme	Jan 2022	Substantial	One Low Priority
Housing Benefits	Jan 2022	Substantial	Two Low Priority

2.3 The table below summarises the position regarding 2021/22 projects to 21 January 2022. Appendix A provides a status update on each individual project within the 2021/22 Internal Audit Plan.

Status	**No. of Audits at this Stage**	**% of Total Audits**
Final Report Issued	12	39%
Draft Report Issued	4	12%
In Fieldwork/Quality Review	3	10%
In Planning/Terms of Reference Issued	7	22%
Allocated	2	7%
Not Yet Allocated	1	3%
Cancelled	2	7%
Total	31	100%

<u>Proposed Audit Plan Changes</u>

2.4 There have been no amendments to the Internal Audit Plan since the last committee meeting.

<u>Critical and High Priority Recommendations</u>

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 the most recent management updates on the status of any outstanding Critical and High priority audit recommendations.

Performance Management

2.7 The 2021/22 annual performance indicators were approved at the SIAS Board meeting in March 2021.

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

Performance Indicator	Annual Target	Profiled Target	Actual to 21 January 2022
1. Planned Days – percentage of actual billable days against planned chargeable days completed	95%	72% (226/313.5 days)	69% (216/313.5 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	59% (17/29 projects)	55% (16/29 projects)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (6 received) Note (1)
4. Number of Critical and High Priority Audit Recommendations agreed	95%	95%	100% (4 High agreed) Note (2)

Note (1) - 2 received in 2021/22 relate to 2020/21 audits.
Note (2) – 2 relate to a 2020/21 audit finalised after 31/03/2021.

3 Public Sector Internal Audit Standards

3.1 The Public Sector Internal Audit Standards (PSIAS) and the International Standards for the Professional Practice of Internal Auditing require that an external quality assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The EQA can be accomplished through a full external assessment or a self-assessment with independent validation.

3.2 SIAS appointed Orbis and South West London Audit Partnership (SWLAP) as the qualified, independent external assessment team to conduct a validation of the self-assessment by SIAS. In addition, the assessment team was also asked to consider, drawing on their previous extensive partnership experiences, what actions might be taken to further improve the overall quality and effectiveness of the service.

3.3 The above review was undertaken at the start of June 2021, with the draft Independent External Assessment Report being issued to SIAS on 30th June 2021.

3.4 Within the above report the External Assessors concluded that SIAS partially conforms with the Standards and the associated Code of Ethics. This opinion is defined in the Standards as “Deficiencies in practice are noted that are judged to deviate from the Standards and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner”.

3.5 In respect of the above, the assessors concluded that “Overall, we identified two main areas of non-conformance with the Standards that we believe means that SIAS currently only ‘Partially Conforms’. These primarily relate to defining and clarifying the Board and Chief Audit Executive (CAE) role(s) across the partnership.

3.6 Whilst reasonably significant in the context of the Standards, both issues are relatively easy and swift to resolve, and once addressed, would enable the service to be classified as ‘Generally Conforms’. A small number of other areas of partial conformance were also identified, however, these were minor observations, and none were significant enough to affect the overall opinion”.

3.7 It should be noted that in all material respects, SIAS delivered the functions and requirements of the CAE role as defined in the PSIAS. Similarly, the FAR Committee carried out the functions and requirements of the Board role as defined in the PSIAS. The findings were about clearly identifying the person or post fulfilling the CAE role, and the body fulfilling the role of the Board, given that these roles are integral to the PSIAS, and ensuring that accountability was clearly assigned in the Internal Audit Charter.

3.8 The report also highlighted that SIAS was a “well-regarded internal audit partnership, delivering professional and quality services to its partner organisations with a high-level conformance with PSIAS. Whilst some areas of partial conformance with the Standards have been identified, these can be relatively easily and swiftly resolved”.

3.9 In response to the report, SIAS are in the process of revising the Audit Charters for each individual partner council to address the issues that gave rise to a partially conforms opinion, with this completed for Stevenage Borough Council and the revised Charter presented in Appendix E of this report. The Committee are asked to approve the revised Charter which, upon approval, will allow SIAS to self-assess compliance with the PSIAS as “Generally Conforms” (the highest rating). Any revisions are shown by being struck through (deletions) or in red (additions).

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2021/22 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 – 91 days Provision for full or targeted audit of one or more key financial systems. Mapping the remaining key financial systems to confirm appropriate lines of assurance and to inform the annual assurance opinion									
Business Rates (full audit)	Substantial	0	0	1	0	91	Yes	67.5	Final Report Issued
Council Tax (full audit)									Draft Report Issued
Housing Benefits (full audit)	Substantial	0	0	0	2				Final Report Issued
Treasury Management (mapping)									Allocated
Debtors (full audit)									In Fieldwork
Creditors (full audit)									Draft Report Issued
Payroll (mapping)									Allocated
Main Accounting (targeted audit)									Not Yet Allocated
Housing Rents (targeted audit)									ToR Issued
Cash & Banking (mapping)	Substantial	0	0	0	0				Final Report Issued
Operational Audits – 134.5 days									
Vehicle Workshop	Substantial	0	0	0	1	10	Yes	10	Final Report Issued
Homelessness & Housing Advice						10	Yes	1	In Planning
Housing Allocations						10	Yes	1	In Planning
Collection of Leaseholder Liability						10	Yes	1	In Planning
Community Safety (SADA)						10	Yes	6.5	In Fieldwork
Youth Council	Reasonable	0	0	2	3	6	Yes	6	Final Report Issued
COVID-19 Pandemic Response & Recovery	Not Assessed	0	0	0	0	12	Yes	12	Final Report Issued
Welfare Reform						0.5	N/A	0.5	Cancelled
Health & Safety	Reasonable	0	0	1	0	10	Yes	10	Final Report Issued
Information Governance (mapping)	Reasonable	0	0	2	1	10	Yes	10	Final Report Issued

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Council Housebuilding & Acquisitions Programme						0	N/A	0	Cancelled
Contract Management						10	Yes	9.5	Draft Report Issued
Capital Programme Development & Delivery	Substantial	0	0	0	1	10	Yes	10	Final Report Issued
Housing Development Site (North Road)	Substantial	0	0	0	0	11	Yes	11	Final Report Issued
Follow Up audit (Landlord Health & Safety)	Limited	0	2	0	2	5	Yes	5	Final Report Issued
Follow Up audit (GF Prop Health & Safety)	Reasonable	0	0	0	0	5	Yes	5	Final Report Issued
Homes England – Compliance Audit						5	Yes	5	Complete
Risk Management and Governance – 15 days									
Risk Management, Corporate Governance						15	Yes	1	In Planning
IT Audits (in conjunction with East Herts Council) – 16 days									
IT Resilience						6	Yes	0	In Planning
Cyber Security Assurance Mapping						10	Yes	8	In Fieldwork
Shared Learning and Joint Reviews – 10 days									
Joint Reviews - tbd						6	No	0	Through Year
Shared Learning						4	No	1.5	Through Year
Completion of outstanding 2020/21 projects – 4 days									
Various						4	Yes	4	Complete
Contingency – 1.5 days									
Contingency						1.5	No	0	Not Yet Allocated
Strategic Support – 43 days									
Head of Internal Audit Opinion 2020/21						3	Yes	3	Complete
Audit Committee						8	Yes	4	Allocated
Client Meetings and ad-hoc advice						9	Yes	6	Through Year
Plan Monitoring, Work Allocation and						12	Yes	9.5	Through Year

APPENDIX A - PROGRESS AGAINST THE 2021/22 INTERNAL AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Scheduling									
SIAS Development/EQA						5	Yes	5	Through Year
2022/23 Internal Audit Planning						6	Yes	3	Allocated
SBC TOTAL		**0**	**2**	**6**	**10**	**315**		**216**	

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APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

The following appendix provides Audit Committee Members with a summary of the most recent update provided by management in respect of outstanding high priority recommendations.

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Jan 2022)
1.	**Follow Up audit (Landlord Health & Safety).**	**Recommendation:** Completion of remedial actions arising from Water Risk Assessments. Remedial works identified from the risk assessments sampled at the previous audit have not been fully completed and it is not clear what is outstanding. It is therefore recommended that risk assessments are carried out by the council's new contractors and the remedial actions required recorded in priority order and carried out in a timely manner. The programme of works required should be regularly monitored to ensure that they are being actioned and completed. The date of completion should be recorded. **Agreed Management Action(s):** The council's new contract with water hygiene contractor, Safewater, commenced 1 November 2021. Safewater have been issued with the council's current risk assessment programme and asked to re-survey all blocks, prioritising blocks where remedial actions are outstanding. A programme evidencing the date for each risk assessment has been requested from Safewater and this will be given to the Gas Manager so that he can monitor progress. It will also be agreed between the Gas Manager and the contractor that remedial actions up to a work value of £250 can be authorised and completed at the time of survey – note a record of works completed should be recorded on the contractor's portal. Works above this value will be sent to the Gas Manager in quote form and an order raised on the council's Northgate System. Any remedial actions that Safewater require special access or another contractor's assistance is the responsibility of the Gas Manager to identify, action and monitor remedial work and quality. The Gas Manager has agreed with Safewater that all remedial actions from the risk assessments will be recorded on one spreadsheet and updated, monthly. All data should be prepared to go into Propeller, the council's new compliance management tool. The Compliance Manager has set up a weekly meeting with the Gas Manager to ensure procedure are in	**Responsible Officer:** Compliance Manager (Housing Investments). **Due Date:** 31 March 2022.	This is a new addition and the management response opposite is therefore the latest comment.	**Not Yet Due.**

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Jan 2022)
		place and are being followed. The Gas Manager will also evidence to the Compliance Manager that monthly contractor meetings are booked in and operational performance is on the agenda to be monitored and escalated to the Compliance Manager if necessary.			
2.	**Follow Up audit (Landlord Health & Safety).**	**Recommendation:** Completion of remedial actions arising from Water Risk Assessments. We recommend that any remedial work outstanding is carried out and the date of completion is recorded on the spreadsheet to ensure that all necessary actions have taken place. Those without a date should be chased to ensure that nothing gets missed. **Agreed Management Action(s):** The Gas Manager has been asked to issue all failed temperature checks to Safewater to action immediately. The Gas Manager has requested a date for each visit, and he will monitor each action up until completion. The Compliance Manager has weekly meetings arranged with the Gas Manager to monitor progress. The Gas Manager has also been asked to provide an access procedure for Safewater as failed access into areas where services are provided have caused a number of failures. The Gas Manager is aware that they are responsible for assisting the contractor with access. The Gas Manager has agreed with Safewater that all failed temperature checks should be collated on one spreadsheet and updated monthly - Performance will also be monitored at monthly contractor meetings and escalated to the Compliance Manager where necessary. Where necessary, the Gas Manager will also agree a value of works that Safewater can self-authorise to prevent return visits. Quoted work will be authorised by the Gas Manager and issued via Northgate.	**Responsible Officer:** The Compliance Manager (Housing Investments). **Due Date:** 31 March 2022.	This is a new addition and the management response opposite is therefore the latest comment.	**Not Yet Due.**

Quarter 1	Quarter 2	Quarter 3	Quarter 4
Youth Council Final Report Issued	Vehicle Workshop Final Report issued	Revenues / Benefits Final Report / Draft Report	Financial Systems In Fieldwork
COVID-19 Pandemic Response Final Report Issued	Community Safety (SADA) In Fieldwork	Housing Allocations In Planning	Homelessness & Housing Advice In Planning
Health & Safety Final Report Issued	Homes England – Compliance Audit Final Report Issued	Welfare Reform Cancelled	Collection of Leaseholder Liability In Planning
Council Housebuilding & Acquisitions Programme Cancelled	Information Governance Final Report Issued	Capital Programme Delivery Final Report Issued	Risk Management & Corporate Governance ToR Issued
Housing Development Site (North Road) Final Report Issued	Landlord H & S Follow up Final Report Issued	Cyber Security In Fieldwork (c/f from Q2)	IT Resilience In Planning
	Contract Management Draft Report Issued	GF H & S Follow Up Final Report Issued (b/f from Q4)	

APPENDIX D – ASSURANCE / PRIORITY LEVELS

Audit Opinions	
Assurance Level	**Definition**
Assurance Reviews	
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.
Grant / Funding Certification Reviews	
Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.
Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.
Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.
Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.

Recommendation Priority Levels		
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	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.

Audit Charter 2021/2022

1. Introduction and Purpose

1.1. Internal auditing is an independent and objective assurance and consulting activity. It is guided by a philosophy of adding value to the operations of an organisation. It assists a council in achieving its objectives and ultimately provides assurance to the public by systematically evaluating and improving the effectiveness and efficiency of risk management, control, and governance processes.

1.2. The purpose of the Shared Internal Audit Service (SIAS) is to provide independent, objective assurance and consulting services designed to add value and improve client operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. SIAS helps clients accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

2. Statutory Basis of Internal Audit

2.1. Local government is statutorily required to have an internal audit function. The Accounts and Audit Regulations 2015 require that ‘a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.

2.2. In addition, a council’s Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority’s financial affairs. To fulfil this requirement, the S151 Officer relies, amongst other sources, upon the work of internal audit.

3. Role

3.1. SIAS internal audit activity is overseen by Stevenage Council’s committee charged with fulfilling audit committee responsibilities, herewith referred to as the Audit Committee. As part of its oversight role, the Audit Committee is responsible for defining the responsibilities of SIAS via this Charter.

3.2. SIAS may undertake additional consultancy activity requested by management. The ~~Head of Assurance~~ Client Audit Manager will determine such activity on a case-by-case basis, assessing the skills and resources available. Significant additional consultancy activity not already included in the Internal Audit Plan will only be accepted and carried out following consultation with the Audit Committee.

4. Professionalism

4.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These standards include the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (IPPF). They set out the fundamental requirements for the professional practice of internal auditing and the evaluation of the effectiveness of an internal audit function.

4.2. SIAS also recognises the Mission of Internal Audit as identified within the IPPF, 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' and the Core Principles for the Professional Practice of Internal Auditing, which demonstrate an effective internal audit function, achieving internal audit's mission.

4.3. SIAS operations are guided by its operating procedures manual as well as applicable, Chartered Institute of Internal Auditors (CIIA) and Chartered Institute of Public Finance and Accountancy (CIPFA) Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.

4.4. Should non-conformance with the PSIAS be identified, the ~~Head of Assurance~~ Head of SIAS will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it and, if applicable, its impact on a specific engagement or engagement outcome.

5. Authority and Confidentiality

5.1. Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical property, and personnel as required to carry out an engagement. All client employees are requested to assist SIAS in fulfilling its roles and responsibilities. Information obtained during an engagement is safeguarded and confidentiality respected in accordance with the Council's GDPR and information security policies.

5.2. Internal auditors will only use information obtained to complete an engagement. It will not be used in a manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). Internal auditors will disclose all material facts known, which if not disclosed could distort a report or conceal unlawful practice.

6. Organisation

6.1. The ~~Head of Assurance~~ Client Audit Manager and their representatives have free and unrestricted direct access to Senior Management, the Audit Committee, the Managing Director, the Chair of the Audit Committee, and the External Auditor. The ~~Head of Assurance~~ Client Audit Manager will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.

6.2. The Chair of the Audit Committee has free and unrestricted direct access to both the ~~Head of Assurance~~ Client Audit Manager and the Council's External Auditor.

6.3. The ~~Head of Assurance~~ Client Audit Manager is line managed by the ~~host authorities Director of Resources~~ Head of SIAS who approves all decisions regarding the performance evaluation, appointment, or removal of the ~~Head of Assurance~~ Client Audit Manager, in consultation with the SIAS Board. ~~Each client's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.~~

7. Stakeholders

The following groups are defined as stakeholders of SIAS:

7.1. The Head of SIAS, working with the ~~Head of SIAS~~ Client Audit Manager, both suitably experienced and qualified (CCAB and / or CMIIA), is responsible for:

- hiring, appraising and developing SIAS staff in accordance with the host authority's HR guidance
- maintaining up-to-date job descriptions which reflect the roles, responsibilities, skills, qualifications, and attributes required of SIAS staff
- ensuring that SIAS staff possess or obtain the skills, knowledge, and competencies (including ethical practice) needed to effectively perform SIAS engagements

7.2. The Audit Committee is responsible for overseeing the effectiveness of SIAS and holding the ~~Head of Assurance~~ Client Audit Manager to account for delivery. This is achieved through the approval of the annual audit plan, approval of performance targets set by the SIAS Board and receipt of regular reports.

7.3. The Audit Committee is also responsible for the effectiveness of the governance, risk, and control environment within the Council, holding operational managers to account for its delivery.

7.4. Where stated in its Terms of Reference, the Audit Committee provides an annual report to the Council detailing the Committee's activities through the year. In addition, and as required, the Committee ensures that there is appropriate communication of, and involvement in, internal audit matters from the wider publicly elected Member body.

7.5. The ~~Head of SIAS~~ Client Audit Manager is responsible for ensuring that the outcome of all final Internal Audit reports is reported to all members of the Audit Committee ~~(where relevant to their portfolio),~~ in a format agreed with these relevant parties.

7.6. Senior Management, defined as the Head of Paid Service, Chief Officers, and their direct reports, are responsible for helping shape the programme of assurance work. This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.

7.7. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS and reporting to the Audit Committee its findings, including:

- resourcing and financial performance
- operational effectiveness through the monitoring performance indicators

- the overall strategic direction of the shared service.

8. Independence and Objectivity

8.1. No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.

8.2. As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.

8.3. When asked to undertake any additional roles/responsibilities outside internal auditing, the ~~Head of Assurance~~ Client Audit Manager will highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the PSIAS Code of Ethics as well as any relevant requirements set out in other professional bodies to which the ~~CAE~~ Client Audit Manager may belong. The Audit Committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.

8.4. Where SIAS has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, the Client Audit Manager and Head of ~~Assurance~~ SIAS will ensure that the risks of doing so are managed effectively, having regard to the Head ~~of Assurance's~~ SIAS's primary responsibility to the management of the partners for which they are engaged to provide internal audit services.

8.5. The ~~Head of Assurance~~ Client Audit Manager will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

9. Conflicts of Interest

9.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.

9.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.

9.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.

9.4. SIAS procures an arrangement with an external delivery partner to provide service resilience, i.e., additional internal audit days on request. The external delivery partner will be used to deliver engagements as directed by the ~~Head of Assurance~~ Client Audit Manager in particular providing advice and assistance where SIAS staff lack the required skills or knowledge. The external delivery partner will also be used to assist with management of potential and actual conflicts of interest in internal audit engagements, providing appropriate independence and objectivity as required.

9.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements, or other benefits) the ~~Head of Assurance~~ Client Audit Manager will investigate and report on the matter to appropriate parties.

9.6. Hertfordshire County Council's ~~The~~ Head of Assurance leads and has overall management responsibility for SIAS, and also the same responsibilities for the similarly constituted Shared Anti-Fraud Service (SAFS).

9.7. Given that SIAS will potentially undertake internal audit activity in relation to SAFS, this relationship is formally disclosed, and appropriate safeguards will be put in place against any potential impairment to independence. The Head of SIAS will manage the internal audit engagement of this service and report findings directly to the Strategic Director (CFO) in their capacity as S151 Officer.

10. Responsibility and Scope

10.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes (as they relate to the organisation's priorities and objectives) and the promotion of appropriate ethics and values.

10.2. Internal control and risk management objectives considered by internal audit extend to the organisation's entire control and risk management environment and include:

- consistency of operations or programs with established objectives and goals, and effective performance
- effectiveness and efficiency of governance, operations, and employment of resources
- compliance with significant policies, plans, procedures, laws, and regulations
- design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
- safeguarding of assets

10.3. SIAS is well placed to provide advice and support on emerging risks and controls and will, if requested, deliver consulting and advisory services, or evaluate specific operations.

10.4. SIAS is responsible for reporting to the Audit Committee and senior management, significant risk exposures (including those to fraud addressed in conjunction with the

Shared Anti-Fraud Service), control and governance issues and other matters that emerge from an engagement.

10.5. Engagements are allocated to (an) internal auditor(s) with the appropriate skills, experience, and competence. The auditor is then responsible for carrying out the work in accordance with the SIAS Operating Procedures Manual, and must consider the relevant elements of internal control, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

11. Role in Anti-Fraud

11.1. The SIAS work programme, designed in consultation with Senior Management, the Audit Committee and, where applicable, the Shared Anti-Fraud Service (SAFS), seeks to provide assurance on how the council manages the fraud risks to which it is exposed.

11.2. SIAS must have sufficient knowledge to evaluate the risk of fraud and the way it is managed by the Council but are not expected to have the expertise of a person or team whose primary responsibility is detecting and investigating fraud.

11.3. SIAS will exercise due professional care by considering the probability of significant errors, fraud, or non-compliance when developing audit scopes and objectives.

11.4. SBC ~~HCC~~ is a partner of both SIAS and SAFS and benefits from collaboration and intelligence sharing between the teams. This informs both horizon scanning as part of the internal audit planning process and individual audit engagements.

11.5. The ~~Head of Assurance~~ Client Audit Manager should be notified of all suspected or detected fraud, corruption, or impropriety so that the impact upon control arrangements can be evaluated.

12. Internal Audit Plan

12.1. Following discussion with appropriate senior management, the ~~Head of Assurance~~ Client Audit Manager will submit a risk-based plan to the Audit Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed by ~~Operational Directorate Boards and subsequently~~ the Section 151 Officer and ~~Chief Executive~~ Senior Leadership Team and demonstrates the priorities of both SIAS (the need to produce an annual internal audit opinion) and those of the organisation. Also included will be any relevant declarations of interest.

12.2. The plan will be accompanied by details of the risk assessment approach used and will take into account the organisation's assurance framework. Also shown will be the timing of an engagement, its budget in days, details of any contingency for new or changed risks, time for planning and reporting and a contribution to the development of SIAS.

12.3. The plan will be subject to regular review in year and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems, and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

13. Reporting and Monitoring

13.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the relevant Service Director. Changes to the terms of reference during the engagement may occur and will be agreed following consultation with the relevant Service Director.

13.2. A report will be issued to management on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be / has been taken. If recommended action is not to be taken, an explanation for this will also be included.

13.3. SIAS will follow-up the implementation of agreed recommendations in line with the agreed protocol. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the ~~Head of Assurance~~ Client Audit Manager to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.

13.4. In consultation with the Senior Leadership Team, the ~~Head of Assurance~~ Client Audit Manager will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.

13.5. Quarterly update reports to the Audit Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement) with a summary of the work that supports the opinion. The determination of the Annual Opinion will be made by the Head of SIAS or the Head of Assurance, in consultation with the Client Audit Manager. Hertfordshire County Council's ~~The~~ Head of Assurance will also make a statement of conformance with PSIAS, using the results of the annual self-assessment and Quality Assurance and Improvement Plan (QAIP) required by the PSIAS. The statement will detail the nature and reasons for any impairments, qualifications, or restrictions in scope for which the Committee should seek reassurances from management. Any improvement plans arising will be included in the annual report.

14. Periodic Assessment

14.1. PSIAS require ~~the~~ Hertfordshire County Council's Head of Assurance and the SIAS Board to arrange for an independent review of the effectiveness of internal audit undertaken by a suitably knowledgeable, qualified, and competent individual or organisation. This should occur at least every five years.

14.2. Hertfordshire County Council's ~~The~~ Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. These will include the Quality Assurance and Improvement Programme, client feedback, appraisals, and shared learning with the external audit partner as well as coaching, supervision, and documented review.

14.3. A single review will be carried out to provide assurance to all SIAS partners with the outcomes included in the partner's Annual Report.

15. Review of the Audit Charter

15.1. The ~~Head of Assurance~~ Client Audit Manager will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.

15.2. The ~~Head of Assurance~~ Client Audit Manager reviewed this Audit Charter in September 2021. It will next be reviewed in April 2022.

Glossary of Terms

Audit Committee	The PSIAS defines the Audit Committee as "The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting." The Audit Committee operates in accordance with its terms of reference contained in Stevenage Borough Council's Constitution. CIPFA's *Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition* indicates that for a local authority, it is best practice for the audit committee to report directly to full council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. This Committee is able to refers matter directly to full council.
Audit Plan	The programme of risk-based work carried out by the Shared Internal Audit Service (SIAS) on behalf of its clients.
Board	The PSIAS defines the 'Board' as "The highest-level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions

	and sectors, typically the board includes members who are not part of management. If a board does not exist, the word “board” in the Standards refers to a group or person charged with governance of the organisation. Furthermore, “board” in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an Audit Committee). For the purposes of the SIAS Audit Charter, the Board as referred to in the PSIAS shall be Stevenage Borough Council’s Audit Committee. All references to the Audit Committee in the SIAS Audit Charter should be read in this context.
Chief Audit Executive (CAE)	The PSIAS describes the role of CAE as “a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The CAE or others reporting to the CAE will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the CAE may vary across organisations.” The CAE is fundamental to the success of the service and to the extent to which it complies with the Standards. Regular reference is made to this role throughout the PSIAS, including some specific requirements relating to whoever is designated the role. For the purposes of the SIAS Audit Charter, the CAE as referred to in the PSIAS shall be SBC’s ~~HCC’s~~ ~~Head of Assurance~~ Client Audit Manager. All references to the ~~Head of Assurance~~ Client Audit Manager in the SIAS Audit Charter should be read in this context. This is a delegated responsibility of the Head of Assurance arising from the shared service arrangements for internal audit. The Head of Assurance will retain overall accountability for those limited elements of the Internal Audit Charter and PSIAS that affect the SIAS business arrangements and / or all SIAS partners collectively. These include non-conformance with the PSIAS and the Quality Assurance and Improvement Program (QAIP). ~~The Head of Assurance is supported in the role of CAE by the Head of SIAS, who is responsible for the day-to-day operational management of SIAS~~

	~~and performs the role of Client Audit Manager for HCC.~~
Management	Operational officers of the Council responsible for creating corporate policy and organising, planning, controlling, and directing resources to achieve the objectives of that policy. Senior management is defined as the Head of Paid Service, Chief Officers and their direct reports.
Public Sector Internal Audit Standards (PSIAS)	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide stakeholders with the key assurances they need to support them both in managing and overseeing the organisation and in producing the annual governance statement.
Shared Internal Audit Service (SIAS)	SIAS is a local authority partnership comprising Hertfordshire County Council (HCC) and seven Hertfordshire district and borough councils. SIAS also provides internal audit services to a limited number of external clients. HCC is the host authority for the partnership and provides support services such as HR, technology, and accommodation.
SIAS Board	The Board that comprises officer representatives from the partner authorities and that is responsible for the governance of the SIAS partnership.

Note:

For readability, the term 'internal audit activity' as used in the PSIAS guidance has been replaced with 'SIAS' in this Charter.

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Part I – Release to Press

Stevenage BOROUGH COUNCIL

Agenda item: ##

Meeting	Audit/ Executive/ Council
Portfolio Area	Resources
Date	08 February/ 09 February/ 24 February 2022

ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2022/23

NON KEY DECISION

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

1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management Strategy 2022/23, including its Annual Investment Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) policy following considerations from Audit and Executive committees.

2 RECOMMENDATIONS

It is recommended that:

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

2.2 Members approve the Prudential Indicators for 2022/23.

2.3 Members approve the Minimum Revenue Provision (MRP) policy.

3 BACKGROUND

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

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

3.3 The contribution the treasury management function makes to the authority 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. The 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.

3.4 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."

3.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

3.6 Reporting

3.6.1 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

3.6.2 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.

3.6.3 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.

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

3.7 Treasury Management Strategy for 2022/23

3.7.1 The strategy for 2022/23 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; the Department for Levelling Up, Housing and Communities (DLUHC, formerly the MHCLG) MRP Guidance; the CIPFA Treasury Management Code; and DLUHC Investment Guidance.

3.7.2 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.

3.7.3 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.

3.7.4 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) raised the Bank of England base rate (Bank Rate) on 16 December 2021 to 0.25%, the first increase since it was cut to 0.10% on 19 March 2020 in response to the Coronavirus pandemic. In 2021/22 investment returns of 0.35% are forecast with a target of 0.58% for 2022/23.

3.7.5 The UK left the European Union on 31 January 2020 and an exit deal was agreed between the UK and the EU just before the end of the transition period on 31 December 2020. The initial agreement with the EU only covered trade, so further work remains on the services sector. However if the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to result in a no-deal Brexit. Trade agreements are also still to be agreed with other countries. Brexit is likely to lead to a long-term structural change in the UK economy, impacting areas such as trade, investment and immigration. 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 Revised Treasury Management and Prudential Codes were issued by CIPFA on 20 December 2021. CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft TMSS/AIS reports for 2022/23 unless they wish to do that. Full implementation will be required for 2023/24. The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment

- address ESG issues within the Capital Strategy

- require implementation of a policy to review commercial property, with a view to divest where appropriate

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices)

- ensure that any long term treasury investment is supported by a business model

- a requirement to effectively manage liquidity and longer term cash flow requirements

- amendment to TMP1 to address ESG policy within the treasury management risk framework

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage)

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury management

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

Service delivery

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

Commercial return

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

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments are dealt with as part of the Capital Strategy report. Members will be updated on how all the Code changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

4.1.2 The Department for Levelling Up, Housing and Communities (DLUHC, formerly MHCLG) is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme, under the revised lending terms published in November 2020. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield. However, this does not mean that local authorities may not currently have the legal powers to undertake such capital expenditure despite such guidance and regulation.

4.1.3 The DLUHC is also conducting a consultation on amending MRP rules for England. Details of the proposals are set out in paragraph 4.7.1.

4.1.4 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

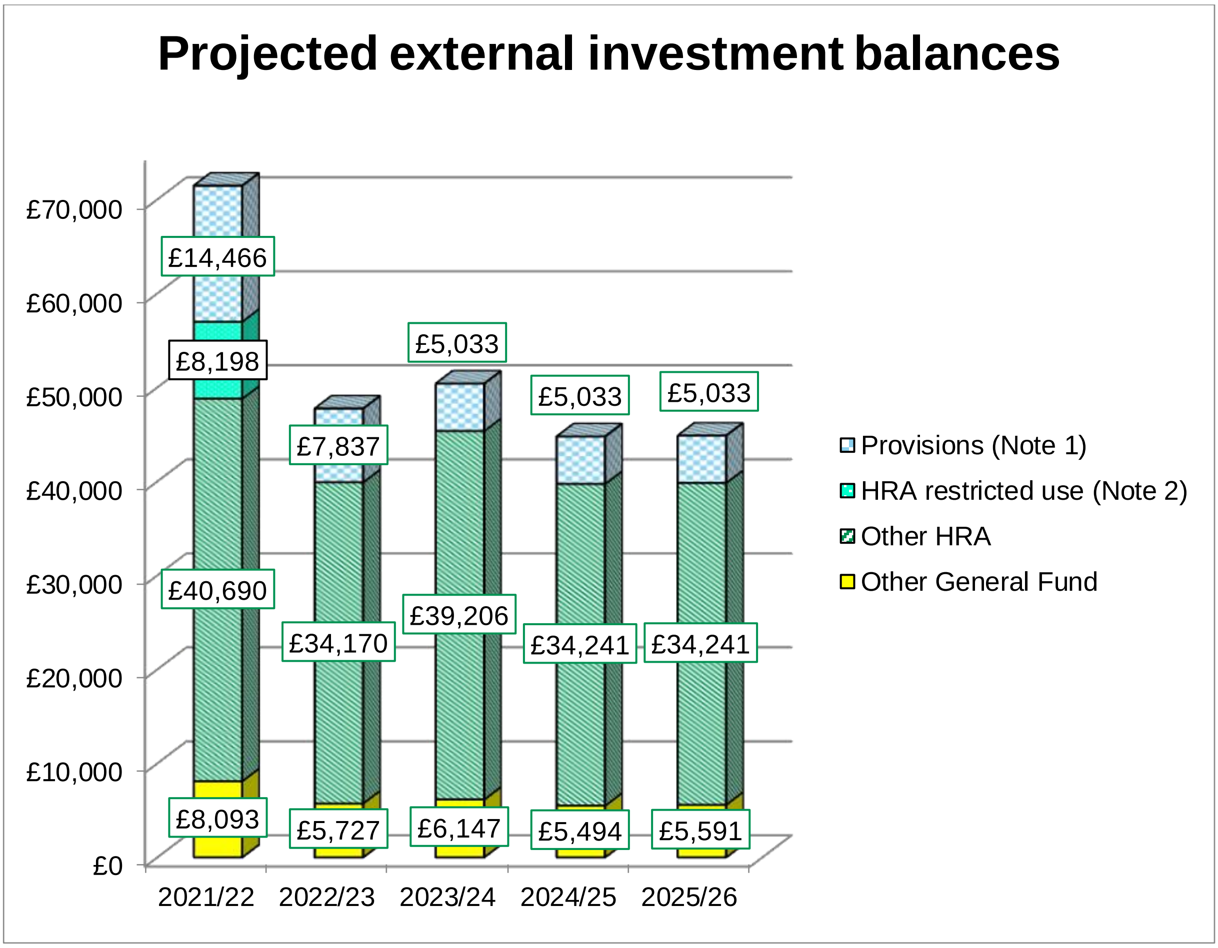
4.2.1 The report will be updated with any considerations from the Audit Committee meeting of 8 February and presentation at the Executive meeting of 9 February. The Council's cashflow will also been updated if needed in line with the latest General Fund Budget and Capital Strategy reports.

4.3 Performance of Current Treasury Strategy

4.3.1 For the financial year 2021/22 to 31 December 2021 returns on investments have averaged 0.34% and total interest earned was £201,159 contributing to General Fund and Housing Revenue Account revenue income.

4.3.2 Cash balances as at 31 December 2021 were £79.93Million and are forecast to be £71.4Million as at 31 March 2022. 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 £71.4Million is less than the total forecast Reserves and Balances figure of £82.0Million because the HRA and the General Fund have used balances totalling £10.5Million in lieu of external borrowing due to low interest rates leading to a poor return on investments (see also paragraph 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 £71.4Million as at 31 March 2022 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.

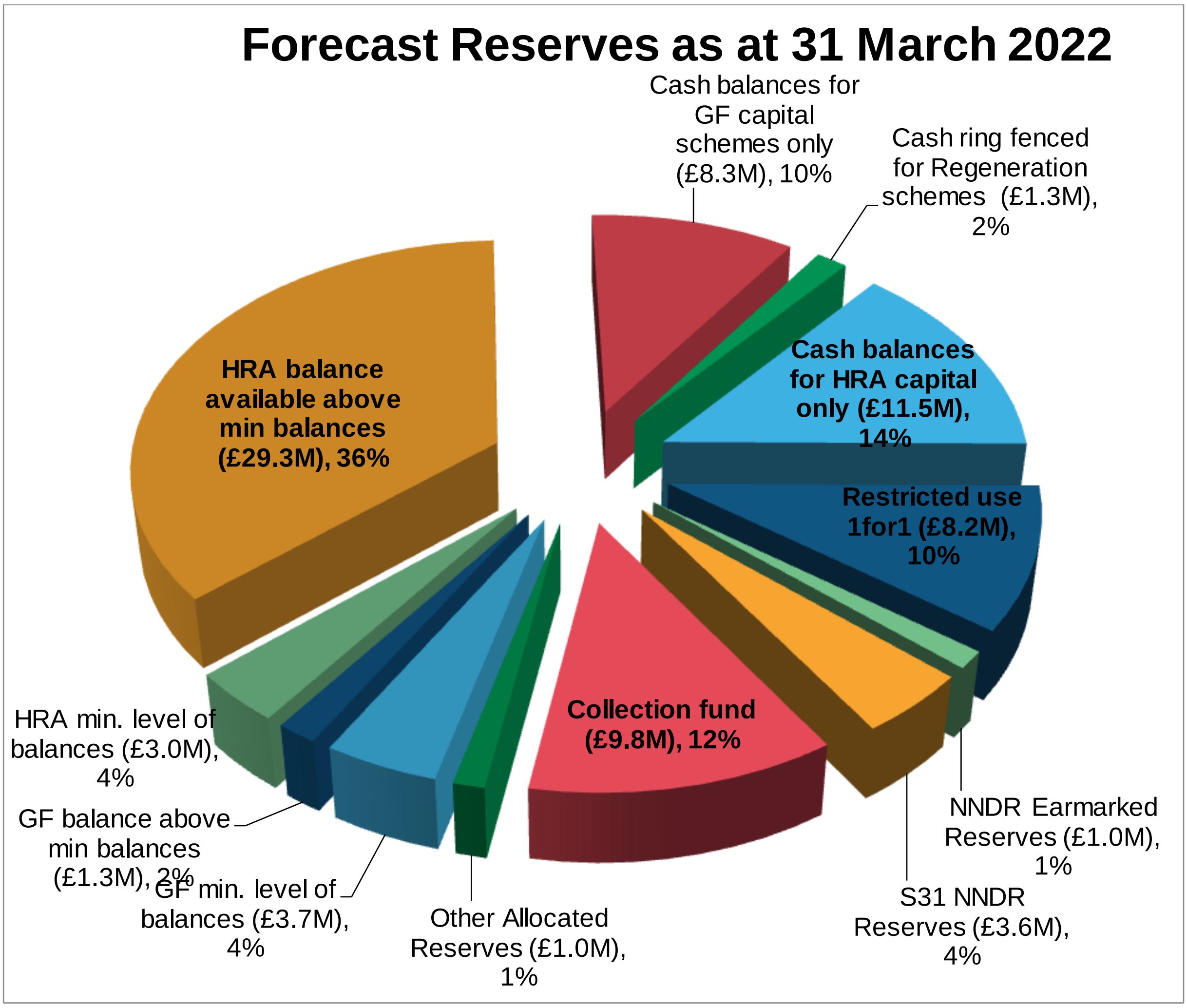


Note 1: Council Tax & NNDR (Business Rates) held for bad debts and appeals

Note 2: Right to buy (RTB) new build receipts

4.3.4 The balances projected to be held as at 31 March 2022 include balances invested that cannot be used to run services. These include balances related to restricted RTB receipts which in 2021/22 total £8.2Million. 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.

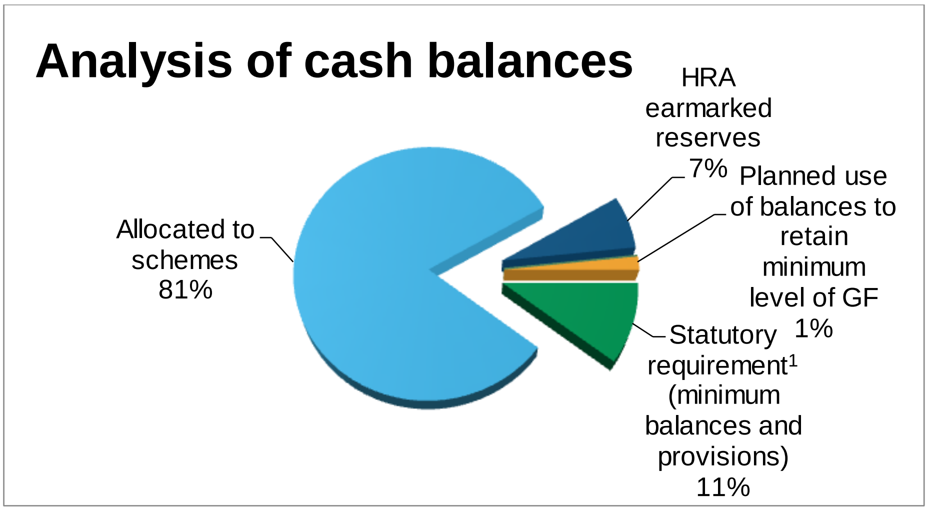
4.3.5 The majority of balances are provisions for the repayment of HRA debt and other liabilities (35.8%) and to fund the Council's capital programme (34.1%, which includes 10.0% restricted RTB receipts for new builds). Despite these sums held for the capital programme, external borrowing is still required as detailed in the 2022/23 capital strategy report. The forecast balances are summarised in the following chart.



Note 1: balances include internal borrowing of £10.5Million

Note 2: £9.8Million Collection Fund includes £3.1Million relating to Section 31 Business rates relief

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.



Note 1: Statutory requirement includes the £3.1m relating to Section 31 Business rates relief to be repaid in 2022/23

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).

4.3.8 There have been **no breaches** of treasury **counter party limits,** 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 2021/22 to date, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds borrowed during 2021/22 and 2022/23 will be placed in the DMO temporarily, if PWLB borrowing rates are advantageous and cash balances due to the timing of taking out new loans would breach other counterparty limits.

4.4 Review of the Treasury Management Strategy and Proposed changes

4.4.1 During the last TM Strategy review, counterparty limits for short term investments (invested for up to one year) were increased from £8Million to £10Million when cash balances are higher than £30Million. This was in order to remain flexible in managing large increases in cash balances, predominantly due to Government grant funding to local authorities to help deal with the COVID crisis. This has worked well, and no further changes are proposed at this time.

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 9 February 2022 to be approved at Council on 24 February 2022.

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). The proposed limit for 2022/23 is £352.821Million. Officers recommend that the operational borrowing limit is revised to reflect:

- 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 to Council in February 2021) was for development schemes totalling £7.765 Million, and this was included in the Capital Strategy funded by borrowing. The WOC report requested a maximum investment of up to £15Million which is included in the borrowing limits.

Operational Boundary	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
General Fund	50,155	58,037	59,353	58,559	57,754
Queensway residential	15,000	15,000	15,000	15,000	15,000
HRA	264,144	279,784	291,764	291,764	291,764
TOTAL	**329,299**	**352,821**	**366,117**	**365,322**	**364,518**
Previous Operational Boundary	324,371	345,843	359,180	358,426	

4.5.4 The **Authorised limit** for external debt represents a control on the maximum level of borrowing. This represents the legal limit to which the Council's external debt cannot exceed. The proposed limit for 2022/23 is £360.821Million.

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

Authorised Limit for external debt	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
General Fund Finance lease (accounted for as borrowing)	15,000	15,000	15,000	15,000	15,000

Authorised Limit for external debt	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
General Fund additional borrowing facility available to the Housing WOC Wholly Owned Company	7,235	7,235	7,235	7,235	7,235
General Fund Borrowing for capital expenditure	44,920	52,802	54,118	53,324	52,519
Total Borrowing - General Fund	67,155	75,037	76,353	75,559	74,754
Borrowing - HRA	270,144	285,784	297,764	297,764	297,764
TOTAL	337,299	360,821	374,117	373,322	372,518
Previous Authorised Limit	**332,371**	**353,843**	**367,180**	**366,426**	

4.6 The Council's Borrowing Position

4.6.1 The Council had external debt of £218.835Million as at 31 December 2021 and is broken down as follows:

Purpose of Loan	PWLB Loan £'000
General Fund Regeneration Assets	**2,151**
HRA	
Decent Homes	21,773
Self Financing	194,911
Total HRA Loans	**216,684**
Total Debt at 31st December 2021	**218,835**

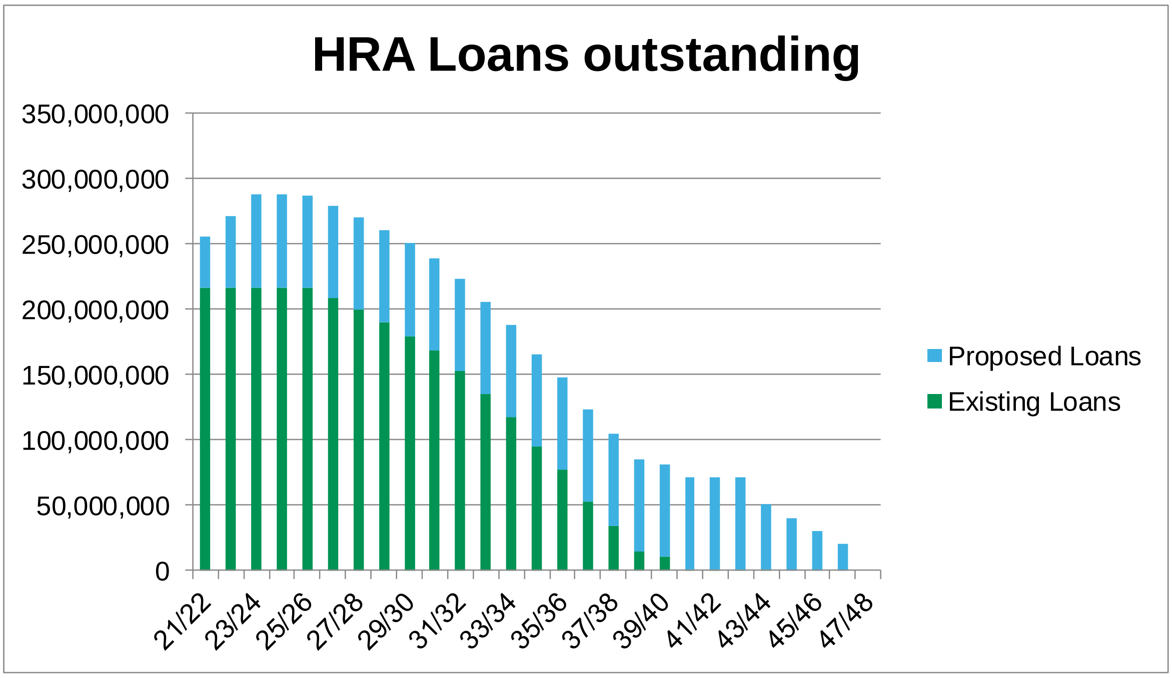
4.6.2 A proportion of the HRA borrowing included in the HRA Business Plan and used to finance the capital programme has not been taken externally to date. The capital expenditure financed by borrowing for 2019/20 was £7.057Million, of which £4.010Million external borrowing was taken. There was further slippage of external borrowing in 2020/21, as external borrowing of £10.0Million was taken compared to financing of £20.857Million. The borrowing of £9.047Million, to catch up on borrowing not taken in prior years. None of the £29.547Million planned borrowing for financing the 2021/22 HRA capital programme has been taken externally to date, but is still planned to be taken before the end of the financial year. This 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 forecast borrowing for the HRA, 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	Forecast New Borrowing	Total Borrowing	Interest Payable
	£'000	£'000	£'000
2021/22	£38,594	£255,278	£7,261
2022/23	£15,640	£270,918	£8,279
2023/24	£16,837	£287,756	£8,650
2024/25	£NIL	£287,756	£8,650
2025/26	£NIL	£287,256*	£8,649

*the first Self Financing loan maturity is £500K in 2025/26

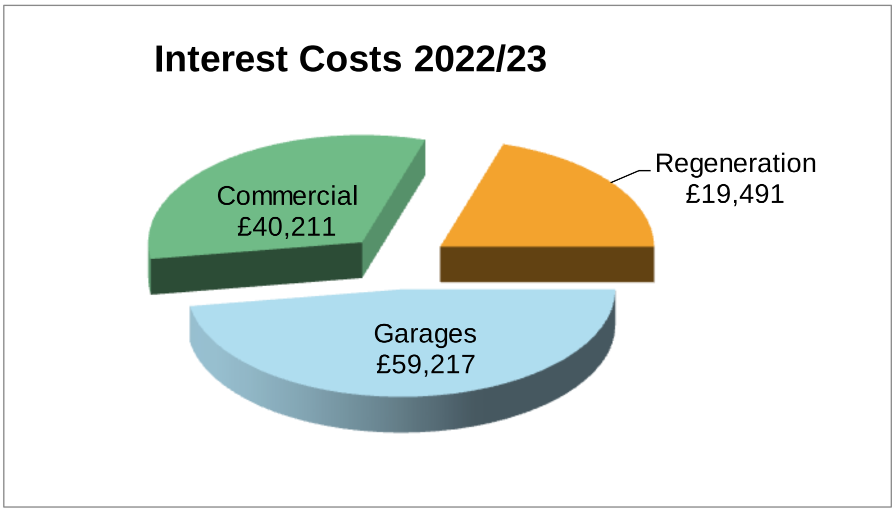
4.6.4 The following graph shows the loan outstanding over the life of the HRA BP. This shows that taking additional debt early in the life of the plan will lead to higher levels of loans over the 30 years. However, this will enable significantly needed investment in the existing stock and the ability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



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.

4.6.6 In 2021/22 there has been a General Fund loan repayment of £131,579 in August 2021, and a further £131,579 is due to be repaid in February 2022. In addition approved prudential borrowing for the Garage strategy is due to be taken, the timing of which is dependent on when the expenditure is incurred. There is also planned borrowing for the Housing WOC in 2021/22 to 2023/24. 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 4.1.2. 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 any loans made to the Housing WOC, as does Queensway Properties (Stevenage) LLP. The 2022/23 projected interest costs on borrowing is estimated to be £118,919 (2021/22 £107,243).



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 0.34%) is lower than external borrowing (2.22% 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 DLUHC issued “Consultation on changes to the capital framework: Minimum Revenue Provision” on 30th November 2021 to last for 10 weeks until 8th February 2022. The paper primarily covers the concerns that the government has in respect of compliance with the duty to make a prudent revenue provision, which may result in an underpayment of MRP. The consultation document states that the DLUHC are not intending to change the statutory MRP guidance, but to clearly set out in legislation the practices that authorities should already be following. The scope of the consultation includes the statement that local authorities have flexibility in how they calculate MRP, providing it is ‘prudent’. DLUHC has worked with the sector, CIPFA and other stakeholders to identify problematic practices and is now proposing changes to regulations to make sure authority practices are consistent and fully compliant with the intent of the Framework. The proposed change to the regulation is set out below.

4.7.1.1 The government is proposing additional text to be added to the 2003 Regulations to make explicit that:

1. Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

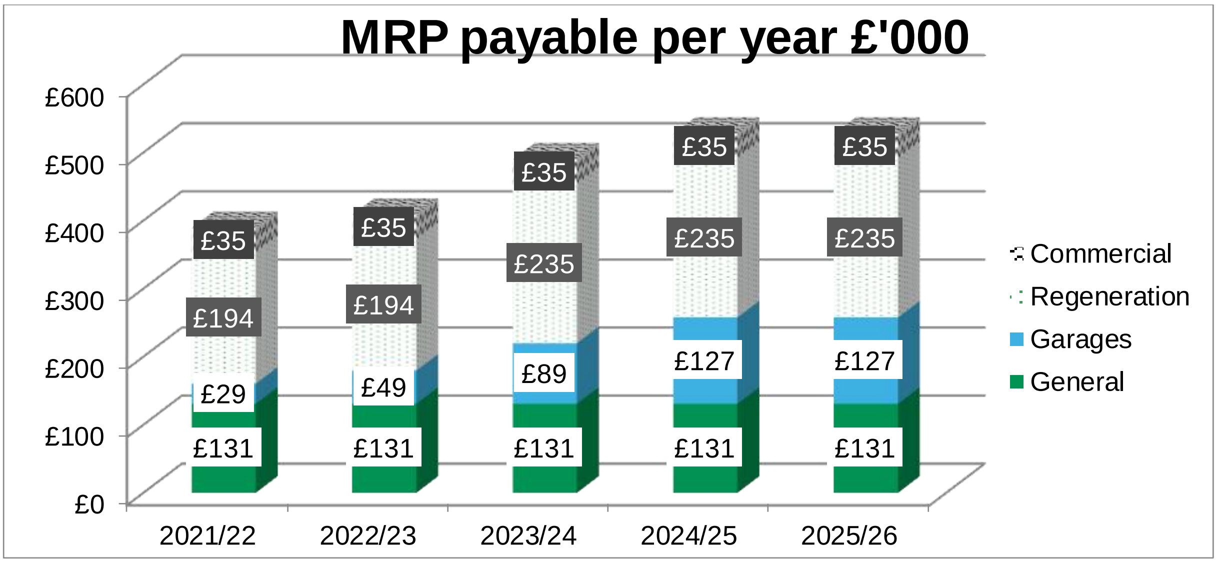
2. Prudent MRP must be determined with respect to the authority’s total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government’s statutory guidance on Minimum Revenue Provision.

4.7.1.2 These changes are not intended to have any impact on the Housing Revenue Account, or on treasury management activities that do not score as capital spend. The government wants authorities to still be able to exercise judgement in determining a prudent amount and does not want to move back to a prescriptive method.

4.7.1.3 Officers have been reviewing the potential impact the changes may make to the MRP charged to revenue and are taking this into account when making borrowing decisions. This is set out in Appendix B. In the meantime the MRP calculations set out below and in Appendix B are made on the current basis.

4.7.2 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 MRP. This amount is calculated based on the approved MRP policy (Appendix B) based on the life of the asset.

4.7.3 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. This excludes the technical requirement to charge MRP on loans to other companies in the accounts, as these borrowing costs are recharged.



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 2022/23 treasury operations. The Assistant Director (Finance and Estates) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

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

4.8.4 The Council's treasury advisors forecast four increases to the Bank Rate from the current rate of 0.25%, one in quarter 2 of 2022 to 0.50%, then quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%. Base rate and borrowing rate forecasts are shown in the table below. However there is volatility and uncertainty, over the impact of Covid on the economy in particular, and rates are monitored regularly.

Link Group Interest Rate View	20.12.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10

Source: Link Asset Services 20 December 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. The PWLB Certainty Rate margin remains set at gilts +80 basis points. There are also other potential sources of borrowing for Local Authorities, such as the Municipal Bond Agency, public listed bonds and forward starting private placements where a rate is agreed at the time they are entered into and the money drawdown at an agreed future date. The public listed bond issues and private placements can include those where proceeds of borrowing are used for a green or sustainable format (ESG principles).

4.8.6 The HRA BP existing loans have an average interest rate of 3.2% based on £216.684Million of borrowing. As set out in the table in paragraph 4.6.3, the current forecast includes allowance for new loans totalling £38,594,452 in 2021/22, £15,640,000 in 2022/23 and £16,837,066 in 2023/24. 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 2021/22 and 2022/23 is estimated to be £7,260,813 and £8,279,258 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 As set out in paragraph 4.1.1, Revised Treasury Management and Prudential Codes were issued by CIPFA on 20 December 2021, however CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft TMSS/AIS reports for 2022/23 unless they wish to do that. Full implementation will be required for 2023/24. The Council complies fully with CIPFA Treasury Management Code 2017 and will fully implement the 2021 Code from 2023/24. The Council also complies with guidance on self-financing and the investment guidance issued by DLUHC.

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 14th October 2021)

- 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 2022/23

4.9.3 The 2021/22 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 2022/23 (Appendix D) have been reviewed. No changes are considered necessary since that agreed as part of the Mid-Year Review of 2021/22 (the limit for each counterparty was increased for investments of up to one year including Money Market Funds, from £8Million to £10Million, when cash balances are higher than £30Million. If cash balances are less than £30Million the limit remained 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 2022/23 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 is currently on the lowest acceptable level suggested for approved countries as set out in Appendix E. 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 UK sovereign rating could come under pressure from the impact of COVID and / or following the UK's exit from the EU. 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 (Stevenage) 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 (Stevenage) 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 (Stevenage) 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 £7.765 Million, and the Council's funding of this investment has been included in the Final Capital Strategy as all funded by borrowing. As individual schemes are agreed the Capital Strategy will be updated. £7.235 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 in December 2020 the CIPFA LASAAC Local Authority Accounting Code Board announced the deferral of the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2022/23 financial year.

5. IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is of a financial nature and reviews the treasury management function for 2021/22 to date. 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.

5.2.2 There have been no changes to PWLB borrowing arrangements since the last Treasury report however there is ongoing consultation on changes to the MRP rules for England. Officers will ensure that any changes are reflected in treasury operations and reporting requirements.

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 the impact of exiting the EU on UK economy and borrowing rates. Officers monitor interest rate forecasts to inform the 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 counterparties. 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 to remaining within agreed counterparty rules, the Council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.

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 treasury management team will review the use of Money Market funds 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 2020/21 (13 October 2021 Council)

BD2 2021/22 Mid-Year Treasury Management Review (15 December 2021 Council)

BD3 Final Capital Strategy 2021/22 – 2025/26 (Executive 9 February 2022 and Council 24 February 2022)

Appendices

A Treasury Management Strategy

B Minimum Revenue Provision Policy

C Prudential Indicators

D Specified and Non-Specified Investment Criteria

E Approved Countries for investment

Appendix A Treasury Management Strategy 2022/23

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 As set out in the Treasury Management Strategy 2022/23, this Strategy has been prepared in accordance with the CIPFA Treasury Management Code 2017. The Council complies fully with CIPFA Treasury Management Code 2017 and will fully implement the 2021 Code from 2023/24. The Code 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 Department for Levelling Up, Housing and Communities (DLUHC, formerly 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:

- Department for Levelling Up, Housing and Communities (DLUHC) 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 DLUHC 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. (The DLUHC) enacted a statutory over-ride from 1.4.18 for a five-year period until 31.3.23 following the introduction of IFRS 9 over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31.3.23: this was intended to allow councils to initiate an orderly withdrawal of funds if required.).

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 There are alternatives to the PWLB for borrowing, for both the General Fund and the HRA, including the UK Municipal Bonds Agency. The UKMBA provides funding through three lending programmes. Current UKMBA trading levels in the market, inclusive of all fees, are lower than the PWLB Certainty rate at like maturities.

- Proportionally guaranteed, pooled loans of £1 million or more for maturities greater than one year.
- Standalone loans to a single local authority for £250 million or more for maturities greater than one year. These loans are outside of the proportional guarantee and are guaranteed solely by the borrower, who must obtain an external credit rating from one or more of the major credit rating agencies.
- Short term, pooled loans, outside of the proportional guarantee for maturities of less than one 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 of England base rate (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 2021 the Council had £79.93Million on deposit with various financial institutions.

5.2 **Interest Rate Forecast** - The Bank of England base rate is 0.25% as at 13 January 2022. Link forecast that Bank Rate will increase over the next few years.

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10

Source: Link Asset Services 20 December 2021

5.3 **Investment returns expectations.**

The UK left the European Union on 31 January 2020 and an exit deal was agreed between the UK and the EU just before the end of the transition period on 31 December 2020. The initial agreement with the EU only covered trade, so further work remains on the services sector. However if the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to result in a no-deal Brexit. Trade agreements are also still to be agreed with other countries. Brexit is likely to lead to a long-term structural change in the UK economy, impacting areas such as trade, investment and immigration.

Bank of England base rate is a significant factor for investment yields, and as can be seen in the table above there is an expectation that it will increase from the current rate of 0.25%, in quarter 2 of 2022 to 0.50%, then quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, in quarter 1 of 2025 to 1.25%. The Council has forecast investment returns of 0.35% in 2021/22 and is budgeting for returns of 0.58% in 2022/23 based on the average earnings seen in the table above.

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 2022/23 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 2021/22 limits and proposed limits for 2022/23 are:

	2021/22	2022/23
	£000	£000
Operational Boundary	329,299	352,821
Authorised Limit	337,299	360,821

6.4 Based on the capital programme 2022/23 (February 2022 Update) resourcing projections, the Council has the following borrowing requirements in 2022/23:

- General Fund £8,447,512 (£2,015,723 in relation to the 10 year plan for the garages estates approved by Council on 20 July 2016, £4,381,789 in relation to the wholly owned housing development company and £2,050,000 towards the costs of the Railway Station Multi-Storey Car Park).
- HRA £15,640,000 (£18,011,767 on work to existing housing stock and £11,535,536 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 October 2021, the Council reappointed Link Asset Services as its treasury management advisors on a three year contract. The new contract commenced on 26 October 2021.

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.

Area of Responsibility	Council Committee	Frequency
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)

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Appendix B (February 2022 Update)

Minimum Revenue Provision Policy

Minimum Revenue Provision Policy Statement 2022/23

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 2021/22 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 current 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 2022/23 is £408,312 based on the capital expenditure in the draft 2021/22 Financial Accounts, with the lower figure of £214,609 needing to be charged to the 2022/23 Financial Accounts taking into account the overpayment on the regeneration assets. The forecast annual MRP for 2023/24 is £489,626 with £295,923 to be charged to the 2023/24 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.

Current Consultation

As set out in the report, the Department for Levelling Up, Housing and Communities (DLUHC, formerly MHCLG) issued “Consultation on changes to the capital framework: Minimum Revenue Provision” on 30th November 2021 to last for 10 weeks until 8th February 2022. The government is proposing additional text to be added to the 2003 Regulations to make explicit that:

1. Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

2. Prudent MRP must be determined with respect to the authority’s total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government’s statutory guidance on Minimum Revenue Provision.

These changes are not intended to have any impact on the Housing Revenue Account, or on treasury management activities that do not score as capital spend. The government wants authorities to still be able to exercise judgement in determining a prudent amount and does not want to move back to a prescriptive method.

Officers have been reviewing the potential impact the changes may make to the MRP charged to revenue and are taking this into account when making borrowing decisions. Point 2 above is already complied with, MRP is charged on any capital expenditure which relates to an investment asset or capital loan. The impact may arise from Point 1 in that the way capital receipts are applied as part of available capital financing may change.

Appendix C

2022/23 Treasury Management Strategy

Treasury Management Prudential Indicators

Capital Expenditure (Based on Final Capital Strategy February 2022):	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	2024/25	2024/25	2025/26
	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Revised Final Cap Feb 22 Exec
	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Fund	17,400	20,929	20,145	30,510	26,137	14,369	14,795	1,939	283
HRA	52,488	53,656	56,858	64,666	37,256	37,186	28,748	28,818	4,615
Total	**69,887**	**74,584**	**77,004**	**95,176**	**63,393**	**51,556**	**43,543**	**30,757**	**4,898**

Ratio of financing costs to net revenue stream:	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	2024/25	2024/25	2025/26
	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Revised Final Cap Feb 22 Exec
	%	%	%	%	%	%	%	%	%
General Fund Capital Expenditure	4.78%	5.27%	5.28%	5.52%	6.12%	6.17%	6.73%	6.59%	6.42%
HRA Capital Expenditure	16.82%	15.71%	17.09%	17.18%	17.08%	17.36%	16.16%	16.44%	15.19%

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

Authorised Limit for external debt	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	2024/25	2024/25	2025/26
	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Revised Final Cap Feb 22 Exec
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	45,294	52,155	51,126	60,037	52,484	61,353	51,730	60,559	59,754
Borrowing - Queensway residential	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Borrowing - HRA	272,076	270,144	287,716	285,784	299,696	297,764	299,696	297,764	297,764
Total	**332,371**	**337,299**	**353,843**	**360,821**	**367,180**	**374,117**	**366,426**	**373,322**	**372,518**

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	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	2024/25	2024/25	2025/26
	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Revised Final Cap Feb 22 Exec
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	43,294	50,155	49,126	58,037	50,484	59,353	49,730	58,559	57,754
Borrowing - Queensway residential	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Borrowing - HRA	266,076	264,144	281,716	279,784	293,696	291,764	293,696	291,764	291,764
Total	**324,371**	**329,299**	**345,843**	**352,821**	**359,180**	**366,117**	**358,426**	**365,322**	**364,518**

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

Gross & Net Debt	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	2024/25	2024/25	2025/26
	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Revised Final Cap Feb 22 Exec
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross External Debt - General Fund	6,444	6,201	12,710	14,385	14,770	16,445	14,770	16,445	16,445
Gross External Debt - HRA	257,089	255,278	272,729	270,918	284,709	287,756	284,709	287,756	288,256
Gross External Debt	**263,533**	**261,479**	**285,439**	**285,304**	**299,479**	**304,201**	**299,479**	**304,201**	**304,701**
Less Investments	(58,969)	(71,447)	(49,005)	(47,735)	(47,604)	(50,386)	(42,297)	(44,767)	(44,864)
Net Borrowing	**204,564**	**190,032**	**236,434**	**237,569**	**251,875**	**253,815**	**257,181**	**259,433**	**259,836**

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

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

Capital Financing Requirement	44651	2021/22	2022/23	2022/23	2023/24	2023/24	2024/25	2024/25	2025/26
	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Original February 2021	Revised Final Cap Feb 22 Exec	Revised Final Cap Feb 22 Exec
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital Financing Requirement GF	31,060	37,920	36,892	45,802	38,249	47,118	37,495	46,324	45,519
Capital Financing Requirement HRA	264,076	262,144	279,716	277,784	291,696	289,764	291,696	289,764	289,764
Total Capital Financing Requirement	295,136	**300,064**	**316,608**	**323,586**	**329,945**	**336,882**	**329,191**	**336,088**	**335,283**

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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Specified and Non-specified Investment Criteria
(including Treasury Limits and Procedures)

Table 1

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

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

Table 2

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

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

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Table 3 **Treasury Limits**

Investment Instrument	Cash balances less than £30Million Limits	Cash balances higher that £30Million Limits
Variable Rate Investments (Excluding Enhanced Cash Funds)	Maximum holding £30M	Maximum holding 100%
Counterparty limits (to encompass all forms of investment)	Maximum £5M	Maximum £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 2022)

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 UK sovereign rating is currently AA-.

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 7

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