



Notice of a public meeting of

Audit and Governance Committee

To:	Councillors Pavlovic (Chair), Fisher (Vice-Chair), Lomas, Mason, Wann, Webb and Carr
Date:	Wednesday, 9 March 2022
Time:	5.30 pm
Venue:	The George Hudson Board Room - 1st Floor West Offices (F045)

AGENDA

1. **Declarations of Interest**

At this point in the meeting, Members are asked to declare:

- any personal interests not included on the Register of Interests
- any prejudicial interests or
- any disclosable pecuniary interests

which they might have in respect of business on this agenda.

2. **Minutes** (Pages 3 - 18)

To approve and sign the minutes of the meeting held on 21 January 2022 and 2 February 2022.

3. **Public Participation**

At this point in the meeting members of the public who have registered to speak can do so. Please note that our registration deadlines have changed to 2 working days before the meeting, in order to facilitate the management of public participation at our meetings. The deadline for registering is **5.00pm on Monday, 7 March 2022**. Members of the public can speak on agenda items or matters within the remit of the committee.

To register to speak please visit www.york.gov.uk/AttendCouncilMeetings to fill in an online registration form. If you have any questions about the registration form or the meeting please contact the Democracy Officer for the meeting whose details can be found at the foot of the agenda.

Webcasting of Public Meetings

Please note that, subject to available resources, this public meeting will be webcast including any registered public speakers who have given their permission. The public meeting can be viewed on demand at www.york.gov.uk/webcasts. During coronavirus, we've made some changes to how we're running council meetings. See our coronavirus updates (www.york.gov.uk/COVIDDemocracy) for more information on meetings and decisions.

Written representations in respect of items on this agenda should be submitted to Democratic Services by **5.00pm** on **7 March 2022**.

4. Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators (Pages 19 - 56)

This report is a statutory requirement setting the strategy for treasury management and specific treasury management indicators for the financial year 2022/23. The strategy is set against a context of projected interest rates and the Council's capital expenditure programme and leaves investment criteria and limits largely unchanged.

5. Progress against the Action Plan (Pages 57 - 60)

This report provides an update on the progress being made with regards to delivery of the Action Plan prepared in response to the Report in the Public Interest dated 19 April 2021.

6. Audit & Governance Work Plan (Pages 61 - 62)

To receive a plan of reports currently expected to be presented to future meetings of the Committee up to April 2022.

7. Audit & Governance Draft Work Plan 2022-23 (Pages 63 - 66)

To receive a draft plan of reports expected to be presented to the Committee in the next Municipal Year, 2022-23.

8. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

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Email: Robert.flintoft@york.gov.uk

For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

This information can be provided in your own language.

我們也用您們的語言提供這個信息 (Cantonese)

এই তথ্য আপনার নিজের ভাষায় দেয়া যেতে পারে। (Bengali)

Ta informacja może być dostarczona w twoim własnym języku. (Polish)

Bu bilgiyi kendi dilinizde almanız mümkündür. (Turkish)

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی مہیا کی جاسکتی ہیں۔ (Urdu)

 **(01904) 551550**

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Coronavirus protocols for attending Committee Meetings at West Offices

If you are attending a meeting in West Offices, you must observe the following protocols.

Good ventilation is a key control point, therefore all windows have been opened to allow adequate ventilation, they must be left as set prior to the start of the meeting.

If you're displaying possible coronavirus symptoms (or anyone in your household is displaying symptoms), you should follow government guidance. You are advised not to attend your meeting at West Offices.

Testing

The Council encourages regular testing of all Officers and Members and also any members of the public in attendance at a Committee Meeting. Any members of the public attending a meeting are advised to take a test within 24 hours of attending a meeting, the result of the test should be negative, in order to attend.

Test kits can be obtained by clicking on either link: [Find where to get rapid lateral flow tests - NHS \(test-and-trace.nhs.uk\)](https://www.nhs.uk/conditions/coronavirus/covid-19/testing/rapid-tests/), or, [Order coronavirus \(COVID-19\) rapid lateral flow tests - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/order-coronavirus-covid-19-rapid-lateral-flow-tests).

Alternatively, if you call 119 between the hours of 7am and 11pm, you can order a testing kit over the telephone.

Guidelines for attending Meetings at West Offices

- Please do not arrive more than 10 minutes before the meeting is due to start.
- You are not required to wear a face covering whilst in West Offices. CYC supports the decision of those who wish to do so.
- Visitors to enter West Offices by the customer entrance and Officers/Councillors to enter using the staff entrance only.
- Ensure your ID / visitors pass and lanyard is clearly visible at all time and worn around the neck.
- Regular handwashing for 20 seconds is recommended.
- Please use the touchless hand sanitiser units on entry and exit to the building and hand sanitiser within the Meeting room.
- Bring your own drink if required.
- Only use the designated toilets next to the Meeting room.

Developing symptoms whilst in West Offices

If you develop coronavirus symptoms during a Meeting, you should:

- Make your way home immediately
- Avoid the use of public transport where possible
- Follow government guidance in relation to self-isolation.

You should also:

- Advise the Meeting organiser so they can arrange to assess and carry out additional cleaning
- Do not remain in the building any longer than necessary
- Do not visit any other areas of the building before you leave

If you receive a positive test result, or if you develop any symptoms before the meeting is due to take place, **you should not attend the meeting.**

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City of York Council

Committee Minutes

Meeting	Audit and Governance Committee
Date	21 January 2022
Present	Councillors Pavlovic (Chair), Fisher (Vice-Chair), Lomas, Mason, Wann and Webb
Apologies	Councillor Carr

In light of the changing circumstances around the Covid-19 pandemic, this meeting was held remotely. Decisions made by this Committee recorded in these minutes are subject to approval by the Chief Operating Officer under his emergency delegated powers.

56. Declarations of Interest

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. None were declared.

57. Minutes

Resolved:

- i. That the minutes of the meeting held on 16 November 2021 be approved and then signed by the Chair as a correct record, subject to the amendment of item 45. Paragraph 4 final sentence to 'It was confirmed by Officers that the current consultation at Haxby Hall were not expected to affect the delivery of the expected services.'
- ii. That the minutes of the meeting held on 1 December 2021 be approved and then signed by the Chair as a correct record.

58. Public Participation

It was reported that there had been two registrations to speak at the meeting under the Council's Public Participation Scheme.

Andy Mendus spoke on the constitution he noted that he had written to Officers and the Chair in relation to independent members on the Committee. He provided a number of observations regarding the Audit Plan. He enquired about audits of absent management, system issues in areas such as commercial waste, and whether additional work should be done to review the governance and control arrangements for the Council's Teckal companies. He also raised concerns that he felt that the Committee lacked sufficient control over the schedule of Audits.

Gwen Swinburn outlined that she felt the meeting was unlawful due to it being held remotely. She raised concerns regarding the internal audits received within the agenda. She suggested that the audits be shared with relevant scrutiny committees and Executive Members with a request for an action plan to address issues within the audits being brought back to this Committee. She expressed concern that she felt the Committee lacked sufficient control over the prioritisation of internal audits. She also expressed concern that there had not been a public consultation on the Council's draft budget.

59. Key Corporate Risks Monitor 3

The Committee considered the Council's Key Corporate Risks (KCR) and made enquiries around the risk level of the Council's capability to run effective scrutiny. Officers confirmed that the scrutiny budget had not changed but they would consider the level of risk for the delivery of scrutiny and include within the Key Corporate Risks if deemed appropriate.

The Committee discussed KCR12 (Response to Major Incidents) and made a number of considerations regarding emergency planning. Officers outlined the process undertaken when planning for a range of emergencies from flooding to public health emergencies. It was confirmed that the Council coordinated with partners in the resiliency forum. Members enquired about the role of Town and Parish Councils in supporting and planning for emergencies. Officers reported that Town and Parish Councils were still able to update their own emergency plans within the community resilience planning, however, it was noted that additional engagement work would be undertaken with Town and Parish Councils.

Members also enquired about business community planning and whether staff received training around this. It was confirmed that this planning had recently been audited and was available on shared drives. The Committee requested that a further update on business community planning be considered by the Committee at a future meeting.

Resolved:

- i. Requested that officers consider the level of risk the delivery of Scrutiny should be categorised as;
- ii. Noted KCR12 Response to Major Incidents included at Annex B;
- iii. Noted that in future reports there will be no further detailed analysis of a specific KCR's;
- iv. Requested that a update on Business Community Planning be brought to the Committee in approximately a years' time.

Reason: To provide assurance that the authority is effectively understanding and managing its key risks.

60. Corporate Governance Report

The Committee considered a report which provided updates relating to the Investigatory Powers Commissioner's Office (IPCO) inspection, Corporate Governance performance indicators, the Information Commissioners Office (ICO) published decision Notices, and Ombudsman cases October 2021 to 31 December 2021. Members discussed the decisions from the Local Government and Social Care Ombudsman (LGSCO) and questioned why four cases were unable to be summerised. Officers noted that this was a recommendation from the LGSCO, however, they did confirm that the individuals who had made complaints could waiver the right to confidentiality with the LGSCO if they wished for the information to be made public.

Resolved:

- i. To note the details contained in the report.

Reason: To provide feedback for future reporting.

61. Audit & Counter Fraud Plan & Consultation

Officers introduced the report and outlined the possible areas of work currently listed at paragraph 9 of the report. The Committee raised a number of areas which they considered could be added to the proposed work for audits in 2022/23 or whether they should be noted as requiring greater urgency, these included absence management, building services and specifically housing repairs, as well as areas such as budget management in Children's and Adults Services. The Council's Teckal companies were also discussed and Members considered whether a review of governance and client arrangements should be undertaken. Officers confirmed that a review of some Teckal companies could be undertaken, however, they were awaiting new CIPFA guidance on this.

Resolved:

- i. Noted the priorities for internal audit work for 2022/23.

Reason: To ensure that scarce audit resources are used effectively.

62. Counter Fraud Framework

Officers introduced the report providing an update on the Counter Fraud Framework, they noted that one recommendation was for the Council to introduce an Anti-Bribery Policy to strengthen its counter fraud arrangements. The Committee highlighted issues relating to the 'culture of the Council' which had been reported by the Local Government Association (LGA). They enquired whether the LGA's report should feed into any policies and officers confirmed that the peer review work by the LGA could be reflected in policies produced.

Members made a number of enquiries about the counter fraud work reported, such as, queries regarding why in some cases it was not in Council's interest to prosecute. Officers noted that this would be rare but that there could be circumstances that

meant there would not be a benefit to the Council to prosecute. Members considered if further clarity was required when this was considered appropriate. Members also suggested that the Anti-Bribery Policy include references not only to the Employee Code of Conduct but also the Council Code of Conduct.

Resolved:

- i. Noted the updated on the Counter Fraud and Corruption policy at appendix C of annex 1, prior to approval by officers;
- ii. Noted the updated Fraud Risk Assessment and Counter Fraud and Corruption Strategy action plan at appendices A and B of annex 1.

Reason: In accordance with the committee's responsibility for assessing the effectiveness of the Council's counter fraud arrangements.

63. Internal Audit & Fraud Progress Report

The Committee first discussed the Internal Audit Progress Report 2021/22 and the Counter Fraud Progress Report 2021/22. The timeline for which audits would be brought to the Committee were discussed and what 'do now' categories meant within the plans. Officers confirmed the rationale behind which audits were undertaken and confirmed that 'do now' related more to when the audit could and would be completed rather than specifying the priority of a specific audit. Members highlighted audits relating to Absence Management and Danesgate and enquired as to why no opinion had been provided with the audits. Officers confirmed that this was because the scope of the audit work was limited and therefore they were not full assurance audits.

Officers introduced the internal audit report for the Council's Commercial Waste Services. Members enquired about the accepting of cash payments by the service, as this went against Council policies. Officers confirmed that they didn't believe similar processes were being used by other parts of the Council and that this audit was requested by officers when they became aware that cash payments were being accepted. Members noted the update and requested that assurances be provided

that ensured no other services were incorrectly receiving cash payments.

Regarding the other aspects of the audit officers noted that Commercial Waste Services were a small team which had worked well prior to the pandemic. However, the pandemic had created a unique set of circumstances with businesses closing and reopening at pace and not predictably that the service could not keep track of. Officers highlighted that a lot of the service customers had opened and closed several times following government guidance and work had not been undertaken and therefore not charged for. It was also noted that financial losses were likely connected to Council policies not to charge for services not delivered. The Committee questioned how this could be proved without complete invoicing and the Council's internal auditors outlined that they believed officers assessments to be correct. The internal auditors did however, note that they could undertake further checks to ensure losses were related to work not undertaken.

The Committee considered how the issues highlighted within the audit report could be avoided in the future regarding to Commercial Waste Services and other services within the Council. Officers confirmed that the action plan in response to the audit to move some processes to business services had already been completed and other actions were being worked on.

Resolved:

- i. Noted the progress made in delivering the 2021/22 internal audit work programme, and current counter fraud activity;
- ii. That an update on the delivery of the agreed actions be scheduled to be brought back to the Committee;
- iii. Officers to review income banked in cash to ensure no other services were incorrectly accepting payments in cash.

Reason To enable members to consider the implications of audit and fraud findings.

64. Audit and Governance Work Plan

The Committee considered the 2021-22 work plan and agreed add the Treasury Management Strategy Statement be scheduled for the Committees meeting on the 9 March 2022.

Resolved:

- i. That the Treasury Management Strategy Statement be scheduled for the Committees meeting on the 9 March 2022.

Reason: So that the committee has a planned programme of work in place.

Cllr Pavlovic, Chair

[The meeting started at 5.30 pm and finished at 8.06 pm].

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Meeting	Audit and Governance Committee
Date	2 February 2022
Present	Councillors Pavlovic (Chair), Fisher (Vice-Chair), Lomas, Mason, Wann, Webb and Carr

Apologies

65. DECLARATIONS OF INTEREST

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. None were declared.

Cllr Fisher mentioned that he was involved in a Council standards case as the Joint Standards Committee remit was included in the review of the Constitution.

66. PUBLIC PARTICIPATION

It was reported that there had been one registration to speak at the meeting under the Council's Public Participation Scheme.

Andy Mendus speaking on the Constitution asked that the Committee commit to have two independent members on the Audit and Governance Committee. He also asked Independent members be allowed to serve two consecutive four year terms. He enquired as to why Veritau were embedded in the proposed Constitution. He also asked whether the Audit and Governance Committee, on behalf of the Council, should accept the failures highlighted in the Public Interest Report.

67. PSAA REVIEW OF EXTERNAL AUDIT FEES

Officers introduced a report outlining the process for the appointment of an External Auditor. Members noted that Full Council would be asked to accept the Public Sector Audit Appointments' (PSAA) invitation to agree the sector-led option for the appointment of external auditors to principal local

government and police bodies for five financial years from 1 April 2023. Enquiries were made about whether this item could be considered at Budget Council. It was confirmed that there was scope to include the item at Budget Council.

Resolved:

- i. The Committee noted that Full Council would be asked to accept the Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

Reason: The Local Audit (Appointing Person) Regulations 2015 ('the Regulations') require that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA.

68. MAZARS AUDIT COMPLETION REPORT

The Committee considered the report and discussed several areas such as council tax collection and the Public Interest Report (PIR). It was confirmed that the Council had received additional funding to cover for council tax loses, also that the council's response to the PIR would be included in next year's Audit Completion report. Enquiries were made about findings related to disaster recovery processes. The auditors noted that they were confident that sufficient controls were in place. However, insufficient evidence was in place to prove this and Officers confirmed that work would be undertaken to evidence these processes so they could be properly tested in future. Discussion also took place around the findings related to Allerton Park and Members allowances. It was confirmed that final stages of the audit completion report would be completed once the final statement of accounts were signed off.

Resolved:

- i. Noted the matters set out in the Audit Completion Report presented by the external auditor.

Reason and To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

69. FINAL STATEMENT OF ACCOUNTS INCL. ANNUAL GOVERNANCE STATEMENT

Officers introduced the Final Statement of Accounts and the Annual Governance Statement. Members were informed that the Annual Governance Statement was a living document and therefore information may have changed since the publication of the agenda.

The Committee enquired about the risks associated with the Local Plan as highlighted in the Annual Governance Statement. It was confirmed that the Council had senior management oversight, as well as the Local Plan Working Group to ensure a level of control over the progression of the plan. The council, however could not fully control the process due to the requirement for approval by the Planning Inspectorate and Central Government. It was therefore considered a concern for the Council until an approved Local Plan was in place.

Members noted that the formatting of reports could be made more accessible with changes to the font size of text. It was confirmed that future reports would use the standard size 14 font to ensure the accounts were accessible to all

Resolved:

- i. Noted the matters set out in the Audit Completion Report presented by the external auditor in agenda item 4 Mazars Audit Completion Report and summarised in this report.

Reason: To ensure the proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

- ii. Approved the amended Annual Financial Report at Annex A for signature by the chair from a resolution of this Committee in accordance with the Accounts and Audit Regulations 2015.

Reason: To ensure compliance with the International Auditing Standards and other relevant legislative requirements.

70. ANNUAL MONITORING OFFICER'S STATEMENT

It was confirmed that this annual statement was a living document and would be updated throughout the year. The statement was to be considered alongside the Statement of Accounts. Members discussed the report and questions were asked regarding the restructure to the People's Directorate. Officers noted that the restructure would be included in the statement and would also feature in 2022/2023 accounts statement.

Resolved:

- i. Noted the Annual Report of the Monitoring Officer.

Reason: To keep the Committee updated on the work of the Monitoring Officer.

71. PROGRESS AGAINST THE ACTION PLAN

The Committee considered the report and noted that the major areas of action were the Council's Code of Conduct and the revised Constitution. Members enquired about the work that had been undertaken by the Local Government Association in conjunction with the council. It was confirmed that a report on the work undertaken would be considered at a meeting of the Committee in June or July 2022.

Resolved:

- i. Noted the progress against the Action Plan prepared in response to the Report in the Public Interest dated 19 April 2021.

Reasons: The Audit & Governance Committee is required by Full Council to monitor the delivery of the Action Plan prepared in response to the Public Interest Report.

72. REVIEW OF THE CONSTITUTION

Officers introduced the report and noted that the Joint Standards Committee had discussed the Model Code of Conduct which would be included in the Constitution in January. It was confirmed that a few amendments had been requested and Hoey AnSCO were working on these amendments to the Model Code of Conduct. Officers confirmed that consultation would take place with Trade Unions on a review of the Officer Code of Conduct. It was confirmed that the Joint Standards Committee had requested to amend their position to allow for substitutes to attend the meeting, if the named Committee Members could not attend.

The Committee discussed several areas requiring further amendments prior to being considered by Full Council. It was confirmed that the introduction to the Constitution would be completed with input from the Chair and Vice Chair of the Committee. It was also confirmed that amendments would be made to reflect the changes to the People's Directorate Structure.

Members discussed the role of Independent Members on the Audit and Governance Committee. They noted that it had been a challenge for the Council to recruit an Independent Member, but nevertheless felt that it would be appropriate and beneficial to the Committee to seek two Independent Members to support the Audit and Governance Committee. Term lengths for Independent Members were also discussed. It was suggested that two consecutive four year terms be offered to Independent Members. It was felt that by offering two terms, the role would be seen as more appealing and could assist individuals in gaining the relevant knowledge on the Committee, therefore being able to provide greater support.

The inclusion of Veritau in the Constitution was raised by Members who enquired whether this would fix the Council to the auditor in the future. Officers confirmed that the Council was required to name its internal auditor in the Constitution. If the

Council ended its relationship with Veritau an amendment to the Constitution would be required to identify the Council's new internal auditor.

Planning committees were discussed and it was confirmed that Main Planning and Area Planning Sub Committee would be renamed to Planning Committee A and Planning Committee B. Members debated whether it was appropriate for Executive Members to be able to sit on planning committees, especially in applications where the Council was the applicant. It was confirmed that there was no legal prevention for Executive Members to consider applications as a Member of a planning committee even if this was a Council application. It was confirmed that Full Council were going to be asked to vote on whether Executive Members should or should not be eligible to sit on planning committees.

Further discussions took place which related to Executive Members on planning committees and the guidance provided for declarations of interest. The importance of clear guidance was highlighted with reference to issues raised in relation to the Public Interest Report (PIR) the Council had received. It was noted that in the Localism Act that Councillors should consider the guidance on declarations of interest and determine for themselves, if they had an interest which meant they could not make a decision on an item of business.

Discussion took place as to whether the Committee should recommend to Full Council, that if Executive Members were permitted to sit on planning committees that they should not participate in the meeting if they had voted on an item in another meeting which was connected to the planning application.

The Committee voted 3 in favour, 3 against, and 1 abstention, with the Chair casting the deciding vote in favour of a proposal to recommend to Council that:

'Should Council agree that Executive Member would continue to be eligible to sit on planning committees, that on any council application that goes before Planning Committee A, Executive Members would be unable to participate in that item.'

Resolved:

- i. To refer the revised Constitution for consideration and adoption by Full Council on 24 March 2022 with the following amendments:
 - a. That Audit and Governance Committee have room available for two Independent Members of the Committee and not one;
 - b. That Independent Members on Audit and Governance Committee be able to hold two four year terms;
 - c. That Should Council agree that Executive Member would continue to be eligible to sit on planning committees, that on any council application that goes before Planning Committee A, Executive Members would be unable to participate in that item.

Reason: It is noted that the review of the Constitution also contributes significantly towards the progress against the Action Plan prepared in response to the Report in the Public Interest accepted by Full Council on 4th May 2021.

73. AUDIT AND GOVERNANCE WORK PLAN

The Committee considered the 2021-22 work plan and to remove the Review of the Constitution which was scheduled for the Committees meeting on the 9 March 2022 due to referring the Constitution to Council at this meeting.

Resolved:

- i. That the Review of the Constitution be removed from the Committees work plan on 9 March 2022.

Reason: So that the committee has a planned programme of work in place.

Cllr Pavlovic, Chair

[The meeting started at 5.32 pm and finished at 7.50 pm].

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Audit and Governance Committee**9 March 2022**

Report of the Chief Finance Officer

Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2022/23 to 2026/27**Summary**

1. This report is a statutory requirement setting the strategy for treasury management and specific treasury management indicators for the financial year 2022/23. The strategy is set against a context of projected interest rates and the Council's capital expenditure programme and leaves investment criteria and limits largely unchanged.
2. The Council has significant investments and borrowing which bring with them financial risk including the loss of invested funds and the revenue impact of changes in interest rates. It therefore requires an overall strategy as well as practices and procedures to identify, monitor and control the risks.

Background

3. The Treasury Management Strategy Statement and Prudential Indicators 2022/23 to 2026/27 are attached at annex A and cover the:
 - Integrated treasury management strategy statement including the annual investment strategy and the minimum revenue provision policy statement;
 - Prudential indicators
 - Revised treasury management policy statement
 - Specified and non-specified investments schedule
 - Treasury management scheme of delegation and role of the section 151 officer
4. One area to highlight is in respect of the Council's MRP policy where a review has been undertaken and a revised policy agreed by Full Council. Full details are in the Executive report attached at Annex A.
5. On 20th December 2021 CIPFA published the revised Treasury Management Code and Prudential Code with changes which will impact on future Treasury Management Strategy Statement and Annual Investment Strategy reports and the risk management framework. The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy

Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval. Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

Consultation

6. Treasury management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a process of consultation, details of which were outlined in the budget reports considered by Executive on 7th February 2022.

Options

7. It is a statutory requirement for the council to operate in accordance with the CIPFA Prudential Code.

Council Plan

8. The treasury management strategy statement and prudential indicators are aimed at ensuring the council maximises its return on investments and minimises the cost of its debts whilst operating in a financial environment that safeguards the council's funds. This will allow more resources to be freed up to invest in the council's priorities, values and imperatives as set out in the Council Plan.

Implications

Financial

9. The revenue implications of the treasury strategy are set out in the revenue budget report considered by Executive on 7th February 2022.

Legal Implications

10. Treasury Management activities have to conform to the Local Government Act 2003 and statutory guidance issued under that Act, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other Implications

11. There are no HR, Equalities, crime and disorder, information technology or other implications as a result of this report

Risk Management

12. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendation

13. Audit and Governance Committee are asked to:

- a. note the treasury management strategy statement and prudential indicators for 2022/23 to 2026/27 at annex A.

Reason: So that those responsible for scrutiny and governance arrangements are properly updated and able to fulfil their responsibilities in scrutinising the strategy and policy.

Contact Details	
Author	Chief Officer responsible for the report
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	Report approved 22.2.22
Wards affected	All

Annexes

Annex 1 – Treasury Management Strategy Statement and Prudential Indicators for 2022/23 to 2026/27



Executive

7 February 2022

Report of the Chief Finance Officer

Treasury Management Strategy Statement and Prudential Indicators for 2022/23 to 2026/27

Report Summary

1. The purpose of this report is to seek the recommendation of Executive to Full Council for the approval of the treasury management strategy and prudential indicators for the 2022/23 financial year.

Recommendations

2. Executive are asked to recommend that Council approve:
 - The proposed treasury management strategy for 2022/23 including the annual investment strategy and the minimum revenue provision policy statement;
 - The prudential indicators for 2022/23 to 2026/27 in the main body of the report;
 - The specified and non-specified investments schedule (annex B)
 - The scheme of delegation and the role of the section 151 officer (annex D)

Reason: To enable the continued effective operation of the treasury management function and ensure that all council borrowing is prudent, affordable and sustainable.

Background

3. On 20th December 2021 CIPFA published the revised Treasury Management Code and Prudential Code with changes which will impact on future Treasury Management Strategy Statement and Annual Investment Strategy reports and the risk management framework. The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval. Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

4. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first function 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.
5. The second main function of the treasury management service is funding of the council's capital programme. The capital programme provides 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 any debt previously drawn may be restructured to meet council risk or cost objectives.
6. The contribution the treasury management function makes 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. 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.
7. 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.
8. CIPFA (Chartered Institute of Public Finance and Accountancy) defines treasury management as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”

Reporting requirements – Capital Strategy

9. The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability
10. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
11. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures 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. The capital strategy will show:
- The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The debt related to the activity and the associated interest costs;
 - The payback period (MRP policy);
 - The risks associated with each activity.
12. Where a physical asset is being bought, details of market research, advisers used, ongoing costs and investment requirements will be disclosed, including the ability to sell the asset and realise the investment cash.
13. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the DLUHC Investment Guidance and CIPFA Prudential Code have not been adhered to.
14. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Reporting requirements – Treasury Management

15. The council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The three reports are:
- **Treasury management strategy statement and prudential indicators report** (this report) – which covers the capital plans

including prudential indicators, the minimum revenue provision policy, the treasury management strategy and the annual investment strategy;

- **Mid year treasury management report** – updates members as to whether the treasury activities are meeting the strategy, whether any policies require revision, amending prudential indicators if necessary;
- **Annual treasury report** – updates on treasury activity/ operations for the year and compares actual prudential indicators with estimates in the strategy.

16. These reports are required to be scrutinised before being recommended to the council. This scrutiny role is undertaken by Audit & Governance Committee.

17. The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers is also periodically reviewed.

Treasury management strategy for 2022/23

18. The treasury management strategy for 2022/23 covers two main areas:

Capital issues

- the capital programme and prudential indicators;
- minimum revenue provision (MRP) policy.

Treasury management issues

- prudential indicators which will limit the treasury management risk and activities of the Council;
- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- creditworthiness policy;
- investment strategy;
- policy on use of external service providers;
- scheme of delegation and the role of the S151 officer

19. These elements cover the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

Treasury management consultants

20. The council uses the Link Group, Treasury solutions as its external treasury management advisors.
21. 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.
22. 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.

The capital prudential indicators 2022/23 – 2026/27

23. The council's capital expenditure plans are the key driver of treasury management activity and are the subject of a separate report on this agenda. The output of the capital programme is reflected in the capital prudential indicators, which are designed to assist member's overview of the council's capital programme to ensure that the capital expenditure plans are affordable, sustainable and prudent.
24. The capital prudential indicators along with the treasury management prudential indicators are included throughout the report:
- PI 1: Capital expenditure
 - PI 2: Capital financing requirement
 - PI 3: Ratio of financing cost to net revenue stream
 - PI 4: External debt
 - PI 5a: Authorised limit for external debt
 - PI 5b: Operational boundary for external debt
 - PI 6: Maturity structure of debt
 - PI 7: Surplus funds invested >364 days
25. **Prudential indicator 1 - capital expenditure.** This prudential Indicator is a summary of the council's capital expenditure plans forming part of this budget cycle. 2020/21 is included as a comparator. Detailed information

on the individual schemes is provided in the capital monitor 3 and capital strategy report.

Capital Expenditure	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General fund (Non HRA)	87.2	82.7	117.9	58.0	22.3	21.0
Housing revenue account	40.3	46.5	40.1	31.2	29.7	10.1
Total	127.5	129.2	158.0	89.2	52.0	31.1

Table 1: Capital expenditure

26. Table 1 details the capital expenditure of the council, based on the capital programme strategy report, excluding other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. There are no new PFI schemes forecast to be entered into in 2022/23. 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. This means that for existing leases which were previously off balance sheet, these will now be brought onto the balance sheet at 31st March 2023. The Prudential Indicators for Capital Financing Requirement and External debt make an estimate within Other long-term liabilities for this increase, as do the Authorised Limit and Operational Boundary.
27. Further details on this capital expenditure, and how it is funded, are included within the Capital Programme report elsewhere on this agenda.
28. **Prudential indicator 2 - the capital financing requirement (CFR) (council's borrowing need)**; the second prudential indicator is the council's capital financing requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
29. The CFR does not increase indefinitely, because the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.
30. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases currently, and leases on balance sheet from 1st April 2023 under IFRS 16). Whilst these increase the CFR, and therefore the council's overall borrowing requirement, these types of scheme include a

borrowing facility and so the council is not required to separately borrow for these schemes. As set out in paragraph 48 table 5 the projected level of debt is significantly below the CFR over the 5 year period.

31. Table 2 below, shows the capital financing requirement, excluding other long term liabilities:

Capital Financing Requirement	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Non Housing	288.7	323.1	371.4	375.3	370.2	366.4
Housing	146.4	146.4	146.4	146.4	150.0	150.0
Other Long Term Borrowing*	44.0	45.5	44.4	43.3	42.1	41.0
Total CFR	479.1	515.0	562.2	565.0	562.3	557.4

*Other Long Term is for PFI/PPP & Leases

Table 2: Capital financing requirement (CFR)

Minimum revenue provision (MRP) policy statement

32. In accordance with the Local Government Act 2003 the council is required to pay off an element of the accumulated general fund capital expenditure each year (the CFR) through a revenue charge (the minimum revenue provision - MRP) as well as being allowed to undertake additional voluntary payments (voluntary revenue provision - VRP) should the Council wish to do so.
33. The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued in 2018. The overriding requirement of the Guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
34. DLUHC regulations require full council to approve an MRP statement in advance of each year. The Policy may be revised during the year by full Council or the appropriate body of Members where required.
35. A review of the Council's MRP policy was recently undertaken by Link Group (Link). The objective of the review was to provide the Council with an independent check that the MRP Strategy and Policy are fit for both the current and future spending plans. It also provides the necessary

challenge to ensure that any potential options are not missed when considering the capital financing decisions for new capital expenditure ensuring that the provision remains prudent and compliant with statutory guidance.

36. The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy will be kept under regular review in order to ensure that the annual provision is prudent.

37. Full Council is recommended to approve the following MRP statement amendment for the 2021/22 financial year:

- Change the calculation of MRP for supported borrowing from a straight line method to an annuity basis over 30 years (the remaining average life of the overall asset base).
- Change the calculation of MRP for unsupported borrowing from to an asset life straight line basis to an asset life annuity basis using an annual weighted average calculation. Estimated asset life periods will be determined under delegated powers.

38. Full Council is recommended to approve the following MRP statement for the 2022/23 financial year:

- For supported borrowing MRP will be calculated using an Asset Life annuity basis on the remaining average life of the overall asset base.
- For all unsupported borrowing MRP will be calculated using an Asset Life annuity basis. Estimated asset life periods will be determined under delegated powers.
- MRP in respect of PFI contracts will be calculated by the amount that writes down the balance sheet liability unless the asset life is considerably longer than the PFI contract, where MRP will be calculated on an asset life basis.
- MRP in respect of finance leases will equal the repayment amount for the year.
- There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

- The DLUHC MRP Guidance allows any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, to be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.
- MRP will generally commence in the financial year following the one in which the expenditure was incurred. However, for long life assets, the authority will postpone the commencement of MRP until the financial year following the one in which the asset becomes operational
- The Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Affordability prudential indicators

39. The prudential indicators mentioned so far in the report cover the overall capital programme and the control of borrowing through the capital financing requirement (CFR), but within this framework prudential indicators are required to assess the affordability of capital investment plans. These provide an indication of the impact of the capital programme investment plans on the council's overall finances.

40. **Prudential indicator 3 - ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing net of investment income and excluding other long term liabilities) and compares it to the council's net revenue stream.

Financing Costs	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
Non-HRA	11.81	13.99	16.21	18.83	19.82	20.47
HRA	13.58	13.04	12.75	12.46	12.28	12.10
Total Ratio	12.16	13.80	15.52	17.53	18.27	18.72

Table 3: Ratio of financing costs to net revenue stream

41. The estimates of financing costs include current commitments and the proposals in the capital budget report considered elsewhere on this agenda.
42. The capital prudential indicators set out above ensure that the council's capital expenditure plans are affordable, sustainable and prudent. The treasury management function ensures that cash is available to meet the council's requirements in accordance with the Local Government Act 2003 and relevant professional codes
43. The treasury management function involves both the forecasting of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the prudential / treasury indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

44. The council's treasury portfolio position at 31st December 2021 is detailed below in table 4:

Institution Type	Principal	Average Rate
<u>Public Works Loan Board</u> PWLB (61) – Money borrowed from the Debt Management Office (Treasury Agency)	£286.6m	3.28%
<u>Market Loans</u> LOBO Loans (1) – Lender Option Borrower Option	£5.0m	3.88%
<u>West Yorkshire Combined Authority</u> WYCA (4) – Zero interest loans the purpose of which are to help to fund York Central infrastructure projects	£2.4m	0.00%
Total Gross Borrowing (GF & HRA)	£294.0m	3.26%
Total Investments	£38.7m	0.05%

Table 4: Current position at 31st December 2021

45. The council had £294.0m of fixed interest rate debt, of which £146.4m was HRA and £147.6m general fund. The cash balance available for investment was £38.7m. Over the long term as the capital programme progresses the level of cash available for investment is gradually

decreasing as expected as the Council is using previously held balances to fund the programme. The level of cash balances available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, receipt of developers contributions, borrowing for capital purposes, payments to its suppliers of goods and services and spend progress on the Capital Programme. Cash held compared with this time last year has increased rather than decreased due to the timing of these cash flows and the cash balances are therefore only available on a temporary basis. Cash balances have been helped in 2021/22 by cash transactions between the Council and DLUHC in relation to business rates as set out in paragraph 14 of the Treasury Management Mid-Year Review and Prudential Indicators 2021/22 dated 18th November 2021.

46. Within the prudential indicators, there are a number of key indicators to ensure that the council operates its activities within well-defined limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. One of these is that the council needs to ensure that its total gross debt does not, except in the short term, exceed the total of the capital financing requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows the flexibility to borrow in advance of need but ensures that borrowing is not undertaken for revenue purposes.
47. **Prudential indicator 4 – external debt** Table 5 shows that the estimated gross debt position of the council does not exceed the underlying capital borrowing need. The Chief Finance Officer (s151 officer) confirms that the council complies with this prudential indicator and does not envisage difficulties for the future.

	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Gross projected debt*	390.0	437.5	498.4	517.3	532.1	544.9
Total CFR	479.1	515.0	562.2	565.0	562.3	557.4
Under/(over) borrowed	Under	Under	Under	Under	Under	Under

*Gross projected debt includes Other Long Term liabilities such as PFI/PPP & Leases

Table 5: External debt< capital financing requirement

48. Table 5 shows a gap between actual and estimated borrowing and the CFR (driven by the use of internal funds to finance capital expenditure). The decision as to whether to continue to do this will take into account current assumptions on borrowing rates and levels of internal reserves

and balances held by the council. The figures above show a decrease in the gap between CFR and external debt as borrowing is taken to support capital expenditure, however this will be determined by the s151 officer and the figure above is a current broad assumption. Actual borrowing will be determined by the circumstances that prevail at the time on borrowing rates and levels of cash balances.

Prudential indicators: limits on authority to borrow

49. **Prudential indicator 5A – authorised borrowing limit** - It is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations, for the council to determine and keep under review how much it can afford to borrow. This amount is termed the “authorised borrowing limit”, and represents a control on the maximum level of debt. This is a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full council. It reflects the level of external debt, which, while not desired, could be afforded in a short term period of 12 months, but is not sustainable in the longer term.

Authorised Limit	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Gross projected debt	390.0	437.5	498.4	517.3	532.1	544.9
Total CFR	479.1	515.0	562.2	565.0	562.3	557.4
Operational Boundary	526.1	525.0	572.2	575.0	572.3	567.4
Other long term liabilities	30.0	30.0	30.0	30.0	30.00	30.00
Total	556.1	555.0	602.2	605.0	602.3	597.4
	(£556.1m set at 2021/22 Strategy)	(Based on current CFR projection)	(Based on current CFR projection)	(Based on current CFR projection)	(Based on current CFR projection)	(Based on current CFR projection)

Table 6: Authorised borrowing limit

50. **Prudential indicator 5B – operational boundary.** In addition to the “authorised borrowing limit”, the operational boundary is the maximum level of debt allowed for on an ongoing operational purpose. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Gross projected debt	390.0	437.5	498.4	517.3	532.1	544.9
Total CFR	479.1	515.0	562.2	565.0	562.3	557.4
Short term liquidity	47.0	10.0	10.0	10.0	10.0	10.0
Total	526.1	525.0	572.2	575.0	572.3	567.4
	(£526.1m set at 2021/22 Strategy)	(Based on current CFR projection)	(Based on current CFR projection)	(Based on current CFR projection)	(Based on current CFR projection)	(Based on current CFR projection)

Table 7: Operational boundary

Prospects for interest rates

51. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions. To facilitate treasury management officers in making informed investment and borrowing decisions, the council has appointed the Link Group as its treasury adviser. Part of their service is to assist the council in formulating a view on interest rates. Table 9 below gives Link's central view. These are forecasts for certainty rates, gilt yields plus 80 bps. (See also Annex A):

	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2021	0.25	1.40	1.80	1.50
Mar 2022	0.25	1.50	1.90	1.70
Dec 2022	0.50	1.60	2.10	1.90
Mar 2023	0.75	1.70	2.20	2.00
Dec 2023	0.75	1.80	2.30	2.10
Mar 2024	1.00	1.90	2.30	2.10
Dec 2024	1.00	2.00	2.50	2.30
Mar 2025	1.25	2.00	2.50	2.30

Table 9 – Link's interest rate forecast as at 20th December 2021

52. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021. As shown in the forecast table above, the forecast for Bank Rate shows gradual increases until reaching 1.25% in March 2025.

Investment and borrowing rates

53. Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations. Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England, and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances to fund the capital programme has served well over the last few years, and as such it is likely that the Council will continue to see a low level of interest return on cash invested.
54. In March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced different rates for borrowing for different types of capital expenditure.
55. On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.
56. Link's long-term (beyond 10 years) forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently under 2.00%, there remains value in considering long term borrowing from the PWLB for capital expenditure. Where greater value can be obtained in borrowing for shorter maturity periods the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.
57. While the Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing strategy

58. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecast. 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 remains prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Consideration will also be given to the maturity profile of the debt portfolio so the council is not exposed to the concentration of debt being in any one year.
59. Against this background and the risks within the economic forecast, caution will be adopted with the treasury operations. The section 151 officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
 - if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
60. The HRA strategy for borrowing will be the same as the borrowing strategy described above for the whole council. The HRA Business Plan will guide and influence the overall HRA borrowing strategy.
61. All decisions will be reported to the appropriate decision making body (Executive and Audit & Governance Committee) at the next available opportunity.

Prudential Indicator 6 – Maturity of borrowing

62. Officers will monitor the balance between variable and fixed interest rates for borrowing and investments to ensure the council is not exposed to adverse fluctuations in fixed or variable interest rate movements. This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if

shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investment rates are expected to rise.

63. The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions. The council does not currently have any variable rate debt.
64. The upper and lower limits for the maturity structure of fixed rate borrowing are set out below (with actual split for the current financial year included for comparison). This gross limit is set to reduce the council's exposure to large fixed rate sums falling due for refinancing in a confined number of years.

Maturity structure of borrowing				
	Lower	Upper	2021/22 Debt (%)	2021/22 Debt (£)
Under 12 months	0%	30%	4%	£11.0m
12 months to 2 years	0%	30%	2%	£5.7m
2 years to 5 years	0%	40%	11%	£32.1m
5 years to 10 years	0%	40%	24%	£70.0m
10 years and above	30%	90%	59%	£175.2m
Total Borrowing			100%	£294.0m

Table 10: Maturity structure of borrowing at 31st December 2021

Policy on borrowing in advance of need

65. 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 within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
66. Borrowing in advance will be made within the constraints of the CIPFA Prudential Code that:
- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
 - The authority would not look to borrow more than 36 months in advance of need
67. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

68. Debt rescheduling of current Public Works Loan Board (PWLB) borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between the premature repayment rates and new borrowing rates provided by the PWLB. The current low interest rate environment would mean the cost of prematurely repaying any PWLB loans would come with higher premium costs to exit any loans. It is unlikely that any debt rescheduling opportunities will occur in the year ahead but the debt portfolio will continue to be monitored for any opportunities that may prevail.
69. If rescheduling was done, it will be reported to the Executive / Audit & Governance Committee at the earliest meeting following its action.

Municipal Bond Agency

70. The establishment of the UK Municipal Bonds Agency was led by the Local Government Association (LGA) following the 2010 Autumn Statement which resulted in higher PWLB rates, greatly increasing the cost of new borrowing and refinancing. The purpose of the Agency is to deliver cheaper capital finance to local authorities. It will do so via periodic bond issues and by facilitating greater inter-authority lending. The Agency is wholly owned by 56 local authorities and the LGA. The council will make use of this source of borrowing as and when appropriate.

Other borrowing sources

71. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from other sources such as Local Authorities and Financial Institutions Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Annual investment strategy

Investment policy – management of risk

72. The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (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).

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

- DLUHC's 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

74. The Council's investment priorities will be security first, portfolio liquidity second and then yield (return), and finally Ethical, Social & Governance criteria using the FTSE4GOOD index, or any suitable alternative responsible investment index or information to be decided by the s151 officer, to ensure that Ethical, Social and Governance issues are considered as a fourth criteria.

75. The above 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:

- i. 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.
- ii. 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.
- iii. 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.
- iv. 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 annex B 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 or have less

than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding 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.
- v. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix tables in annex B.
 - vi. Transaction limits are set for each type of investment.
 - vii. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see annex C).
 - viii. This authority has engaged external consultants, (see paragraphs 20 to 22), 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.
 - ix. All investments will be denominated in sterling.
 - x. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.)
76. However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 87). Regular monitoring of investment performance will be carried out during the year.

Creditworthiness policy

77. This council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modeling approach with credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

78. This modelling approach combines credit ratings, credit watches, and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS (credit default swap) spreads for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the council to determine the duration for investments. The council will therefore use counterparties within the following durational bands:

- Yellow* 5 years
- Dark pink 5 years (for Ultra-Short Dated Bond Funds with a credit score of 1.25)
- Light pink 5 years (for Ultra-Short Dated Bond Funds with a credit score of 1.5)
- Purple 2 years
- Blue 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

**The yellow category is for UK Government debt or its equivalent (government backed securities) and AAA rated funds*

79. The Link creditworthiness model uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weighting to just one agency's ratings.

80. Typically the minimum credit ratings criteria the council use will be a short term rating (Fitch or equivalents) of F1 and Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

81. All credit ratings are monitored on a daily basis. The council is alerted to changes to ratings of all three agencies through its use of the Link Group 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 against the iTraxx benchmark and other market data on a daily basis by Link. Extreme market movements may result in downgrade of an institution or removal from the councils lending list.

82. Although sole reliance is not placed on the use of this external service, as the council uses market data and market information, information on government support for banks and the credit ratings of that supporting government, the suitability of each counterparty is based heavily on advice from Link.

83. Whilst the council has determined that it will not limit investments to UK banks, due care will be taken to consider the country, group and sector exposure of the Council's investments. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign rating of AA- (excluding the UK) from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in annex C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment strategy

84. Investments will be made with reference to the core balance and cash flow 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 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.

85. If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments 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. Due to the lower levels of cash being held by the Council, investment returns are likely to remain low.

86. For its cash flow generated balances, the council will seek to use a combination of business reserve instant access and notice accounts (call accounts), short dated fixed term deposits and money market funds. In addition, the council will look for investment opportunities in longer dated term deals with specific counterparties that offer enhanced rates for local authority investment. All investment will be undertaken in accordance with the creditworthiness policy set out above.

87. The council will use an investment benchmark to assess the performance of its investment portfolio of 7 day compounded SONIA (Sterling Overnight Index Average) rate. The benchmark is a simple guide with the purpose to allow officers to monitor the current and trend position and amend the operational strategy of investments while maintaining compliance with the investment priorities set out in paragraph 74.

88. **Prudential indicator 7** - total principal investment funds invested for greater than 364 days. This limit is set with regards to the council's liquidity requirements and are based on the availability of funds after each year-end. A maximum principal sum to be invested for greater than 364 days is £15m.

	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Maximum limit per year for Investments > 364 days	15.0	15.0	15.0	15.0	15.0	15.0

Table 11: Investments over 364 days

89. At the end of the financial year, the council will report on its investment activity as part of its annual treasury report. It should be noted that the Investment policy, creditworthiness policy and investment strategy are applicable to the council's overall surplus funds and are also applicable to the HRA.

Consultation and options

90. At a strategic level, there are a number of treasury management options available that depend on the council's stance on interest rate movements. The treasury management function of any business is a highly technical area, where decisions are often taken at very short notice in reaction to the financial markets. Therefore, to enable effective treasury management, all operational decisions are delegated by the council to the Chief Finance Officer, who operates within the framework set out in this strategy and through the treasury management policies and practices. In order to inform sound treasury management operations the council works with its treasury management advisers, the Link Group. Link offers the council a comprehensive information and advisory service that facilitates the council in maximising its investment returns and minimise the costs of its debts.

91. Treasury management strategy and activity is influenced by the capital investment and revenue spending decisions made by the council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians. The revenue budget and capital budget proposals are included within this agenda.

Council Plan

92. The treasury management strategy statement and prudential indicators are aimed at ensuring the council maximises its return on investments and minimises the cost of its debts whilst operating in a financial environment that safeguards the councils funds. This will allow more resources to be freed up to invest in the council's priorities, values and imperatives, as set out in the Council Plan.

Implications

Financial

93. The financial implications of the treasury strategy are set out in the Financial Strategy and Capital Strategy reports also on this agenda.

Human Resources (HR)

94. There are no HR implications as a result of this report

Equalities

95. There are no equalities implications as a result of this report

Legal Implications

96. Treasury management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Other implications

97. There are no crime and disorder, information technology or property implications as a result of this report

Risk management

98. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Report authors:	Chief officer responsible for the report:		
Debbie Mitchell Chief Finance Officer	Debbie Mitchell Chief Finance Officer		
Emma Audrain Principal Accountant	Report Approved	X	Date
Tony Clark Accounting Technician			
Wards Affected: Not Applicable			

For further information please contact the author(s) of the report

Background papers

none

Annexes

Annex A – Interest rate forecast

Annex B – Specified and non-specified investments categories schedule

Annex C – Approved countries for investments

Annex D – Scheme of delegation and the role of the section 151 officer

5.2 APPENDIX: Interest Rate Forecasts 2021 – 2025.

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

The Link forecasts are as at 20.12.21 and will be updated after the MPC meeting on 3.2.22. The Capital Economics forecasts are as at 12.1.22.

Link Group Interest Ra 20.12.21													
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate													
Link	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.50	0.75	0.75	1.00	1.25	1.25	1.25	1.25	-	-	-	-	-
5yr PWLB Rate													
Link	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.80	1.90	2.10	2.20	2.20	2.30	2.40	2.40	-	-	-	-	-
10yr PWLB Rate													
Link	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	2.00	2.10	2.20	2.30	2.30	2.40	2.50	2.50	-	-	-	-	-
25yr PWLB Rate													
Link	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	2.20	2.30	2.50	2.70	2.70	2.70	2.80	2.90	-	-	-	-	-
50yr PWLB Rate													
Link	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.70	2.90	-	-	-	-	-

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Specified and non-specified investments categories**Annex B**

A variety of investment instruments will be used, subject to the credit quality of the institution, to place the council's surplus funds. The criteria, time limits and monetary limits applying to institutions or investment vehicles are listed in the tables below.

Investments are split into two categories of specified investments and non-specified Investments. Specified investments are relatively high security and high liquidity investments, which must be sterling denominated and with a maturity of no more than a year. Non-specified investments are those investments with a maturity period of greater than one year or are still regarded as prudent but may require more detailed scrutiny and assessment procedures.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this council. To ensure that the council is protected from any adverse revenue impact, which may arise from these differences, treasury officers will review the accounting implications of new transactions before they are undertaken.

Specified investments:

Counterparty type	Minimum 'high' credit criteria/colour band	Maximum investment limit per counterparty institution	Maximum maturity period
<i>DMADF – UK Government</i>	<i>UK sovereign rating</i>	<i>£15m</i>	<i>6 months</i>
<i>UK Government Treasury Bills</i>	<i>UK sovereign rating</i>	<i>£15m</i>	<i>1 year</i>
<i>UK Government Gilts</i>	<i>UK sovereign rating</i>	<i>£15m</i>	<i>1 year</i>
<i>Term deposits - local authorities</i>	<i>UK sovereign rating</i>	<i>£15m</i>	<i>1 year</i>
<i>Part-nationalised UK Banks</i>	<i>Blue</i>	<i>£15m</i>	<i>1 year</i>
<i>Term Deposits - UK Banks and Building Societies</i>	<i>Orange</i> <i>Red</i> <i>Green</i>	<i>£15m</i> <i>£15m</i> <i>£8m</i>	<i>1 year</i> <i>6 months</i> <i>100 days</i>
<i>Term Deposits - Non-UK Banks (with a sovereign rating of AA-)</i>	<i>Orange</i>	<i>£15m</i>	<i>1 year</i>
<i>Certificates of Deposits issued by Banks and Building Societies</i>	<i>Orange/Blue</i>	<i>£15m</i>	<i>1 year</i>
<i>Collective investment schemes structured as open ended investment companies (OEICs) as below:-</i>			

1. Money Market Funds CNAV*	AAA	£15m	Liquid
2. Money Market Funds LVNAV*	AAA	£15m	Liquid
3. Money Market Funds VNAV*	AAA	£15m	Liquid
4. Ultra-Short Dated Bond Funds	AAA	£15m	Liquid
5. Bond Funds	AAA	£15m	Liquid

*CNAV – constant net asset value

*LVNAV – low volatility net asset value

*VNAV – variable net asset value

NON-SPECIFIED INVESTMENTS:

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

Counterparty type	Minimum credit criteria	Maximum investment limit per counterparty institution	Maximum Maturity Period
<i>Fixed term deposits with variable rate and variable maturities: - Structured deposits</i>	<i>Orange Blue Red Green</i>	<i>£15m £15m £15m £8m</i>	<i>1 year 1 year 6 months 100 days</i>
<i>Certificates of Deposits issued by Banks and Building Societies</i>	<i>Red Green</i>	<i>£15m £8m</i>	<i>6 months 100 days</i>
<i>Floating Rate Notes</i>	<i>Long-term AAA</i>	<i>£15m</i>	<i>1 year</i>
<i>Property Funds: the use of these investments may constitute capital expenditure</i>	<i>AAA-rated</i>	<i>£15m</i>	<i>5 years</i>

2. Maturities in excess of 1 year

<i>Term Deposits– local authorities</i>	<i>UK Sovereign Rating</i>	<i>£15m</i>	<i>> 1 year</i>
<i>Term deposits – Banks and Building Societies</i>	<i>Yellow Purple</i>	<i>£15m £15m</i>	<i>5 years 2 years</i>
<i>Certificates of Deposits issued by Banks and Building Societies not covered by UK Government guarantee</i>	<i>Yellow Purple</i>	<i>£15m £15m</i>	<i>5 years 2 years</i>

<i>UK Government Gilts</i>	<i>UK sovereign rating</i>	<i>£15m</i>	<i>> 1 year</i>
<i>Collective investment schemes structured as open ended investment companies (OEICs) as below:-</i>			
<i>1. Bond Funds</i>	<i>Long-term AAA</i>	<i>£15m</i>	<i>> 1 year</i>
<i>2. Gilt funds</i>	<i>Long-term AAA</i>	<i>£15m</i>	<i>> 1 year</i>

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Approved countries for investments**Annex C**

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

This list is as at 22/12/21

Based on lowest available rating**AAA**

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K

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Treasury management scheme of delegation**Annex D****(i) Executive / Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy and annual outturn

(ii) Executive

- 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

(iii) Audit & Governance Committee

- receiving and reviewing reports on treasury management policies, practices and activities
- reviewing the annual strategy, annual outturn and mid year review.

(iv) Chief Finance Officer (section 151 officer)

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- all operational decisions are delegated by the council to the Chief Finance Officer, who operates within the framework set out in this strategy and through the treasury management policies and practices
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations.

The treasury management role of the section 151 officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- all operational decisions delegated by the council to the Chief Finance Officer (s151 officer), who operates within the framework set out in this strategy and through the treasury management policies and practices
- 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: -
 - *Risk management, including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation, including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
 - *Reporting and management information, including where and how often monitoring reports are taken;*
 - *Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*



AUDIT & GOVERNANCE COMMITTEE**9 March 2022**

Report of the Director of Governance

Progress against the Action Plan prepared in response to the Public Interest Report**Summary**

To provide an update on the progress being made with regards to delivery of the Action Plan prepared in response to the Report in the Public Interest dated 19th April 2021.

Background

The Council is required to address the recommendations set out in the Report in the Public Interest dated 19th April 2021, and accepted by Full Council on 4th May 2021. An Action Plan was also approved by Full Council and Audit & Governance Committee has been asked to oversee the delivery of the Action Plan.

Work to address the various aspects of the Action Plan continues.

The Council's Constitution

The revised draft constitution was published in January 2022, in readiness for consideration by the Audit & Governance Committee on 2nd February 2022. At its meeting, the Audit & Governance Committee recommended the revised draft constitution be considered by Full Council on 24th March 2022. As part of its consideration, Full Council will be asked to determine the outstanding issues so that the drafting of the constitution can be finalised. These issues include the role of Executive Members at Planning Committees, clarity around the appointment of substitutes and points relating to the council's delivery of its overview and scrutiny function. Revising the constitution is a supporting theme across the Action Plan.

Once finalised, training plans will be scoped and developed to support the implementation of the revised constitution.

Implications

Financial – None directly arising from this report. The Council is a member of the LGA and therefore the support from the LGA is at nil cost.

Human Resources (HR) – None directly arising from this report.

Equalities – None directly arising from this report.

Legal – As detailed within this report, the Council has received and accepted the Report in the Public Interest dated 19th April 2021, and therefore is required to undertake necessary steps to address the highlighted recommendations. The various individual steps required in addressing these recommendations may in themselves require legal advice.

Crime and Disorder, Information Technology and Property - None directly arising from this report.

Recommendations

To receive an update on the progress being made with regards to delivery of the Action Plan prepared in response to the Report in the Public Interest dated 19th April 2021.

Reasons for the Recommendation

The Audit & Governance Committee is required by Full Council to monitor the delivery of the Action Plan prepared in response to the Public Interest Report.

Options

There are no other options for the Committee to consider on this occasion.

Author & Chief Officer responsible for the report: Janie Berry, Director of Governance & Monitoring Officer

Report Approved

Date

22nd
February
2022

Specialist Implications Officer(s):

Debbie Mitchell, Chief Finance Officer and Section 151

Wards Affected: *List wards or tick box to indicate all*

All

For further information please contact the author of the report

Background Papers:

- Agenda, Reports and Minutes of the extraordinary meeting of Full Council dated 4th May 2021
- Agenda, Reports and Minutes of the Audit & Governance Committee
- Agenda and Reports of the Joint Standards Committee on 24th January 2022
- Agenda and Reports and the revised draft Constitution (published early) for the Audit & Governance Committee on 2nd February 2022

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Audit & Governance Committee – work plan

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

Theme	Item	Lead officers	Scope
6th April <i>Papers published 29/03</i>			
Risk	Key Corporate Risks monitor 4	<u>CYC</u> Sarah Kirby	Update on Key Corporate Risks (KCRs)
External Audit	Mazars Audit Progress (if required)	<u>Mazars</u> Mark Kirkham	Update report from external auditors detailing progress in delivering their responsibilities as the Council's external auditors.
Governance	Progress against the Action Plan	<u>CYC</u> Janie Berry	
HR	Governance Update from Head of HR on CYC settlement agreements	<u>CYC</u> Helen Whiting	
Veritau (internal audit / counter fraud)	Internal Audit & Fraud Plan & Progress report	<u>Veritau</u> Max Thomas/ Richard Smith	An update on progress made in delivering the internal audit work plan for 2021/22 and on current counter fraud activity. Including reporting on progress made by council departments in implementing actions agreed as part of internal audit work.
Veritau (internal audit / counter fraud)	Internal audit and counter fraud plans 2022/23	<u>Veritau</u> Max Thomas/ Richard Smith	To present internal audit and counter fraud plans for 2022/23 to the committee for approval.

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Audit & Governance Committee – draft work plan

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

Theme	Item	Lead officers	Scope
6th April <i>Papers published 29/03</i>			
Risk	Key Corporate Risks monitor 4	<u>CYC</u> Helen Malam	Update on Key Corporate Risks (KCRs)
External Audit	Mazars Audit Progress (if required)	<u>Mazars</u> Mark Kirkham	Update report from external auditors detailing progress in delivering their responsibilities as the Council's external auditors.
Governance	Report of the Monitoring Officer	<u>CYC</u> Janie Berry	To include Progress against the Action Plan
HR	Governance Update from Head of HR on CYC settlement agreements	<u>CYC</u> Helen Whiting	
Veritau (internal audit / counter fraud)	Internal Audit & Fraud Plan & Progress report	<u>Veritau</u> Max Thomas/ Richard Smith	An update on progress made in delivering the internal audit work plan for 2021/22 and on current counter fraud activity.
Veritau (internal audit / counter fraud)	Internal audit and counter fraud plans 2022/23	<u>Veritau</u> Max Thomas/ Richard Smith	To present internal audit and counter fraud plans for 2022/23 to the committee for approval.
June (<i>end of month</i>)			
Governance	Corporate Governance Report	<u>CYC</u> Lorraine Lunt	To provide Members with an update on corporate governance including issues.
Risk	Key Corporate Risks monitor 1	<u>CYC</u> Helen Malam	Update on Key Corporate Risks (KCRs)
Veritau (internal audit / counter fraud)	Annual report of the head of internal audit	<u>Veritau</u> Max Thomas/	This will include the annual reporting of any findings in respect of settlement agreements entered into by the

		Richard Smith	Council.
Veritau (internal audit / counter fraud)	Annual counter fraud report	<u>Veritau</u> Max Thomas/ Richard Smith	A summary of counter fraud work and outcomes for 2021/22
Finance	Treasury Management Outturn	<u>CYC</u> Debbie Mitchell	
Finance	Draft Accounts	<u>CYC</u> Debbie Mitchell/ Emma Audrain	
October			
Governance	Corporate Governance Report	<u>CYC</u> Lorraine Lunt	To provide Members with an update on corporate governance including issues.
Governance	Report of the Monitoring Officer	<u>CYC</u> Janie Berry	To include Progress against the Action Plan
Veritau (internal audit / counter fraud)	Internal audit & counter fraud progress report	<u>Veritau</u> Max Thomas/ Richard Smith	An update on progress made in delivering the internal audit work plan for 2022/23 and on current counter fraud activity.
Risk	Key Corporate Risks monitor 2	<u>CYC</u> Helen Malam	Update on Key Corporate Risks (KCRs)
Finance	Final Accounts	<u>CYC</u> Debbie Mitchell/ Emma Audrain	Date subject to External Audit.
Finance	Audit Completion Report	<u>CYC</u> Debbie Mitchell/ Emma Audrain	Date subject to External Audit.
Finance	Treasury Management Midyear Review	<u>CYC</u> Debbie Mitchell	
December			
Governance	Corporate Governance Report	<u>CYC</u> Lorraine Lunt	To provide Members with an update on corporate governance including issues.

Governance	Progress against the Action Plan	<u>CYC</u> Janie Berry	
Veritau (internal audit / counter fraud)	Internal audit & counter fraud progress report	<u>Veritau</u> Max Thomas/ Richard Smith	An update on progress made in delivering the internal audit work plan for 2022/23 and on current counter fraud activity.
Risk	Key Corporate Risks monitor 3	<u>CYC</u> Helen Malam	Update on Key Corporate Risks (KCRs)
January / February 2023			
Veritau (internal audit / counter fraud)	Consultation on the annual audit work programme	<u>Veritau</u> Max Thomas/ Richard Smith	To seek the committee's view on priorities for audit work in 2023/24.
Veritau (internal audit / counter fraud)	Annual review of the counter fraud framework	<u>Veritau</u> Max Thomas/ Richard Smith	To present the findings of the annual review of the counter fraud framework and risk assessment, and seek comments on any updates needed to counter fraud and related policies.
Finance	Treasury Management Strategy	<u>CYC</u> Debbie Mitchell	
Governance	Report of the Monitoring Officer	<u>CYC</u> Janie Berry	To include Progress against the Action Plan
March 2023			
Governance	Corporate Governance Report	<u>CYC</u> Lorraine Lunt	To provide Members with an update on corporate governance including issues.
Risk	Key Corporate Risks monitor 4	<u>CYC</u> Helen Malam	Update on Key Corporate Risks (KCRs)
Veritau (internal audit / counter fraud)	Approval of indicative annual internal audit programme and counter fraud plan	<u>Veritau</u> Max Thomas/ Richard Smith	To seek approval for the 2023/24 internal audit work programme, and the counter fraud plan.
Veritau (internal audit / counter fraud)	Internal audit & counter fraud progress reports	<u>Veritau</u> Max Thomas/ Richard Smith	An update on progress made in delivering the internal audit work plan for 2022/23 and on current counter fraud activity.

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