STROUD DISTRICT COUNCIL
Council Offices • Ebley Mill • Ebley Wharf • Stroud • GL5 4UB
Tel: (01453) 754 351/754 321
www.stroud.gov.uk Email: democratic.services@stroud.gov.uk

18 January 2021

AUDIT AND STANDARDS COMMITTEE

A remote meeting of the Audit and Standards Committee will be held on **TUESDAY 26 JANUARY 2021** at **7.00pm.**

KRO'Leary

Kathy O'Leary
Chief Executive

This is a remote meeting in accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

Venue
This meeting will be conducted using Zoom and a separate invitation with the link to access the meeting will be sent to Members, relevant officers and members of the public who have submitted a question.

Public Access
Members of the public, who have not submitted a question, are invited to access the meeting streamed live via Stroud District Council's YouTube channel.

Recording of Proceedings
A recording of the meeting will be published onto the Council's website (www.stroud.gov.uk). The whole of the meeting will be recorded except where there are confidential or exempt items, which may need to be considered in the absence of press and public.

AGENDA

1 APOLOGIES
To receive apologies for absence.

2 DECLARATIONS OF INTEREST
To receive declarations of interest.

3 MINUTES
To approve the minutes of the meeting held on 17 November 2020.

4 **PUBLIC QUESTION TIME**

The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.

> **DEADLINE FOR RECEIPT OF QUESTIONS**
> **Noon on Thursday, 21 January 2021**
>
> Questions must be submitted to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and can be sent by email to democratic.services@stroud.gov.uk

5 **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2020/21**

To inform Members of the Internal Audit activity progress in relation to the approved Revised Internal Audit Plan 2020/21.

6 **ANNUAL GOVERNANCE STATEMENT 2019/20 IMPROVEMENT PLAN – PROGRESS REPORT**

To provide assurance to the Committee that the improvement areas and associated actions identified as part of the annual review of governance arrangements operating within the Council, have been/are being addressed.

7 **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2021/22**

To outline the Council's prudential indicators for 2021/22 – 2023/24 and set out the treasury strategy for this period.

8 **STANDING ITEMS**

(a) To consider the work programme for 2020/21.
(b) To consider any Risk Management issues.

9 **MEMBERS' QUESTIONS**

See Agenda Item 4 for deadline for submission.

Members of Audit and Standards Committee

Councillor Nigel Studdert-Kennedy (Chair)
Councillor Tom Williams (Vice-Chair)
Councillor Dorcas Binns
Councillor Miranda Clifton
Councillor Stephen Davies
Councillor Colin Fryer
Councillor Karen McKeown
Councillor Keith Pearson
Councillor Mark Reeves

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AUDIT AND STANDARDS COMMITTEE

17 November 2020

7.00 pm – 8.49 pm

Remote Meeting

Minutes

Membership

Councillor Nigel Studdert-Kennedy (Chair)	P	Councillor Colin Fryer	A
Councillor Tom Williams (Vice-Chair)	P	Councillor Karen McKeown	P
Councillor Dorcas Binns	P	Councillor Keith Pearson	P
Councillor Miranda Clifton	P	Councillor Mark Reeves	P
Councillor Stephen Davies	P		

A = Absent P = Present

Officers in Attendance

Strategic Director of Resources
Principal Accountant
Housing Renewal Manager
Head of Contract Services
Accountancy Manager
Head of Audit Risk Assurance (ARA) (Chief Internal Auditor)
Senior Democratic Services and Elections Officer
Democratic Services and Elections Officer

Others in Attendance

Michelle Hopton, Audit Lead, Deloitte
Chris Lanham, Manager, Deloitte
Piyush Fatania, newly-appointed Head of ARA

AC.034 APOLOGIES

There were none.

AC.035 DECLARATIONS OF INTEREST

There were none.

AC.036 MINUTES

RESOLVED That the Minutes of the meetings held on 6 October 2020 are approved as a correct record.

AC.037 PUBLIC QUESTION TIME

There were none.

AC.038 INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2020/21

The Head of Audit Risk Assurance (ARA) introduced the report and brought the Committee's attention to the results of the electrical works contract internal audit from page 16 onwards which had received a limited assurance opinion. The Chair welcomed the Head of Contract Services who responded to questions.

Councillor Pearson voiced concerns and asked why there was a lack of documentary evidence. The Head of Contract Services advised that he had personally asked for the audit to be carried out due to concerns that he had raised. Action was taken to rectify the problems and it was confirmed that most of the necessary information was available but had been stored incorrectly.

Councillor McKeown expressed concern that there may be a systemic issue around contract management and asked how these issues would be taken forward. The Strategic Director of Resources responded with gratitude to the Head of Contract Services for identifying the issue and encouraging the internal audit, adding that conversations had begun with the Corporate Policy and Governance team to undertake a review of contract management procedures. The Strategic Director of Resources advised that he would ensure the review was carried out and the results would be brought back to the Senior Leadership Team. Councillor McKeown requested that Members should also be given a copy of the results of the review.

Councillor Williams questioned whether an overhaul of how the Council runs contracts is needed. The Head of Contract Services responded that there this was not a systemic issue, on this occasion the normal identified process had not been followed.

The Chair drew attention to the three lines of defence which were outlined in the Committee meeting on 26 May 2020 and asked, with reference to the electrical contract oversight, whether any problems had arisen with the standard of execution of the contractor's work. The Head of Contract Services asserted that there was nothing wrong with the work and that the necessary certification was in place, assuring that it was just a matter relating to the storage of information.

RESOLVED To note:

a) the progress against the Revised Internal Audit Plan 2020/21; and

b) the assurance opinions provided in relation to the effectiveness of the Council's control environment.

The Strategic Director of Resources welcomed Piyush Fatania, whose appointment as the new the Head of ARA was now confirmed.

AC.039 ANNUAL AUDIT LETTER

Deloitte's Audit Lead introduced the Annual Audit Letter, detailing that it had been prepared on 6 November 2020 when the audit was ongoing. A few items were still being progressed including a review of the IAS-19 letter from the pension auditors and the investment property reclassification. The Covid-19 pandemic had a significant impact on the audit but sign-off should be possible before the deadline. Attention was drawn to the inclusion of an emphasis of matter paragraph, necessary this year due to the valuation report received from the Council's third party valuers, in which the potential for a material misstatement was identified due to Covid-19. It was confirmed that this is nothing unusual and was consistent in the sector.

Further points highlighted were:

- There were no significant uncorrected misstatements or disclosure deficiencies identified.
- Two significant risks were identified relating to completeness of accruals and management override of controls, specific testing had been done to ensure these were correctly reflected in the accounts through which no issues were noted.
- There was no significant risk within property valuation, however they are an area of audit focus because they were big balances with the potential for a large increase or decrease in figures, scrutiny had been undertaken by a team of independent valuation experts who found nothing of note.
- The pensions valuation on pages 38 and 39 including the McCloud and Goodwin judgements
- Value for money was covered in detail, however there was nothing to bring to the Committee's attention.

The Strategic Director of Resources expressed gratitude for Deloitte's work with Officers, noting the achievement during a hard year to have got to a strong position, and the positive that Deloitte have recognised the improvements to the accounts.

Councillor Pearson asked how value for money is judged and by what criteria. Deloitte's Audit Lead explained that a level of materiality was set and specific frameworks were followed to identify any potential issues, adding that for a qualified audit opinion there would need to be a significant failure in governance around a specific area such as financial or contractual management. Determining factors include whether the Council have a robust financial plan, controls around review and amendments, reviewing contracts, and policies and necessary procedures in place. Value for money guidance would be expanded for next year, meaning more narrative would have to be provided.

Councillor Davies enquired about the timing of the audit regarding the disruption due to Covid-19, asking if the same increased pressure was expected going forward and whether there was anything the Council should be doing to help. Deloitte's Audit Lead explained that next year's audit was already scheduled, so the capacity and resources were available. Significant improvements had been made this year regards the trial balance and the quality of accounts and supporting statements, so this should be replicated going forward with the added suggestion that interim statements could be used more and details prepared upon request. It was confirmed that Deloitte and the Accountancy Manager will keep in touch and put a robust timetable in place.

Councillor McKeown asked about individual corporate accountability, referencing Nominated Officers on pages 14-15 and enquiring whether it could be advisable to include the Officer's designated role, as well as name. Deloitte agreed to include role titles in the final report.

RESOLVED To note the Annual Audit Letter on the 2018/19 External Audit

<u>AC.040</u> <u>STATEMENT OF ACCOUNTS 2019/20</u>

The Principal Accountant presented the statement and outlined a number of its features:

- The extended deadline due to Covid-19 which gave until 31 August to produce the audited accounts. These were delivered by 31 July, quite an achievement under the circumstances.
- Improvements made regards ISO260 which has led to improved reports being generated out of the finance systems, an investment that will pay off into the future.
- Deloitte's detailed scrutiny of all aspects of the unaudited statement published online on 31 July 2020, which led to some items being changed or removed for the current version, which is now being refined following further auditors' comments.

- The narrative report being the best place for a good overview, with particular reference to page 75 which shows the movement in reserves.
- An update that there is no opinion yet from Deloitte, as their work is ongoing, but this will appear in the next few days. The Chair added that an unqualified note from the auditors on these accounts was expected.

Officers provided clarification on various points raised by Members including:

- the potential impact of a 1% increase in interest rates being minimal since all the Council's borrowings are fixed rate.
- details of the composition of the Covid-19 recovery reserve of £492k.

Councillor Binns drew attention to page 101 about income gain or loss on disposal of assets and enquired as to what the minus £1 million relates to. The Principal Accountant clarified that this is usually for Council homes and on this occasion there was a disposal of units in Littlecombe which may have had an impact on this figure. He confirmed that more detail will be supplied in answer to this question following the meeting.

On being put to the vote, the Motion was carried unanimously

RESOLVED To approve:
a) the audited Statement of Accounts for the year ending 31 March 2020; and
b) that the Strategic Director of Resources and Chair of the Audit Committee sign the Statement of Accounts and the letter of representation.

AC.041 HALF-YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2020/21

The Principal Accountant introduced this report which also served as the second quarter report, drawing attention to a number of aspects:

- No change to the Treasury Management strategy as approved by Council in February 2020.
- Compliance with the 2020 strategy set in February in the period April to September 2020.
- The information sheet circulated showed the split between interest earned on internally-managed cashflow investments for the first and second quarters. Currently there is no forecast prospect of interest rates rising from 0.1% over the medium term, which will be relevant through to March 2023. The second half of the sheet shows the performance of funds invested in the prior financial year. In October, £1 million was invested with CCLA multi asset fund, completing a total of £10 million investments approved in last year's selection process.
- No movement on borrowing, with £1million due to be repaid during this financial year.

Councillor Davies asked about high risk investments and an investment fund account closure, enquiring if that was a cause for concern. The Principal Accountant informed Members that although the Lothbury fund had been closed for a period of time, this fund was no longer closed and has caused no impact on cashflow, nor concern, as these are medium to long term investments.

On being put to the vote, the Motion was carried unanimously.

RESOLVED To accept the treasury management activity half year report for 2020/2021.

AC.042 ACTIONS TAKEN IN RELATION TO THE AUDIT REPORT ON PRIVATE SECTOR HOUSING EMPTY HOMES

The Head of ARA introduced the report and brought attention to the suite of recommendations made, which were fully accepted by Officers. The Housing Renewal Manager had provided written management updates as at 23 October 2020 and then answered Members' questions.

The Chair asked whether empty homes can be restored back to use in conjunction with owners. The Housing Renewal Manager advised of tools that could be used but the burden of proof required was very high so nationally not much action was taken. A new part-time post was recently introduced specifically for the role of bringing empty homes back into use. The new Officer was now in post, so reinvigorating work was underway as it also was on the first empty homes loan, with the intention to do some awareness-raising and generate publicity out of this.

Councillor McKeown enquired whether there were targets or drivers to measure how the improved access to housing may be developed, to which the Housing Renewal Manager stated that there was no target number, but one could be set if it would be looked at, reviewed and challenged. The Housing Renewal Manager added that in past years a target had been included in the Corporate Delivery Plan, which had been reported back to Members, and this was reviewed.

Councillor Pearson enquired about volumes of dwellings in the District as quoted in different reports with potential inconsistencies. The Head of ARA agreed to follow up after the meeting as to the source and narrative of the figures in question.

Councillor Binns asked how the Council compared to other district councils and whether there are any exemplar councils who have found a way forward. The Housing Renewal Manager answered affirmatively and added mention of the guidance and best practice from the National Empty Homes Agency. Build up charges through works in default are used to encourage some units back into use and Section 215 notices are now issuable on empty properties by more officers since a development 18 months ago. Nationally, a lot of people were making capital investments into property as they were seeing a much better return on this than other methods of investment, due to low interest rates. The Council were middle of the range in the sector nationally, benchmarking is used and best practice is followed.

RESOLVED To note the above reports

AC.043 STANDING ITEMS

(a) Work Programme
The Strategic Director of Resources informed Members that there were a number of government requirements for assurance on grant schemes:

- the local restrictions grant for closed businesses launched today
- an additional restrictions grant for impacted businesses which was due to launch later in the month
- the local test and trace support scheme
- the fees and charges reimbursements scheme.

Internal audit work would be required for all of these and agile adjustments would be needed. This would be reported back upon at future meetings.

(b) Risk Management
The Chair enquired whether Excelsis was being kept up to date and the Strategic Director of Resources confirmed that the Senior Policy and Governance Officer had done a lot of

work with managers to ensure it was. The Chair added that telephony was still high on the risk register and Councillor Pearson confirmed that the ICT Working Group is working on this matter and also looking at the migration to Microsoft 365.

AC.044 MEMBERS' QUESTIONS

There were none.

The meeting closed at 8:49 pm.

Chair

STROUD DISTRICT COUNCIL

AGENDA ITEM NO 5

AUDIT AND STANDARDS COMMITTEE

26 JANUARY 2021

Report Title	**INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2020/21**
Purpose of Report	To inform Members of the Internal Audit activity progress in relation to the approved Revised Internal Audit Plan 2020/21.
Decision(s)	**The Committee RESOLVES to note:** **a) The progress against the Revised Internal Audit Plan 2020/21, and** **b) The assurance opinions provided in relation to the effectiveness of the Council's control environment.**
Consultation and Feedback	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
Report Author	Stephanie Payne Group Manager, Audit Risk Assurance (Deputy Chief Internal Auditor) Tel: 01452 32 8899 Email: stephanie.payne@gloucestershire.gov.uk
Options	There are no alternative options that are relevant to this matter.
Background Papers	None
Appendices	Appendix A – Internal Audit Activity Progress Report 2020/21

Implications (details at the end of the report)	Financial	Legal	Equality	Environmental
	No	No	No	No

1. INTRODUCTION/BACKGROUND

1.1 Members approved the Internal Audit Plan 2020/21 at the 26th May 2020 Audit and Standards Committee meeting.

1.2 Covid 19 has placed significant pressures on Council services and has impacted (and continues to impact) the Council's priorities, objectives and risk environment. Due to the changing position and to ensure that the Risk Based Internal Audit Plan meets the assurance needs of the Council, the Revised Risk Based Internal Audit Plan 2020/21 was approved by Members at 6th October 2020 Audit and Standards Committee meeting.

1.3 In accordance with the Public Sector Internal Audit Standards (PSIAS) 2017, this report (through Appendix A) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.

2. MAIN POINTS

2.1 The Internal Audit Activity Progress Report 2020/21 at Appendix A summarises:

- The progress against the Revised Internal Audit Plan 2020/21, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during November and December 2020, and
- Special investigations/counter fraud activity.

2.2 The report is the third progress report in relation to the Internal Audit Plan 2020/21. It is also the second progress report to reflect the approved 2020/21 Plan revisions (due to the impact of Covid).

2.3 As reflected within the Internal Audit Progress Report, new activities progressed by Audit Risk Assurance (ARA) since the outcome of the pandemic include (but are not exclusive to):

- The provision of consultancy support (from both our internal audit and counter fraud teams) to the Revenues and Benefits service and Finance regards Business Grants and Supplier Relief;
- Internal Audit review of the Lost Sales, Fees and Charges Grant (Covid 19) claim 1, and
- Review of the financial close information required to support stage 2 of the Council's Ofgem Application: Non-Domestic Renewable Heat Incentive.

3. CONCLUSION

3.1 The purpose of this report is to inform the Committee of the Internal Audit work undertaken to date, and the assurances given on the adequacy and effectiveness of the Council's control environment operating in the areas audited. Completion of the Internal Audit Activity Progress Reports ensures compliance with the PSIAS, the Council Constitution and the Audit and Standards Committee Terms of Reference.

3.2 In accordance with the PSIAS and as reflected within the Audit and Standards Committee work programme, Internal Audit Activity Progress Reports against the approved Internal Audit Plan 2020/21 are scheduled to be presented to the Audit and Standards Committee at 27th April 2021 and June/July 2021 (date to be confirmed) meetings.

4. IMPLICATIONS

4.1 Financial Implications

There are no financial implications arising directly from this report.

Lucy Clothier, Accountancy Manager
Email: lucy.clothier@stroud.gov.uk

Risk Assessment:
Failure to deliver effective governance will negatively impact on the achievement of the Council's objectives and priorities.

4.2 Legal Implications

Monitoring the implementation of Internal Audit recommendations assists the Council to minimise risk areas and thereby reduce the prospects of legal challenge.

One Legal
Email: patrick.arran@stroud.gov.uk

4.3 Equality Implications

There are no equality implications arising from the recommendations made in this report.

4.4 Environmental Implications

There are no environmental implications as a result of the recommendations made within this report.

Internal Audit Activity
Progress Report
2020-2021

Audit and Standards Committee
26 January 2021

Agenda Item 5
Appendix A

(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing "proper internal audit practices". The standards define the way in which the Internal Audit Service should be established and undertake its functions.

The Shared Service Internal Audit function is conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements. Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively. Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council's Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2020/21 Revised Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during November and December 2020, and
- Special investigations/counter fraud activity.

(4) Progress against the 2020/21 Revised Internal Audit Plan, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2020/21 audits which have not previously been reported to the Audit and Standards Committee.

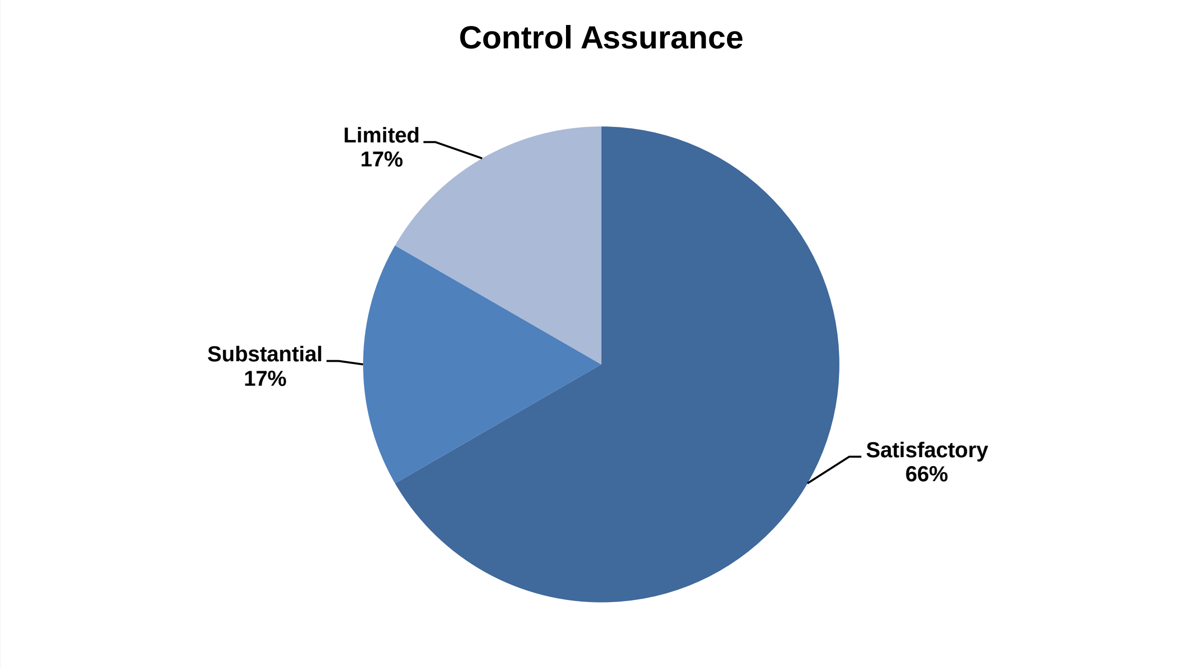
The schedule provided at **Attachment 2** contains a list of all of the 2020/21 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

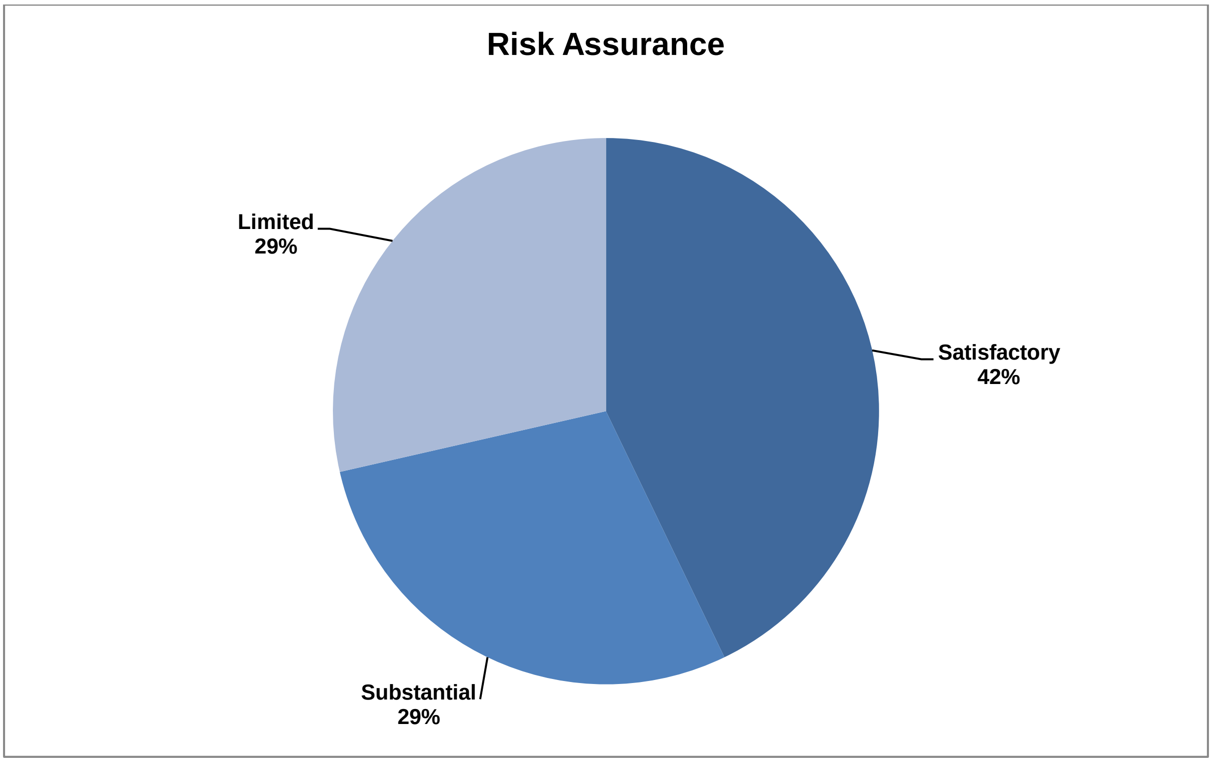
Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	**Risk Managed** Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.	• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	**Risk Aware** Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. However some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.	• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	**Risk Naïve** **Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.**	• **System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls** • **Control Application – Significant breakdown in the application of control**

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the 2020/21 audit activity undertaken up to December 2020.

It is noted that the split assurance risk opinion (Limited/Satisfactory) on Tenancy Lettings reported to Committee in January 2021 has been reflected in both relevant assurance levels (limited/satisfactory) within the risk assurance pie chart.





(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During November and December 2020, no limited assurance opinions on control have been provided.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During November and December 2020, Internal Audit made a total of **5** recommendations to improve the control environment, **2** of which were high priority and **3** which were medium priority recommendations (**100%** of these being accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During November and December 2020, one partial limited assurance opinion was provided on some areas of risk within the Tenancy Lettings internal audit. Where limited assurance opinions on risk are provided, the relevant risk management lead officers within the Council are made aware, to ensure that the risks highlighted by Internal Audit are placed on the relevant risk registers.

Monitoring of the implementation of recommendations to manage the risks identified is owned by the relevant manager(s) and helps to further embed risk management in to the day to day management, risk monitoring and reporting process.

(4g) Internal Audit Plan 2020/21 Refresh – Covid-19

Covid-19 has placed significant pressures on Council services and has impacted (and continues to impact) the Council's priorities, objectives and risk environment.

Due to this changing position and to ensure that the Risk Based Internal Audit Plan meets the assurance needs of the Council, the Internal Audit Plan 2020/21 was reviewed and refreshed in consultation with Officers (Strategic Leadership Team, Heads of Service and Service Managers). This included consideration of newly identified activities, current activities that should be prioritised within 2020/21 and activity deferrals/cancellations (due to risk).

The Revised Internal Audit Plan 2020/21 was presented to Audit and Standards Committee on 6th October 2020 and approved.

This included reflection of the new activities completed by ARA since the outcome of the pandemic. For example and as reflected within the Internal Audit Progress Report, to date within 2020/21 ARA has:

- Provided consultancy support (from both our internal audit and counter fraud teams) to the Revenues and Benefits service and Finance regards Business Grants and Supplier Relief.

- Progressed Internal Audit review of the Lost Sales, Fees and Charges Grant (Covid 19) claim 1; and

- Completed review of the financial close information required to support stage 2 of the Council's Ofgem Application: Non-Domestic Renewable Heat Incentive.

Completed Internal Audit Activity during November and December 2020

Summary of Satisfactory Assurance Opinions on Control

Service Area: Communities

Audit Activity: Tenancy Lettings

Background

The Council is responsible for approximately 4,990 tenanted housing properties.

The Regulator for Social Housing has set a regulatory framework with three groupings comprising:

- Regulatory requirements;
- Codes of practice to assist registered providers in understanding how compliance might be achieved; and
- Regulatory guidance, that provides further explanatory information.

There are four consumer standards which are:

- Home Standard;
- Tenancy Standard;
- Neighbourhood and Community Standard; and
- Tenant Involvement and Empowerment Standard.

Scope

The objective of this audit was to consider whether the current systems and processes in place for tenancy lettings were robust, and operating effectively in line with regulatory standards.

Audit Opinions

This audit's scope was across the services provided by; i) Tenant Services; ii) Housing Services; and iii) Housing Advice. As a result of the audit findings (as detailed within the Key Findings section), a split opinion on risk identification maturity has been given as follows:

- Satisfactory assurance for Tenant and Housing Services; and

- Limited assurance for Housing Advice – specific to tenancy lettings/allocations risk management and Business Continuity Plan arrangements.

Risk Assurance – Satisfactory/Limited split opinion as defined above

Control Assurance – Satisfactory

Key Findings

- A review of the Tenant and Estates Management Policy updated in June 2018, was completed and compared to the Tenancy Standard, issued by the Regulator for Social Housing. The audit review confirms that the Council's policy is substantially compliant with the Tenancy Standard.

- Where necessary, the Tenant and Estates Management Policy could be further enhanced as an overarching strategic approach, so as to fully explain some of the particular activities within it.

- The activities that require inclusion in the above policy are as follows; i) advice and assistance for introductory tenants, where the Council decide not to grant another tenancy; ii) succession rights for secured tenancies; iii) property repairs; iv) roles and responsibilities of the neighbourhood ambassadors; and v) the reporting cycle of the annual report to tenants.

- The development of services to tenants was reviewed, and found that there are well embedded processes in place to meet the development of services to tenants.

- It was verified that the reporting of Tenant Services annual performance on key measures such as completing property repairs on time, is included in the KeyNotes publication. Housing tenants are key stakeholders of the Council and need to be aware of all communication relating to their tenancy. Audit inspection of the Council's website page for tenant news and publications, found that the KeyNotes publication was not available to view, therefore arrangements to periodically update the website should be completed.

- Tenants often wish to exchange tenancies due to housing and social needs. The results from audit testing of a tenant exchange which took place in February 2020 provided assurance that the actual controls are operating appropriately, and meet the specific guidance issued by the Regulator for Social Housing.

- The application by prospective tenants leading to the allocation process for social housing is a framework based upon fairness, transparency and a priority banding scheme placed upon applicants' household needs.

Audit testing, confirmed that a compliant application and allocation process is operating appropriately in line with:

i) The Equalities Act 2010;

ii) The Tenancy Standard per the Regulator for Social Housing; and

iii) The Homeseeker Plus partnered process with other local authorities.

- The risk identification and management arrangements to support tenancy lettings were inspected and reviewed, with the objective of considering their completeness. The findings found that; i) the risks associated with the Locata system are not recognised; and ii) the Housing Services update review of the health, safety and inspection risks are due for completion.

- Representations from the Housing Advice Manager, confirmed that there is also no Business Continuity Plan in place for the Homeseeker Plus Policy to support the tenancy allocation process.

Conclusion

A thorough review of tenancy lettings has been completed, which concludes that the current management arrangements are operating using embedded processes in line with regulatory standards set by the Regulator of Social Housing and legislation as it impacts upon housing tenants.

Improvements in the form of audit recommendations to the contents of; i) the Tenants and Estates Management Policy; ii) the Council's website; iii) risk management arrangements; and iv) the creation of a Business Continuity Plan for the Homeseeker Plus Policy have been identified, to align with the actual day to day procedures and controls.

Management Actions

Internal Audit made five recommendations, with the intention of improving the internal control environment and risk management arrangements. Management have responded positively to all five recommendations and it is anticipated that these will be fully implemented by March 2021.

Summary of Consulting Activity, Grant Certification and/or Support Delivered where no Opinions are provided

Service Area: Resources

Audit Activity: Ofgem Application: Non-Domestic Renewable Heat Incentive

Background

Ofgem is the Office of Gas and Electricity Markets, a non-ministerial government department and an independent National Regulatory Authority. One of their priorities is to work with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.

The Renewable Heat Incentive (RHI) scheme is a Government scheme providing financial incentives to increase the uptake of renewable heat projects. The inherent complexity of renewable heat projects means these are prone to high initial (capital) costs, high ongoing (operational) expenditure and complex revenue models. Much like other subsidy regimes, the Government's aim with the RHI scheme is to promote and increase the viability of financing such projects by providing a source of stable secured revenue throughout the life of a project.

The RHI scheme is comprised of domestic and non-domestic components. The non-domestic RHI (NDRHI) is directed at installations in the industrial, business and public sectors.

A tariff guarantee allows applicants to the NDRHI to secure a tariff rate before their installation is commissioned and fully accredited on the RHI.

Tariff guarantees are available for solid biomass CHP, geothermal and bio-methane applications of all sizes, as well as for biomass over 1MWth, biogas over 600kWth and ground source heat pumps and water source heat pumps over 100kWth.

To secure a tariff for an eligible installation a “properly made” application comprising of three stages, Stage 1: Technical Requirements, Stage 2: Financial Commitments and Stage 3: Commissioning of the installation must be approved by Ofgem.

Scope

ARA was commissioned by the council to review the financial close information required to support Stage 2 of the council’s Ofgem application and to prepare an independent report detailing our findings.

Key Findings

- Relevant to the NDRHI application, as approved by full Council in July 2020, Stroud District Council has added the installation of Water Source Heat Pumps to Ebley Mill and Brimscombe Port Mill to the council's approved capital programme. The total committed budget for both schemes is £1.432m.

- This project is allocated to be funded through borrowing, either through external borrowing or through internal borrowing against internal cash resources, at the discretion of the Section 151 Officer (Chief Financial Officer as set out in Section 151 of the Local Government Act 1972), as included in the Financial Implications of the 'Water-source Heat Pumps – Ebley Mill and Brimscombe Port Mill' Committee Report presented to July 2020 Strategy and Resources Committee.

- It is noted within the above report that the capital costs are based on estimates by Renewables First and Withycombe following completion of feasibility studies. The accuracy of the cost estimates will be improved at two key stages: 1) Competitive tender bids for design and build; and 2) Completion of detailed heat demand modelling, to confirm the heat pump capacity required.

- Local Authorities are able to borrow for capital schemes through the Public Works Loan Board (PWLB), operated by the Debt Management Office on behalf of HM Treasury. This lending does not need to be agreed upfront and does not need to be for a specific scheme.

- Going forward whether the borrowing is externalised will be a Treasury Management decision for the council, within the approved Treasury Management Strategy. Currently the cash balances (evident as at 21st December 2020 £8.9m is invested in liquid money market funds) are high enough to support this level of capital spend should this be considered by the Section 151 Officer. Verbal assurance has been provided by the Deputy Section 151 Officer that it is not specific reserves that would be allocated to fund this project in the short term, if internal borrowing is specified, rather the use of cash balances instead of investing those balances.

- As at 31st March 2020 the council's (currently unaudited) Statement of Accounts show usable reserves of £44.893m and cash and cash equivalent balances at £16.494m.

- The council's Budget Strategy (2021/22 - 2024/25), as presented to Strategy and Resources Committee in October 2020, shows revenue reserves at 31st March 2020 to be held at £16.104m. This includes the General Fund balance (unearmarked reserves) of £2.169m and a General Fund equalisation reserve of £6.72m.

A forecast of the latter in Table 3 of the Committee report shows that the current forecast of this reserve leaves an unallocated balance of £2.738m at the end of the Medium Term Financial Plan (2024/25).

- There are also other unallocated revenue reserves and capital reserves.

Conclusion

ARA was able to confirm the validity of the above financial information required to support the Ofgem application. At the point of the independent assurance report it is evident that Stroud District Council has sufficient funding to support this project and the identified funding for the scheme has been approved by Council. It is also acknowledged that the accuracy of the scheme costs will be improved at future defined key stages.

Management Actions

Not applicable. No recommendations were raised by the review.

Summary of Special Investigations/Counter Fraud Activities

Current Status

The Counter Fraud Team (CFT) within Internal Audit has received four actionable referrals to date in 2020/21, one of which has been closed and previously reported to the Audit and Standards Committee in October 2020.

Two of the remaining three cases have also been closed:

- The first case questioned whether Council procedures had been followed relevant to a service within the Place Directorate. The process was reviewed and no issues were identified.

- The second closed case related to allegations of subletting and the incorrect application of a small business fund grant. The investigation found no issues with either the tenancy agreement or the application of the grant and therefore no further action was required.

The fourth case (also Covid-19 grant related) is ongoing and will be reported to Audit and Standards Committee once concluded.

In addition to the referrals that require further investigation, the CFT has continued to provided support and guidance to the Council in respect of the government initiative Coronavirus: Small Business Grant Fund (SBGF) as requested. Since the start of the Covid-19 pandemic, ARA has also provided the Council with regular updates on local and national scams which sought to take advantage of the unprecedented circumstances, including a rise in bank mandate frauds, inflated claims, duplicate payments and the submission of fraudulent SBGF applications.

15th to 21st November 2020 was International Fraud Awareness Week. As in previous years, Stroud District Council signed up as a supporter of this week. During the week, information on some of the more topical scams and areas of increased fraud risk due to the Covid-19 pandemic were shared with the Council's employees.

Any fraud alerts received by Internal Audit from National Anti-Fraud Network (NAFN) and other credible organisations are passed onto the relevant service areas within the Council, to alert staff to the potential fraud.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The data collections for the 2021/22 exercise have been uploaded to the Cabinet Office. The data matching reports are due to be released from 28th January 2021. The timetable can be found using the following link GOV.UK.

Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by Internal Audit, the Counter Fraud Unit (hosted by Cotswold District Council) or the appropriate service area.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

Outcomes from the review of the matches will be reported to the Audit and Standards Committee once completed. The CFU will report on their NFI findings separately.

Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Council Wide	Local Government Association Peer Review	1	Planned				Brought Forward from 19/20 plan. Interim report confirming 19/20 position issued to Committee in July 20. Audit review to be concluded and reported in 20/21 annual report.
Council Wide	Risk and Performance Reporting	1	Planned				Brought Forward from 19/20 plan.
Council Wide	Supplier Relief	1	Consultancy				**New Activity.** To be reported in 20/21 annual report.
Change and Transformation	Modernisation Programme	1	Planned				Brought Forward from 19/20 plan.
Place	Brimscombe Port - Project Management	1	Final Report Issued	Substantial	Satisfactory	06/10/2020	
Place	Carbon Neutral - Strategy	1	Planned				
Place	Gloucestershire Building Control Partnership - Limited Assurance Follow Up	1	Draft Report Issued				
Place	Planning Applications	1	Audit in Progress				Brought Forward from 19/20 plan.
Place	Covid 19 Recovery Strategy	1	Audit in Progress				**New Activity.** Work replaces Corporate Delivery Plan audit.
Resources	Constitution Review	1	Deferred				Deferral (due to work on Business Grants) approved via the Revised Internal Audit Plan 20/21. To be re-considered as part of 21/22 audit planning process.
Resources	Corporate Delivery Plan	1	Deferred				Deferral (replaced by Covid 19 Recovery Strategy audit) approved via the Revised Internal Audit Plan 20/21. To be re-considered as part of 21/22 audit planning process.
Resources	Corporate Induction Process	1	Audit in Progress				
Resources	ICT Action Plan	1	Final Report Issued	Satisfactory	Satisfactory	06/10/2020	Brought Forward from 19/20 plan.
Resources	ICT Service Desk	1	Consultancy				To be reported in 20/21 annual report.
Resources	IT Disaster Recovery	1	Consultancy				To be reported in 20/21 annual report.
Resources	Wider ICT internal audit 20/21	1	Planned				Audit resources can support two further ICT internal audits within 20/21. ICT activity streams (e.g. Cyber Security and IT Infrastructure Strategy) and timing to be confirmed with SLT.
Resources	Information Management (Data Breaches)	1	Planned				
Resources	Littlecombe Scheme - Limited Assurance Follow Up	1	Audit in Progress				
Resources	Payroll - Starters	1	Final Report Issued	Substantial	Substantial	06/10/2020	
Resources	Procurement	1	Draft Report Issued				
Resources	Ofgem Application: Non-Domestic Renewable Heat Incentive	1	Final Report Issued	Not applicable	Not applicable	26/01/2021	**New Activity.**
Resources	Lost Sales Fees and Charges - claim 1	1	Audit in Progress				**New Activity.**
Communities	HRA Delivery Plan - Budget Savings	1	Planned				Brought Forward from 19/20 plan.
Communities	Anti-social Behaviour Management	2	Planned				
Communities	Careline Service	2	Deferred				Deferral due to work on the priority 1 Covid-19 relevant new activities (e.g. Business Grants and Lost Sales Fees and Charges). To be re-considered as part of 21/22 audit planning process.
Communities	Complaints Handling	2	Final Report Issued	Satisfactory	Satisfactory	06/10/2020	Brought Forward from 19/20 plan.
Communities	Housing Benefits - Overpayments	2	Deferred				Deferral (due to work on Business Grants) approved via the Revised Internal Audit Plan 20/21. To be re-considered as part of 21/22 audit planning process.
Communities	Tenancy Lettings	2	Final Report Issued	Limited/Satisfactory	Satisfactory	26/01/2021	Split opinion on risk identification maturity - Limited/Satisfactory. Detail provided within Appendix A - Attachment 1.
Communities	Electrical Works Contract	1	Final Report Issued	Limited	Limited	17/11/2020	
Communities	Housing Reactive Repairs & Maintenance	1	Planned				
Communities	Stratford Park Leisure Centre	1	Planned				**New Activity.**
Communities	Business Grants	1	Consultancy				**New Activity.** To be reported in 20/21 annual report.
Communities	Youth Service	2	Deferred				Deferral (due to work on Business Grants) approved via the Revised Internal Audit Plan 20/21. To be re-considered as part of 21/22 audit planning process.

STROUD DISTRICT COUNCIL

AGENDA ITEM NO 6

AUDIT AND STANDARDS COMMITTEE

26 JANUARY 2021

Report Title	**ANNUAL GOVERNANCE STATEMENT 2019/20 IMPROVEMENT PLAN – PROGRESS REPORT**			
Purpose of Report	To provide assurance to the Committee that the improvement areas and associated actions identified as part of the annual review of governance arrangements operating within the Council, have been/are being addressed.			
Decision(s)	**The Committee RESOLVES to note the progress made against the identified improvement areas.**			
Consultation and Feedback	Senior Leadership Team, Monitoring Officer and Section 151 Officer with regards to the Annual Governance Statement 2019/20. Monitoring and Deputy Section 151 Officer with regards to the Annual Governance Statement 2019/20 Improvement Plan – Progress Report approach.			
Report Author	Stephanie Payne Group Manager, Audit Risk Assurance (Deputy Chief Internal Auditor) Tel: 01452 32 8899 Email: stephanie.payne@gloucestershire.gov.uk			
Options	There are no alternative options that are relevant to this matter.			
Background Papers	None			
Appendices	Appendix A – Annual Governance Statement 2019/20 Improvement Plan – Progress Report			
Implications (details at the end of the report)	Financial	Legal	Equality	Environmental
	No	No	No	No

1. INTRODUCTION/BACKGROUND

1.1 The Council is required by the Accounts and Audit Regulations 2015 to publish an Annual Governance Statement, in accordance with 'proper practices' in order to report publicly on the extent to which we comply with our own Local Code of Corporate Governance. This approach includes how the Council has monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.

1.2 The Annual Governance Statement is signed by the Leader, Chief Executive (Head of Paid Service) and the S151 Officer and must accompany the Annual Statement of Accounts.

1.3 Members approved the Council's Annual Governance Statement 2019/20 (including the Annual Governance Statement 2019/20 Improvement Plan) at the 29th July 2020 Audit and Standards Committee meeting.

2. MAIN POINTS

2.1 This report is the first update presented to Members on the Council's progress (detailed in Appendix A) against agreed actions from the Annual Governance Statement 2019/20 Improvement Plan.

3. CONCLUSION

3.1 The Council is required to produce an Annual Governance Statement under the Accounts and Audit Regulations 2015. Through the Council Constitution and the Audit and Standards Committee Terms of Reference, the Audit and Standards Committee has responsibility for review and approval of the Statement (including relevant Improvement Plans).

3.2 The Council's Annual Governance Statement 2020/21 is due to be presented to Audit and Standards Committee in July 2021, and will include a final progress report against the Annual Governance Statement 2019/20 Improvement Plan.

4. IMPLICATIONS

4.1 Financial Implications

There are no financial implications arising directly from this report.

Lucy Clothier
Email: lucy.clothier@stroud.gov.uk

Risk Assessment:
Failure to deliver an effective corporate governance framework prevents the Council in directing and controlling its resources effectively and efficiently, to enable the Council's objectives to be met.

4.2 Legal Implications

There are no legal implications arising from the recommendations made in this report.

One Legal
Email: patrick.arran@stroud.gov.uk

4.3 Equality Implications

There are no equality implications as a result of the recommendations made within this report.

4.4 Environmental Implications

There are no environmental implications as a result of the recommendations made within this report.

Stroud District Council Annual Governance Statement (AGS) 2019/20 Improvement Plan – Progress Report

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer
Chief Financial Officer Assurance Statement	**Future Financial Sustainability / Covid-19 Impact** The 2019/20 Medium Term Financial Plan identified core deficit of £1.8m by 2023/24. In addition, lost income and additional cost pressures as a result of the economic impact of the coronavirus lockdown is being dynamically managed and monitored and will be a key element of the next Medium Term Plan. **Actions taken in response to the above:** Medium Term Financial Plan has been strengthened by a thorough review of the reserves and the removal of savings targets related to the work force plan which had not been fully costed. A thorough review of the fees and charges regime had brought in an additional £100k per annum of income, albeit this is likely to be impacted by the Covid-19 pandemic. Reaching financial self-sufficiency remains a key focus of the Council's Corporate Delivery Plan and the Council is actively pursuing new income generation opportunities including improved treasury management returns which have been boosted by an additional £9m investment in multi-asset funds. As the long term coronavirus implications for the Council become more apparent our financial planning will be updated accordingly and an initial report has already been submitted to Strategy and Resources Committee.	Chief Financial Officer (S151) 31st March 2021

Position as at December 2020: Strategy and Resources Committee and Council approved the latest Budget Strategy in October 2020 which shows an improved position, with a core deficit of £1.3m in 2024/25. The full and ongoing impact of Covid-19 is not yet known but will continue to be monitored and reported to members. The full Medium Term Financial Plan, including an update on the impact of Covid-19, will be presented to Council in February 2021.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer
Corporate Governance	**Local Government Association (LGA) Corporate Peer Challenge (CPC)** The LGA offers all local authorities the opportunity to participate in a Corporate Peer Challenge every 4 years or so as part of its sector-led improvement programme. The Council's Corporate Peer Challenge took place between 26th and 29th March 2019. It was conducted by a team of elected members and senior officers from other local authorities together with LGA advisors. The Peer Challenge team reviewed the Council's self-assessment and key documents. They conducted site visits, interviews and workshops with a wide selection of staff, members, stakeholders and partners, meeting with 107 people and holding 47 meetings during their stay. The Council received the Peer Challenge team's feedback report in May 2019 and reported it to Council on 16th May 2019. The report set out eight recommendations in respect of areas for development and improvement. These recommendations are listed below: 1. Commence senior officer restructure to ensure sufficient strategic capacity is in place at the top of the organisation.	Chief Executive Ongoing

	2. Agree short-term priorities and actions for the period to May 2020. 3. Ensure the integrity of the current IT system. Review the progress and suitability of current plans, capability and capacity in respect of this, and beyond that to confirm the emerging plans in respect of ICT development and digital delivery fit with longer term transformational plans. 4. Work with all key stakeholders over the next year to develop a clear vision and priorities for the council aligned to our Medium Term Financial Plan, to be agreed in the next iteration of the Corporate Delivery Plan and once approved ensure this is communicated effectively to residents, businesses and other partners. 5. Create time, once the senior officer team is appointed, for the political and managerial leadership teams, both informally and formally, to have 'strategic conversations'. This will help develop a strong leadership team and help them develop clear priorities and plans to be put in place focused on SDC's improvement, for the district, wider county and sub region. 6. Establish effective workforce planning and performance management arrangements so that the Council has a committed and engaged staff group with clarity in terms of the expectations of them and sufficient capacity to deliver its plans. 7. Building on its relatively strong financial position, review how its investment and commercial plans could be enhanced. A key focus of this will be to help deliver the Council's priorities as well as sustain its financial viability into the medium term. 8. Consider reviewing governance arrangements to ensure better decision making in order to deliver its revised priorities and plans. **Actions taken in response to the above:**	

	An Action Plan was developed in respect of the 8 recommendations, including timescales and organisational leads. This has been kept constantly updated throughout the year and reported to each meeting of the Strategy and Resources Committee. An update report is being produced in June 2020 and any outstanding actions will be carried into the 2020/21 year reflecting the fact that many of the peer challenge recommendations relate to the Medium Term. The LGA will be invited back for a review visit approximately two years after the original report.	
Position as at December 2020 The Senior Leadership Team has committed to regular update reports on progress on peer challenge actions. The most recent report was submitted to Strategy and Resources Committee on 10 December 2020.		

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer
Corporate Governance	**Covid-19 – Impact on Governance** The Council has had the majority of its staff working from home since the week commencing March 16th 2020. This was before the Central Government lockdown. This brought about some immediate and fundamental changes to governance procedures. There were a number of key changes that impacted upon the governance of the Council: ➢ Council elections due to be held on 7th May 2020 were postponed until May 2021, councillor terms of office were extended and by-elections suspended for the period.	Chief Executive Ongoing

	➢ Council and committee meetings were suspended until further notice. ➢ Officers were instructed to begin working from home if at all possible. The Council has responded by: ➢ The Strategic Leadership Team along with the Head of Community Services, HR Manager and Communications Manager have been meeting daily thorough out this time, reducing to four days per week in late May as the immediate need to respond to the crisis subsided. ➢ The Strategic Leadership Team has met with the wider Leadership and Management Team weekly, reducing to fortnightly in June 2020. ➢ Three critical cells were established to co-ordinate the response. These were community response, customer services and communications. Each of those had a lead from SLT and were included in the daily SLT meeting agenda. ➢ Notes are held of every meeting and key decisions are recorded. An action log is maintained on a daily basis. ➢ Procurement procedures were maintained but adjusted in line with national guidelines where appropriate. ➢ Zoom and Microsoft Teams have been rolled out to allow staff and members to communicate effectively. ➢ The Chief Executive has met with all four Group Leaders at least once a week, and more often in the earlier stages, to discuss key issues. Agendas and notes have been prepared for these meetings. This group has also regularly met with the District's two MPs. ➢ The Chief Executive and Strategic Director of Resources have been publishing regular updates to all elected members throughout the process; at first this was daily and by	

agreement with the Group Leaders, this reduced to three times each week and then twice a week and by exception.

- An informal all Councillor meeting was held in early May to brief them on Covid response progress. In addition, weekly Covid-19 statistics demonstrating activity and progress are shared with all Councillors and MPs each Wednesday after discussion with SLT and then the four Group Leaders.
- Full Council in May was carried out remotely on May 19th 2020 and agreed a series of changes to the constitution and standing orders to allow Council committees to operate remotely.
- For decisions that would require political approval have involved consultation with all four Group Leaders to agree an urgent officer decision. Each of these decisions has been accompanied by both a report and a decision notice which have been published on the Stroud District Council website.
- The majority of the Council services have continued with staff working from home.
- Officers and members have been working in partnership with others on a local, regional and national level to strengthen response.
- A Recovery Strategy has been produced in consultation between Senior Officers and members of the Strategy and Resources Committee. This is to be discussed by the Strategy and Resources Committee on June 18th 2020.

Position as at December 2020

The Council has responded by:

- The Strategic Leadership Team along with the Head of Community Services, HR Manager and Communications Manager

(SLT+) has now reverted to weekly meetings with ad hoc meetings arranged as necessary. (This has been stepped up since the latest lockdown was announced).

- The wider Leadership and Management Team now meets twice monthly, one focussed meeting and one information cascade.
- The three critical cells were established to co-ordinate the response, namely; community response, customer services and communications. These are still reporting to SLT+.
- Notes are held of every meeting and key decisions are recorded.
- Zoom and Microsoft Teams have been rolled out to allow staff and members to communicate effectively. Likewise the Council has, since May held all meetings remotely.
- The Chief Executive continues to meet with Group Leaders at least once a week to discuss key issues. Agendas and notes have been prepared for these meetings. This group has also regularly met with the District's two MPs.
- The Chief Executive and Strategic Director of Resources have been publishing regular updates to all elected members throughout; this is twice a week and by exception.
- Weekly Covid-19 statistics demonstrating activity and progress are shared with all Councillors and MPs each Wednesday after discussion with SLT+.
- The majority of the Council services have continued with staff working from home.
- Officers and members have been working in partnership with others on a local, regional and national level to strengthen response.
- A Recovery Strategy was produced and agreed by the Strategy and Resources Committee.

STROUD DISTRICT COUNCIL

AGENDA ITEM NO

7

AUDIT AND STANDARDS COMMITTEE

26 JANUARY 2021

Report Title	**TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2021/22**
Purpose of Report	This report outlines the Council's prudential indicators for 2021/22 – 2023/24 and sets out the treasury strategy for this period. It fulfils three key reports required by the Local Government Act 2003: • reporting prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities; • a treasury management strategy in accordance with the CIPFA Code of Practice on Treasury Management; • an investment strategy in accordance with the MHCLG investment guidance. It also fulfils the statutory duty to approve a minimum revenue policy (MRP) statement for 2021/22.
Decision(s)	**The Audit and Standards Committee RECOMMENDS that Council:** **a) adopt the prudential indicators and limits for 2021/22 to 2023/24;** **b) approve the Treasury Management Strategy 2021/22, and the treasury prudential indicators;** **c) approve the Investment Strategy 2021/22, and the detailed criteria for specified and non-specified investments, and** **d) approve the MRP Statement 2021/22.**
Consultation and Feedback	Link Asset Services (LAS)
Report Author	Graham Bailey, Principal Accountant E-mail: graham.bailey@stroud.gov.uk
Options	Full Council is required to adopt the prudential indicators and approve the annual treasury management strategy. These are largely determined by the Council's revenue and capital budget decisions when setting the 2021/22 Council Tax, Housing rent levels and the capital programme.
Background Papers	None
Appendices	A. Investments as at 31 December 2021 B. Explanation of Prudential Indicators C. Economic Background D. Treasury Management Scheme of Delegation

Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	No	No	No	No

Discussion

1. Under the Local Government Act 2003 (the Act) and supporting regulations the Council is required to “have regard to” the Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 Prudential Code and the CIPFA 2017 Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

2. Council is required to approve an Annual Treasury Management Strategy Statement for borrowing, and an Investment Strategy which sets out the Council’s policies for managing its investments and for giving priority to security and liquidity of investments.

3. There is also a statutory duty to approve a Minimum Revenue Provision (MRP) Policy Statement for the year 2021-22.

4. CIPFA Code of Practice on Treasury Management requires the Council to maintain a Treasury Management Manual, which is reviewed annually. This manual is a record of internal procedures and operational guidance, as such it is not subject to approval by Members. The manual incorporates the following documentation relating to Treasury management:

   - <u>Treasury Management Policy Statement</u>. This is reviewed annually.

   - <u>Treasury Management Practices (TMP) – Main Principles</u>. There are 12 practices which set out the manner in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. These are reviewed annually.

   - <u>Treasury Management Practices – Schedules</u>. These schedules set out the details of how the TMPs are put into effect by this Council. This document is revised annually to include the latest detailed procedural documents.

   - <u>Counterparty Lending List and lending criteria</u>. The list used by the Council is provided by Link Asset Services (LAS), the Council’s treasury advisors. A new list is provided weekly and there are daily updates by email of any changes to ratings.

5. Other CIPFA requirements are:

   - a Mid-Year Report and an Annual Report summarising activities during the previous year;

   - a Capital Strategy;

   - delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. At this Council, delegation is to the Section 151 Officer;

   - delegation by the Council of the role of scrutiny of treasury management reports and strategy to a specific named body. For this Council the delegated body is the Audit and Standards Committee.

Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement 2021/22

1. INTRODUCTION

1.1 The Act and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The 2021/22 strategy for the following aspects of the treasury management function is based upon treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, LAS.

The strategy covers:

- limits in force to mitigate the Council's treasury risk;
- Prudential Indicators;
- current treasury position;
- borrowing requirement;
- prospects for interest rates;
- borrowing strategy;
- policy on borrowing in advance of need;
- investment strategy;
- creditworthiness policy;
- policy on use of external service providers;
- Minimum Revenue Provision (MRP) statement;
- treasury management scheme of delegation and section 151 role;
- miscellaneous treasury issues.

1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. Meaning that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges and minimum revenue provision caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable for the foreseeable future.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2021/22 TO 2023/34

2.1 Capital expenditure plans are a key driver of treasury management activity. There are prudential indicators that focus on the Council's capital spending plans.

2.2 The first prudential indicator is a summary of the Council's capital expenditure plans, shown in Table 1.

Table 1: Capital Expenditure

Capital Expenditure	2019/20 £000 Actual	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate	2023/24 £000 Estimate
Community Services	-	117	30	170	-
Environment	1,492	5,107	7,870	5,142	3,564
Housing General Fund	1,838	2,888	1,995	345	345
Strategy & Resources	1,388	2,436	553	42	3,665
General Fund	**4,718**	**10,548**	**10,448**	**5,699**	**7,574**
HRA	**8,169**	**12,136**	**23,359**	**14,861**	**7,288**
Total	**12,887**	**22,684**	**33,807**	**20,560**	**14,862**

2.3 Any shortfall of resources to finance the capital programme results in a borrowing need as set out in Table 2 below.

Table 2: Capital Financing

Capital Expenditure	2019/20 £000 Actual	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate	2023/24 £000 Estimate
General Fund	4,718	10,548	10,448	5,699	7,574
HRA	8,169	12,136	23,359	14,861	7,288
Total	**12,887**	**22,684**	**33,807**	**20,560**	**14,862**
Financed by:					
Capital receipts	1,260	5,011	2,692	1,076	-
Capital grants	2,557	6,101	7,131	4,953	2,949
Capital reserves	7,970	1,125	1,000	170	-
Revenue	446	6,128	10,994	5,212	6,091
Net GF Financing Need for the year	**654**	**2,988**	**2,239**	**707**	**4,520**
Net HRA Financing Need for the year	**-**	**1,331**	**9,751**	**8,442**	**1,302**
Total Net Financing Need for the year	**654**	**4,319**	**11,990**	**9,149**	**5,822**

2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic capital expenditure which has not yet been financed from either revenue or capital resources. It is the measure of the Council's underlying borrowing need. Any newly planned unfinanced capital expenditure will increase the CFR.

2.5 The Council is asked to approve the CFR projections below that are in line with approved capital budgets:

Table 3: The Council's borrowing need (Capital Financing Requirement)

Capital Financing Requirement	2019/20 £000 Actual	2020/21 £000 Estimate	2021/22 £000 Estimate	2022/23 £000 Estimate	2023/24 £000 Estimate
CFR - General Fund	14,647	16,041	17,270	16,924	20,211
CFR - HRA	95,367	95,780	104,564	111,695	111,386
Total CFR	110,014	111,821	121,834	128,619	131,597
Movement in CFR	-1,453	1,807	10,013	6,785	2,978

Movement in CFR represented by					
Net financing need for the year	654	4,319	11,990	9,149	5,822
Less MRP / VRP and other financing movements	-2,107	-2,512	-1,977	-2,364	-2,844
Movement in CFR	-1,453	1,807	10,013	6,785	2,978

Minimum Revenue Provision (MRP) Policy Statement 2021/22

2.6 The Council's MRP policy statement for 2021/22 is in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. MRP will be charged under Option 3 of the MHCLG guidance on General Fund borrowing. Option 3 is an MRP charge over a time period reasonably commensurate with the estimated useful life of a new asset.

2.7 There is no requirement to charge MRP to the HRA. However, since the introduction of Self-Financing the HRA is required to charge depreciation on its assets for financial years commencing April 2017. As a result, depreciation has been a real cost to the HRA from financial year 2017/18 onwards.

2.8 The HRA 30 year financial plan now includes provision for the repayment of debt and therefore the HRA will make Voluntary Revenue Provision (VRP) when this is considered prudent. The HRA has paid VRP of £0.9m (19/20), and plans further VRP payments of £0.918m (20/21), £0.967m (21/22), £1.311m (22/23), £1.611m (23/24) and £1.674m (24/25).

2.9 The requirement for the General Fund to charge MRP began when the General Fund first undertook borrowing during financial year 2016/17. Since then, borrowing in respect of The Pulse fitness extension, Multi-Service contract vehicles, premises and equipment, and Littlecombe Business Units has resulted in a requirement to charge the General Fund with MRP, as a prudent provision for the repayment of that debt.

2.10 The status of £2m of funding received from the HCA in respect of capital development works to Brimscombe Port is effectively a loan. As no expenditure related to that loan has yet been incurred no MRP is charged to make provision for repayment. When expenditure is incurred then MRP will begin.

2.11 In 2021-22 IFRS16 is introduced and this will have the effect of removing the current distinction between finance and operating leases. As a result, some currently leased assets will come on balance sheet, but the impact is assessed as immaterial. The policy will be for these leased assets to be depreciated by the same amount as the MRP element of annual lease payments. MRP is the capital element of the annual lease payments, excluding interest and service elements which are revenue costs.

Table 4: Core Funds and Expected Investments

Year end resources	2019/20 £m Actual	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
Fund balances / reserves	33.236	32.513	27.056	25.672	26.474
Capital receipts	10.611	5.738	3.646	3.170	3.770
Provisions	1.039	1.039	1.039	1.039	1.039
Other	1.518	0.500	0.500	0.500	0.500
Total Core funds	**46.404**	**39.790**	**32.241**	**30.381**	**31.783**
Working capital	4.832	0.500	0.500	0.500	0.500
Under (-) / over borrowing	-6.297	-9.104	-19.117	-23.902	-24.880
Expected investments	**44.939**	**31.186**	**13.624**	**6.979**	**7.403**

2.12 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed in Table 4 above are estimates of the year-end balances for each resource and total cash flow balances.

Affordability of capital plans prudential indicators

2.13 A prudential indicator is required to assess the affordability of capital expenditure plans. This indicator provides an estimate of the impact of capital investment plans on the Council's overall finances. The Council is asked to approve the cost of capital expenditure plans as a ratio of the net revenue stream indicator shown in table 5.

Table 5: Ratio of financing costs to net revenue stream

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	-2.67%	-2.09%	-1.95%	-1.84%	-1.45%
HRA	15.10%	14.93%	14.69%	14.33%	13.89%

3. BORROWING

3.1 Amongst the objectives of the treasury management function are ensuring that the Council's cash is managed in accordance with relevant professional codes and that sufficient cash is available at the right times to facilitate revenue and capital spending plans. Capital expenditure plans as set out in section 2 indicate if borrowing is required.

3.2 Table 6 shows the actual external debt (the treasury management operations), compared against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6: Gross Debt compared with Capital Financing Requirement (CFR)

	2019/20 £m Actual	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
External Debt					
Debt at 1 April	103.717	103.717	102.717	102.717	104.717
Expected change in debt	-	-1.000	-	2.000	2.000
Other long term liabilities at 1 Apr	-	-	-	-	-
Actual Gross Debt at 31 March	103.717	102.717	102.717	104.717	106.717
Capital Financing Requirement	110.014	111.821	121.834	128.619	131.597
Under / (-) over borrowing	6.297	9.104	19.117	23.902	24.880

Borrowing Strategy

3.3 Currently the Council has £103.717m of borrowing, compared with a Capital Financing Requirement (CFR) of £110.014m. This means that the capital borrowing need (the CFR), is greater than loan debt by £6.297m. The Council will repay £1m of borrowing during the 2020/21 financial year in February 2021.

3.4 There was a limit on HRA borrowing set by the Government in the Localism Act 2011 known as the HRA debt cap. This Council's HRA debt cap was £95.742m. This cap was the absolute limit for HRA borrowing under the Prudential Code, even if the Council considered further borrowing was affordable by the HRA. The debt cap was removed in 2018.

3.5 HRA capital plans now include borrowing of £5.612m commencing in 2020/21 and totalling £20.826m up to 2023/24. General Fund capital plans include borrowing of £10.454m up to 2023/24. The Section 151 Officer will decide on the length and type of borrowing which may be required, as well as the optimum time to borrow in consultation with LAS, and take into account the latest projections for interest rates and other relevant factors including any benefits arising from internal borrowing.

3.6 At the end of 2021/22 there is an estimated internal borrowing position of £19.117m. Internal borrowing is currently beneficial because it reduces the financial impact of the differential between borrowing and investment interest rates. This position is projected as continuing through the period to 2023/24. Although, with the MTFP forecasting the running down of balances, and possible future changes in interest rate forecasts the Section 151 Officer will keep this under review, and adjust the strategy as necessary in consultation with our Treasury advisers LAS.

3.7 Within the prudential indicators, there are key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not for revenue purposes.

3.8 The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not expect any breaches up to and including financial year 2023/24. This view takes into account current commitments, existing plans, and the proposals in this year's budget report.

3.9 There are two Treasury indicators set which limit external debt. The operational boundary is the limit that external debt should not normally exceed. If external debt were to exceed this figure then it should prompt an internal investigation to establish the reasons why the breach had occurred.

Table 7: Operational Boundary

Operational Boundary	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
Debt	129	138	145	148
Other Long Term Liabilities	-	-	-	-
Total	129	138	145	148

3.10 The Authorised Limit is set or revised by full Council, and must not be exceeded. It represents the level of debt that is unsustainable in the longer term. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control local government borrowing in total or for specific councils. This power has not been used to date.

3.11 The Council is asked to approve the following Authorised Limit:

Table 8: Authorised Limit for External Debt

Authorised Limit	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate
Debt	137	143	150	153
Other Long Term Liabilities	-	-	-	-
Total	137	143	150	153

3.12 Link Asset Services (LAS) are treasury advisers to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the latest LAS forecast as at January 2021.

Table 9: Interest Rate Forecast

Month	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Mar-21	0.1	0.8	1.5	1.3
Jun-21	0.1	0.8	1.6	1.4
Sep-21	0.1	0.8	1.6	1.4
Dec-21	0.1	0.8	1.6	1.4
Mar-22	0.1	0.9	1.6	1.4
Jun-22	0.1	0.9	1.7	1.5
Sep-22	0.1	0.9	1.7	1.5
Dec-22	0.1	0.9	1.7	1.5
Mar-23	0.1	0.9	1.7	1.5
Jun-23	0.1	1	1.8	1.6
Sep-23	0.1	1	1.8	1.6
Dec-23	0.1	1	1.8	1.6
Mar-24	0.1	1	1.8	1.6

Treasury management limits on activity

3.13 The purpose of treasury management limits is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The maturity structure of borrowing limits is set out in Table 10. The gross limits are set to control the Council's exposure to large fixed rate sums falling due for refinancing at the same time. Upper and lower limits are set for each time period.

3.14 The Council is asked to approve the following treasury indicators and limits:

Table 10: Maturity structure of borrowing

Maturity structure of new fixed and variable rate borrowing during 2020/21	Upper Limit	Lower Limit
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Policy on borrowing in advance of need

3.15 The Council will not borrow more than, or in advance of, need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates as required by the Prudential Code (see paragraph 3.7). Decisions to borrow will seek to ensure value for money and security of funds.

3.16 The Council will consider borrowing up to 12 months ahead of capital spend:

- If such capital spend is considered very likely to occur within 12 months;
- treasury advisers demonstrate that rates are particularly low and likely to move higher within 12 months;
- treasury advisers evaluate a net saving after assessing cost of carry;
- a trigger rate(s) will be set by Section151 Officer in consultation with treasury advisers and treasury officers;
- borrowing may be conducted in parcels – e.g. £4m could be split into 4 x £1m or 2 x £2m;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been fully considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

3.17 The foregoing usual procedure will not prevent the Section 151 Officer from forward borrowing to the fullest extent permitted by the Prudential Code, CFR for the current year plus the following two years, if extraordinary conditions arise in the short term to make such action in the interests of the authority.

Debt rescheduling

3.18 The Council will have £102.7m of debt after repayment of £1m in February 2021, the Section 151 Officer will keep under review opportunities for debt rescheduling. Debt rescheduling will be reported to Council at the next meeting after it occurs.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1 It is vital that the Council ensures that its investment balances are best utilised to help the overall financial position. Appendix A shows there is over £50m invested as at 31 December 2020. Improving average returns on the Council's investment portfolio will be a significant factor in improving the Council's financial sustainability. Investment strategy is to broaden the range of longer term investments, and during 2019/20 £10m of longer term investments were approved comprising £6m in property funds and £4m in multi-asset funds.

4.2 The Council will have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any updates to that guidance such as the 2018 update, and the 2017 revised CIPFA Treasury Management in Public

Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities in order are:
1) security
2) liquidity
3) yield

4.3 In accordance with the above, and in order to minimise the risk to investments with banks and building societies, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings mean for each agency. LAS's bank ratings service enables real-time monitoring of a bank's rating. Daily emails are sent to the Council to notify of any significant change to a bank rating, and are available on Link's Passport online portal.

4.4 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector. Assessment will also take account of information reflecting the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" (CDS). Other information sources used will include the financial press, share price and other such information about the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.5 The intention of the strategy is to provide security of investment whilst maximising returns and an awareness of the risks, both of losing capital and also of eroding the value of funds through lower rates of return.

4.6 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council has been generally low in order to give priority to security of investments, however higher risk longer term investments are part of a balanced portfolio of investments up to a value of £15m, subject to proper due diligence by the Section 151 Officer.

4.7 Borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

4.8 'Specified' Investments which are investments with a high level of credit quality and maturities of up to 1 year and 'Non-Specified' Investments which are of a lower credit quality, may be for longer periods than 1 year and are more complex investment instruments which require proper due diligence before they are authorised for use during the financial year.

Table 11: Upper limit for investments over 365 days

Upper Limit for total principal sums invested for over 365 days	2019/20	2020/21	2021/22	2022/23	2023/24
Investments	£15m	£15m	£15m	£15m	£15m

Specified Investments

4.9 All specified investments will be sterling denominated, with maturities up to 1 year or less (including any forward deal time), subject to LAS's colour coding rating system as set out in creditworthiness policy paragraphs 4.23 – 4.28.

Table 12: Specified Investments

Type of Investment	Minimum 'High' Credit Criteria	Max Sum** per institution / group
Debt Management Agency Deposit Facility	*	Unlimited
Term deposits – local authorities	*	£4m per local authority £12m total
Term deposits – banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA- countries & UK only)	£8m
UK Government Gilts	*	£12m
Bonds issued by multilateral development banks	*	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	£8m
Treasury Bills	*	£12m
Certificates of deposits issued by banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA- countries & UK only)	£8m
Money Market Funds (CNAV)	AAA	£6m per MMF & £12m total in MMFs
Money Market Funds (LVNAV)	AAA	£4m per MMF & £12m total in MMFs
Money Market Funds (VNAV)	AAA	£2m & £12m total in MMFs

Non-Specified Investments

4.10 All investments will be sterling denominated.

4.11 Investments will not necessarily be made in all categories but they are included to allow the Council to put together a balanced portfolio to mitigate risk.

4.12 There are some important considerations that need to be borne in mind when considering non-specified investment types:

- There is usually a need to commit to investing for the medium to longer term and so funds invested need to be sourced from balances that will not be called upon for cash flow purposes in the short term;
- Some investments have naturally fluctuating capital values, whilst still providing a revenue income stream;
- Fluctuation in the value of pooled investments has no impact upon the General Fund in the short term. This is because government has given local government a 5-year mitigation, commencing April 2018 and ending March 2023, under the accounting standard IFRS9 which affects the accounting for pooled investments. Without the mitigation, IFRS9 would have meant charging any fluctuations in capital values of investments against the Council's revenue expenditure each year. In financial year 2023-24 any balance on the Financial Instrument Adjustment account will be charged to revenue.
- The Section 151 Officer will subject any investment proposals to extensive due diligence using investment advisers as appropriate.

4.13 An investment selection process lead by LAS and involving a cross-party member advisory group to reflect member views in the decision making process was carried out in 2019 to select property fund and multi-asset fund investments. That process resulted in the selection and approval of investments in two property funds (Lothbury £4m and Hermes £2m), and two multi-asset funds (Royal London £3m and CCLA £1m). The multi-asset funds are under the Mixed Investment 0 – 35% Shares non-specified category, although it is accepted by the Section 151 Officer that there could theoretically be up to 40% in equities in the CCLA fund due to their volatility constraints.

4.14 Investment decisions regarding non-specified investments will include full consideration of the Council's declaration of a climate emergency.

4.15 Predominantly, investments greater than a year in duration except for unrated building societies which are limited to durations of less than a year

Table 13: Non-specified Investments

Financial instrument / institution	Minimum Credit Criteria	Max. maturity period	Max. Sum**
Term deposits – banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Certificates of deposits issued by banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Building Societies	Unrated with assets > £1bn	6 mths	£2m*****
Building Societies	Unrated with assets < £1bn	3 mths	£1m*****
Property Funds	***	25 years	£12m
Short Dated Bond Funds	****	3 years	£3m
UK Gilts Funds	****	4 years	£3m
UK Index Linked Gilts Funds	****	4 years	£3m
£ Corporate Bond Funds	****	4 years	£3m
UK Equity & Bond Income Funds	****	10 years	£3m
Mixed Investments 0-35% Shares	****	3 years	£6m
Mixed Investments 20-60% Shares	****	4 years	£4m
Mixed investments 40-85% Shares	****	5 years	£3m
Corporate Bonds	AA-	3 years	£3m
UK Local Authorities	*	3 years	£8m
UK Government Gilts	*	3 years	£8m
Bonds issued by multilateral development banks	*	3 years	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	3 years	£8m

* Government institutions have the highest security, although they are not formally rated.

** A maximum sum refers to the combined total of specified and non-specified investments with a particular bank, or group if specified.

*** Any investment would be subject to an evaluation process and a report to Strategy and Resources Committee.

**** Due diligence Section 151 Officer

***** Maximum of £8m in unrated building societies

Investment Definitions

Short Dated Bond Funds focus on shorter-term investments, typically with a maturity limit of 5 years. May invest in all forms of fixed income investments, including government and corporate debt. They are often limited to using only investment grade bonds (BBB-rated and higher), but some funds may make use of sub-investment grade bonds, or unrated issuance.

UK Gilt Funds invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK government securities (Gilts).

UK Index Linked Gilt Funds invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed index linked securities, with a rating the same or higher than that of the UK government, with at least 80% invested in UK Index Linked Gilts.

Sterling Corporate Bond Funds invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), Triple BBB minus or above corporate bond securities (as measured by Standard & Poors or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs).

UK Equity & Bond Income Funds invest at least 80% of their assets in the UK, between 20% and 80% in UK fixed interest securities and between 20% and 80% in UK equities. These funds aim to have a yield in excess of 120% of the FTSE All Share Index.

Mixed Investments 0 – 35% Share Funds are required to have a range of different investments. Up to 35% of the fund can be invested in company shares (equities). At least 45% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

Mixed Investments 20 – 60% Shares Funds are required to have a range of different investments. The fund must have between 20% and 60% invested in company shares (equities). At least 30% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

Mixed Investments 40 – 85% Shares Funds are required to have a range of different investments. However, there is scope for funds to have a high proportion in company shares (equities). The fund must have between 40% and 85% invested in company shares.

Property Funds invest an average of at least 70% of their assets direct in UK property over 5 year rolling periods.

Investment Strategy

4.16 Cash flow forecast requirements and the outlook for short-term interest rates are important factors to consider when making investments. During 2020 base interest rate was 0.75% until 11 March when it dropped to 0.25%, and then 0.10% on 19 March.

4.17 In 2021-22 the Council will continue to invest in the specified investment category for the longest permitted duration with quality counterparties to maximise return without compromising security or liquidity. In particular instances the Section 151 Officer may authorise investments in the LAS blue category (see para 4.20) for a period of up to two years, which is currently longer than the LAS recommended duration of one year. Otherwise, the length of investments permitted will vary if necessary in line with LAS advice subject to the Council's upper time limits.

4.18 A new non-specified investment category of unrated building societies has been introduced for an overall total of up to £8m invested at any one time. The time duration limit is 6 months for unrated building societies with total assets of more than £1bn and a maximum of £2m per building society, or a time limit duration of 3 months for unrated building societies with total assets of less than £1bn and a maximum of £1m per building society.

Table 14: Investments maturing after the end of the current financial year.

Financial Institution	Amount Invested £	Maturity	Rate
NatWest (RFB)	3,000,000	19/08/2021	0.21%
Thurrock District Council	2,000,000	20/08/2021	0.25%
North Lanarkshire Council	3,000,000	18/11/2021	0.21%
Dudley Metropolitan Council	1,000,000	01/04/2022	1.45%
Lothbury Property Fund	4,000,000	long term	variable
Hermes Property Fund	2,000,000	long term	variable
Royal London Multi Asset Fund	3,000,000	long term	variable
CCLA Multi Asset Fund	1,000,000	long term	variable

4.19 The Council now has £10m of fund investments in the Non-Specified category.

4.20 Bank Rate is currently forecast to remain at 0.1% until at least March 2024.

4.21 The Council will primarily make short-dated deposits of up to a year with appropriately rated banks or UK local authorities rather than utilising call accounts or money market funds in order to maximise interest. Transaction costs will be taken into account in any investment decision for smaller sums, which means balances of up to £1m may be retained in lower interest rate accounts. This will be done to save transaction costs, where transaction costs would exceed interest earned.

4.22 There will be daily monitoring of investments by treasury staff and there will be first quarter, half year, third quarter and year end reports that detail investment activity and performance to Audit and Standards Committee and to Council.

Creditworthiness policy

4.23 This Council applies the creditworthiness service provided by LAS. This service employs a sophisticated modelling approach utilising 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.

4.24 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 spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

Yellow	3 years
Dark pink	3 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	3 years for Ultra-Short Dated Bond Funds with credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

4.25 This creditworthiness service uses a wider array of information than just primary ratings, and by using a risk weighted scoring system, it does not give undue impact to just one agency's ratings.

4.26 Typically, the minimum credit ratings criteria the Council uses will be a short term rating (Fitch or equivalents) of F1 and a long term rating of 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.

4.27 All credit ratings will be monitored prior to making an investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the LAS creditworthiness service.

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

4.28 The Council will not place sole reliance on the use of this external service. In addition, this Council will use market data and market information, and information on external support for banks to help support its decision making process.

Country limits

4.29 The Council will only invest in the UK and countries with a sovereign rating of AA- or higher. The following countries currently have sovereign ratings of AA- or higher, and also have banks operating in sterling markets which have credit ratings of green or above in LAS credit worthiness service.

AAA	AA+	AA	AA-
Australia	Canada	Abu Dhabi (UAE)	Belgium
Denmark	Finland	France	Hong Kong
Germany	USA		Qatar
Luxemburg			UK
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			

5. MISCELLANEOUS TREASURY ISSUES

Use of external service providers

5.1 A new treasury management advice contract with Link Asset Services (LAS) was procured via the Eastern Shires Purchasing Organisation (ESPO) commencing 1 October 2020. This contract has an end date of 30 September 2023, with an option to extend until 30 September 2025. Responsibility for treasury management decisions remains with the Council at all times, therefore undue reliance will not be placed upon our external treasury management advisers.

Member Training

5.2 The CIPFA Code requires the Section 151 Officer to arrange the provision of adequate training for members. Member training will be scheduled for the newly appointed Audit & Standards Committee after the elections in May 2021.

6. IMPLICATIONS

6.1 Financial Implications

This report sets out the Council's policies on investments and borrowing. The Council has a responsibility to set a Treasury Management Strategy for the effective management of investments and borrowings. It is designed to protect the Council's finances through limiting exposure to risk.

The Strategy proposed is in line with the Medium Term Financial Plan including estimates of capital expenditure, borrowing, costs and targets for income receivable.

All specific financial implications are address throughout the body of the report.

Lucy Clothier, Accountancy Manager
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6.2 Legal Implications

Any legal implications are set out in the body of the report.

One Legal
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6.3 Equality Implications

There are no equality implications arising from the recommendations made in this report.

6.4 Environmental Implications

There are no environmental implications arising from the recommendations made in this report.

INVESTMENTS AS AT 31 December 2020

Counterparty	£	%	S / NS	Type	Issue	Maturity
NatWest Treasury Reserve	1,580,159	0.01%	S	Call		
RBS Deposit Account	7,549	0.01%	S	Call		
Natwest RFB	3,000,000	0.25%	S	CD	19/08/2020	19/08/2021
NatWest/RBS GroupTotal	**4,587,708**					
Goldman	1,197,464	0.00%	S	Call		
Federated Prime Rate	1,129,048	0.01%	S	Call		
Deutsche	7,993	0.01%	S	Call		
Aberdeen	3,961,994	0.01%	S	Call		
Money Market Fund Total	**6,296,500**					
Santander - 180 day Notice	55	0.58%	S	Notice		
Santander - 95 day Notice	7,975,405	0.37%	S	Notice		
Santander Total	**7,975,460**					
Svenska call	4,982,123	0.00%	S	Call		
Svenska 10 Day Notice	3,000,000	0.05%		Notice		
Svenska 35 Day Notice	13,000	0.10%	S	Notice		
Svenska Total	**7,995,123**					
32 day notice	5,935,375	0.05%	S	Notice		
95 day notice	2,047,883	0.10%	S	Notice		
Lloyds Total	**7,983,257**					
Barclays FIBCA	2,558	0.10%	S	Call		
Barclays 95 Day Notice	7,994,795	0.30%	S	Notice		
Barclays Total	**7,997,352**					
Standard Chartered 95 Day Notice	2,000,000	0.37%	S	Notice		
Standard Chartered Total	**2,000,000**					
Coventry Building Society	500,000	0.040%	S	Fixed	16/11/2020	05/01/2021
Coventry Building Society	3,000,000	0.05%	S	Fixed	01/12/2020	05/01/2021
Coventry Building Society	1,000,000	0.05%	S	Fixed	01/12/2020	19/01/2021
Coventry Building Society	1500000	0.05%	S	Fixed	10/12/2020	05/01/2021
Coventry Building Society	2,000,000	0.04%	S	Fixed	15/12/2020	15/03/2021
Coventry Building Society	**8,000,000**					
North Lanarkshire Council	3,000,000	0.21%	S	Fixed	19/11/2020	18/11/2021
Thurrock District Council	2,000,000	0.25%	S	Fixed	20/11/2020	20/08/2021
Dudley Metropolitan Council	1,000,000	1.45%	S	Fixed	03/04/2020	01/04/2022
	6,000,000					
DMO	500,000	0.01%	S	F	16/11/2020	16/01/2021
DMO Total	**500,000**					
CCLA	1,018,071		MAF			
Hermes	1,926,625		PF			
Lothbury	3,829,562		PF			
Royal London	3,226,578		MAF			
Funds	**10,000,836**					
TOTAL INVESTMENTS	**69,336,236**					

S = Specified Investment - 1 year and less
PF = Property Fund (non-specified) latest valuation
MAF = Multi-asset fund (non specified)
SONIA = Sterling Over Night Index Average

EXPLANATION OF PRUDENTIAL INDICATORS

Central government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they can demonstrate their affordability. Prudential indicators are the means to demonstate affordability.

Capital expenditure - table 1 shows last year’s capital expenditure, this year’s projected capital expenditure and the approved programme until 2023/24.

Ratio of financing costs to net revenue stream - table 5 shows that the General Fund currently receives a small net income from the investment of balances. HRA borrowing means that interest on net borrowing now accounts for between 13.89% and 15.10% of net revenue.

Net borrowing need - table 2 shows borrowing planned to fund the capital programme.

Capital financing requirement (CFR) as at 31 March - table 3 shows the CFR which is the council’s underlying need to borrow for capital purposes as determined from the balance sheet. Table 6 shows the overall CFR is £110.014m. As the Council has borrowing of £103.717m the balance sheet shows there is currently under borrowing of £6.297m, which is projected to increase to £9.104m by 31 March 2021.

Authorised limit for external debt - table 8 shows the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows.

Operational boundary for external debt - table 7 shows the more likely limit to the level of external debt that may be required for day to day cashflow.

Upper limit for total principal sums invested for over 365 days - table 11 shows the amount it is considered can be prudently invested for period in excess of a year.

ECONOMIC BACKGROUND

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.

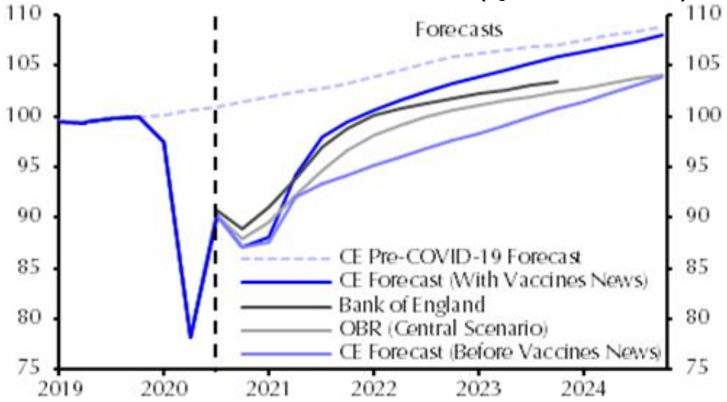
- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

- **December 2020 / January 2021**. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

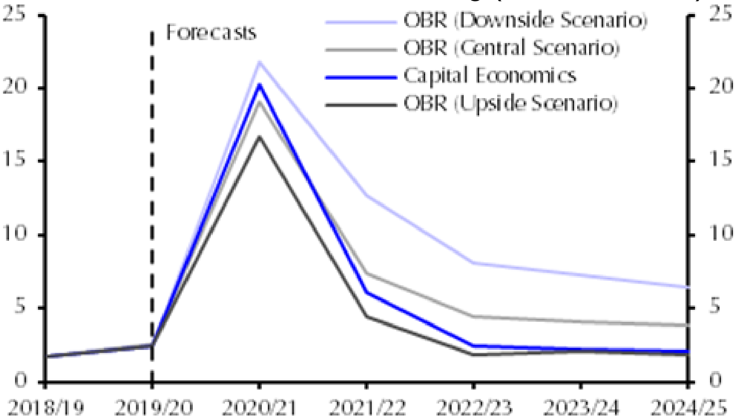
Chart: Level of real GDP (Q4 2019 = 100)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



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- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

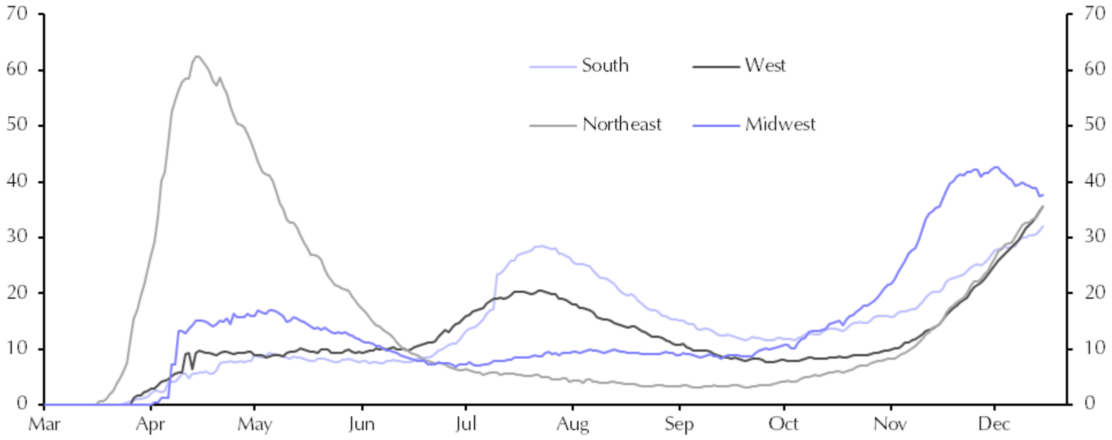
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

- **US.** The result of **the November elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by “only” 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB’s December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank’s forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China’s economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That’s huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan’s relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government’s latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

- Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit

The interest rate forecasts provided by Link were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively

ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

TREASURY MANAGEMENT SCHEME OF DELEGATION AND ROLE OF THE SECTION 151 OFFICER

1. Council

- Approval of annual strategy, mid-year report and outturn report

2. Audit and Standards Committee

- Receipt and review of quarterly monitoring reports
- Receipt, review and recommendation to Council of reports on treasury strategy, policy and activity

3. Section 151 Officer

- Reviewing the treasury management policy, procedures, strategy and making recommendations to the Audit and Standards Committee;
- Approving the selection of external service providers and agreeing terms of appointment;
- Submitting regular treasury management strategy reports;
- 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 on internal audit and liaising with external audit;
- Treasury management/capital and revenue financial implications of the Capital Strategy;
- Preparation of a capital strategy to include capital expenditure, capital financing, 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 investments and is in accordance with the risk appetite of the authority.

STROUD DISTRICT COUNCIL

AGENDA ITEM NO

8a

AUDIT AND STANDARDS COMMITTEE

26 JANUARY 2021

WORK PROGRAMME

Proposed Meeting Date	**Report Description**	**Responsible Officer / Member**
27 April 2021	Standing Items a. To consider the work programme for 2021/22. b. To consider any Risk Management issues.	Members
	Creditors Limited Assurance Update	Head of ARA, Accountancy Manager, Revenues & Benefits Manager
	Internal Audit Activity Progress Report 2020/21	Chief Internal Auditor
	Internal Audit Plan 2021/22	Chief Internal Auditor
	Review of the Effectiveness of the Audit and Standards Committee	Chief Internal Auditor
	Annual Report of the Audit and Standards Committee	Chair
	3rd Quarter Treasury Management Activity Report 2020/21	Principal Accountant