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AUDIT COMMITTEE

Thursday, 6 February 2020 | **6.00 pm** | **Committee Room 1, City Hall**

Membership:	Councillors Geoff Ellis (Chair), Laura McWilliams (Vice-Chair), Thomas Dyer, Gary Hewson, Ronald Hills, Jackie Kirk and Rebecca Longbottom
Substitute member(s):	Councillors Pat Vaughan
Independent Member:	Jane Nellist
Officers attending:	Paul Berry, Democratic Services, Jaclyn Gibson, Sarah Hardy and John Scott

A G E N D A

SECTION A **Page(s)**

A TRAINING SESSION WILL BE HELD IMMEDIATELY PRIOR TO THE START OF THIS MEETING AT 5.00PM IN RELATION TO TREASURY MANAGEMENT TEA AND COFFEE WILL BE AVAILABLE FROM 4.45PM

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Audit Committee **17 December 2019**

Present:	Councillor Geoff Ellis *(in the Chair)*
Councillors:	Laura McWilliams, Alan Briggs, Thomas Dyer, Gary Hewson, Jackie Kirk and Rebecca Longbottom
Independent Member:	Jane Nellist
Apologies for Absence:	Councillor Ronald Hills

31. Confirmation of Minutes - 26 September 2019

RESOLVED that the minutes of the meeting held on 26 September 2019 be confirmed.

32. Declarations of Interest

No declarations of interest were received.

33. External Audit-Annual Audit Letter

RESOLVED that this item be deferred later down the order of tonight's agenda as currently there was no representative from external audit in attendance.

34. Internal Audit Recommendation Follow Up

John Scott, Audit Manager:

a) presented an update to Audit Committee on outstanding audit recommendations including recommendations over 12 months old, with the ability at the meeting to request managers to provide further feedback

b) referred to Appendix A attached to his report which provided details of relevant audits, outstanding recommendations, agreed actions and the current position/explanation from the service manager

c) invited members' questions and comments.

Keeley Johnson, Tenancy Services Manager, updated Audit Committee in respect of outstanding audit recommendation over 2 years old relating to Tenancy Services, covering the following main points:

- Consideration was being given to permanent transfer of the voids team (in whole or part) to tenancy services to provide a more coordinated approach, with options to be discussed at Executive on 31 March 2020.
- A business case for the pre–tenancy process was now complete and pre-tenancy mapping was now underway.
- A review of service standards would be updated by the Resident Involvement Manager and brought back to Audit Committee.
- Photographic ID evidence would be stored on Workflow records to check tenants' identity seen initially at sign up as well as the 3 week visit, hopefully in place by the end of December 2019.

- The Tenancy Fraud Risk Assessment awaited completion once the current tenancy verification match was concluded which would inform the risk assessment.

Members raised questions in relation to outstanding Tenancy Services audit recommendations, which received relevant responses as follows:

Question: Had all these matters gone through Lincoln Tenants Panel? It was written into tenancy agreements that an annual review be conducted.

Response: Yes. A tenancy review had been carried out by the Assistant Director, Housing Management. It was important for council residents to maintain peaceful enjoyment of their private lives. It was not written into tenancy agreements for them to be reviewed every year, however, advice was taken from operatives when accessing properties for gas inspections/engineer visits if any problems were identified.

Question: If gas inspectors were being asked to assess the living state of council properties, the tenant should also be made aware of this?

Response: Officers were in agreement. A supportive approach was important. The council as housing authority was not trying to catch people out, however, it was possible to investigate any other issues identified in this way.

Question: There still seemed to be issues with voids in terms of turn-around time?

Response: There had been a particular issue with the contractor in relation to void properties. This was being looked at as part of the review. The council tried hard to promote tenancy sustainability and to limit the number of days properties were left void.

Question: Would the potential to carry out annual tenancy inspections require additional resources? Would this not be a waste of time spent on good tenants rather than targeting vulnerable properties?

Response: Issues existed with a minority of tenants only. It would be easier to establish the potential workload involved once a trial sample exercise was conducted. A supportive approach was adopted towards those tenants with specific issues such as mental health problems.

Comment: There should be a decline in day to day repairs/maintenance requests due to decent homes standard and the installation of new kitchens and bathrooms in council houses.

Members commented in relation to the remaining outstanding audit recommendations in general, which received relevant responses as follows:

Question: In terms of getting the older outstanding audit recommendations cleared, progress seemed to have stalled and auditors now had less time to monitor them. Was time chasing these recommendations impacting on other audit work?

Councillor Ellis, Chair, agreed that time spent on chasing recommendations was costly.

Response: Outstanding audit recommendations were reported to every Directorate's Management Team meeting on a quarterly basis.

Further discussion took place on the merits of how frequently audit recommendations should be chased and reported.

RESOLVED that:

1. The current policy of reporting high priority and medium priority audit recommendations to Audit Committee be continued, the remaining ones to be reported on alternate meeting basis as well as being referred to relevant Portfolio Holders to push for a resolution.

2. Updates on audit recommendations older than 12 months be noted.

35. External Audit- Annual Audit Letter

Jaclyn Gibson, Chief Finance Officer, in the absence of a representative from the external auditors:

a. presented a report for Audit Committee to receive and comment on the Annual Audit Letter provided by the Council's External Auditors (Mazars) from its 2018/19 audit of the Council (including audit of the 2018/19 statement of accounts, value for money conclusion and other reporting responsibilities)

b. advised that the Annual Audit Letter 2018/19; although addressed to members of the authority was also intended to communicate issues to key external stakeholders including members of the public and would be placed on the Authority's website

c. reported on the key headlines within the report outlined within the Executive Summary as detailed at page 15

d. confirmed that a value for money conclusion by the auditors reported that they were satisfied in all significant respects that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019

e. highlighted that the audit of the financial statements by Mazars gave a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended, and that the other information in the Statement of Accounts was consistent with the audited financial statements

f. reported on a final fee for the 2018/19 audit by Mazars of £43,082 to cover delivery of audit work under the NAO Code of Audit Practice and £6,600 to cover the certification of the Housing Benefit Subsidy Claim.

Members discussed the content of the report in further detail.

RESOLVED that the content of the Annual Audit Letter from Mazars be noted.

36. Annual Governance Statement Monitoring

Jaclyn Gibson, Chief Finance Officer, on behalf of Pat Jukes, Business Manager, Corporate Policy:

a. presented a progress update on those areas identified as ‘significant governance issues’ as set out in the 2018/19 Annual Governance Statement (AGS), which Audit Committee had a role to review

b. stated that the report provided details of the monitoring arrangements for the significant internal control issues raised in the latest AGS, as detailed at Appendix A of the report

c. advised that key actions would be reviewed by the Service Manager’s Group and be overseen by Corporate Leadership Team as well as monitored by Audit Committee

d. reported that just one significant issue IT Disaster Recovery Plan remained, which was now considered by the responsible officer to be red status

e. confirmed that a plan of action to cover this issue had been agreed between the Emergency Plan Manager (LCC Emergency Planning Officer), the Business Continuity Manager (Chief Finance Officer) and the IT Service Manager (Business Development and IT Manager)

f. reported that the first stage of a plan of action had been completed to review the schedules within the current Business Community Plans to ensure they were still relevant

g. advised that an exercise was currently underway to review critical services, extended until February 2020 due to some results still awaited

h. advised that a procurement exercise was well underway on reviewing and updating the IT infrastructure which would enhance Disaster Recovery significantly once the solution was implemented in 2020, the authority was currently working with the supplier to develop an installation plan

i. reported that as part of investigative work for the new infrastructure it had been established that there was currently insufficient power available at Hamilton House (back up site) to implement the new infrastructure fully and officers were currently developing actions to mitigate and establish whether there was any risk of additional costs as a result

j. advised that the full review of the IT Disaster Recovery plan would commence once the new infrastructure was in place

k. requested that members of Audit Committee give consideration to the content of the report.

RESOLVED that the content of the report be noted and monitoring arrangements be continued.

37. Internal Audit Progress Report

John Scott, Audit Manager:

a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during the period September to December 2019, as detailed at Appendix A

b. highlighted that Audit Committee held the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of public sector internal audit standards

c. detailed the content of the report covering the following main areas:

- Progress Against the Plan
- Summary of Audit Work
- Implementation of Audit Recommendations
- Current Areas of Interest Relevant to the Audit Committee

d. highlighted three consultancy pieces of work completed during the period as follows:

- Fire Safety
- Values and Behaviours
- Health Checks against Northamptonshire County Council failings

e. reported on other work ongoing in relation to:

- Election Expenses
- Partnership Governance
- HMO Licensing Follow Up
- Project Management

f. advised on audit reports at draft stage as follows:

- Housing Rents - with management for approval
- Recruitment - with management for approval
- Project Management

g. reported on the following audits in progress:

- Payroll
- Licensing
- Treasury Management
- ICT Anti- Malware arrangements
- Sports Pitches Improvements
- Homelessness
- Efficiency Savings
- Western Growth Corridor

h. highlighted the following audits being prepared for Quarter 4:

- Economic Development/Growth
- Performance Management
- Website Security/Office 365 Projects
- IT Combined Assurance- ISO27001
- Governance/Risk Management
- Refuse Contract
- De Wint Court Contract/Project Management

i. reported on other work ongoing in relation to:

- Combined Assurance
- Audit Strategy and Plan 2020/21

j. reported on Counter Fraud work ongoing and changes to the Audit Plan

k. detailed other matters of interest in relation to

- Lincolnshire Audit Committee Forum
- Audit Committee Forum-Public Sector Audit Appointments Update

l. highlighted performance against a range of indicators, with good achievement secured in respect of Audit KPI's to date

m. detailed the contents of the Audit Plan Schedule at Appendix 4 of the report

n. requested members' consideration of the report.

Members discussed the content of the report in further detail, commenting as follows:

- Question: How was the audit of Western Growth Corridor progressing?
- Response: The audit had been started. The next step was to set up meetings with officers to look at the project in further detail.
- Comment: There was a typographical error at the bottom of page 54 of the report which referred to it being prepared for Members of Boston Borough Council.
- Question: Would the new draft staff charter the 'Lincoln Way' be published on the council's website?
- Response: The staff charter was an internal document which would be available on City People and the Intranet.
- Question: Had the results on the audit of the health checks against Northamptonshire County Council failings been passed onto relevant sections of the Council for information?
- Response: The findings had been referred to the Monitoring Officer, Financial Services Manager and relevant service areas.

Councillor Hewson emphasised that it was vitally important for Councillors to represent the wishes of the general public at all times and scrutinise council services accordingly.

RESOLVED that the contents of the report and continuation of further monitoring arrangements be noted.

38. Anti-Bribery Policy Update

John Scott, Audit Manager:

a) presented a revised version of the Anti-Bribery Policy as detailed at Appendix A of his report

b) explained that the policy was reviewed and updated every two years or upon any significant change to the law

c) reported that the Bribery Act 2010 made it an offence to offer, promise or give a bribe, and to request, agree to receive or accept a bribe

d) highlighted that the document set out the Council's policy on anti-bribery in accordance with the legislation and guidance

e) reported on the key wording changes to note as amendments to the policy detailed at paragraph 3.1 of his report

f) invited members' questions and comments together with approval of the revised anti-bribery policy.

Members asked how members would be able to monitor effective review of the Anti-Bribery Policy.

John Scott, Audit Manager advised that the Anti-Bribery Policy was linked to the Counter Risk Register which was reviewed by members of Audit Committee on an annual basis.

RESOLVED that the revised Anti-Bribery Policy be approved.

39. Internal Audit Charter

John Scott, Audit Manager:

a. sought Audit Committee approval of the updated Internal Audit Charter as detailed within Appendix A to his report

b. advised that the Audit Charter formally defined Internal Audit's purpose, authority and responsibility, it established Internal Audit's position within the Council and defined the scope of Internal Audit activities linked to Internal Audit's roles and responsibilities set out in the Constitution (Financial Procedure Rules), also providing more detail around compliance with the Accounts and Audit Regulations and the Public Sector Internal Audit Standards

c. reported that the current Charter was approved by the Audit Committee and Council in 2016, this update reflected updated CIPFA guidance released in 2019 and provided an opportunity for a more focused charter

d. highlighted the key changes to the Charter as detailed at paragraph 4.2 of the report, which had been slimmed down to provide a more succinct document, however, essentially it remained very much aligned to the original document

e. requested that the Internal Audit Charter be approved by Audit Committee.

RESOLVED that the Internal Audit Charter as detailed at Appendix A to the report be referred to Council for approval.

40. Audit Committee Work Programme

John Scott, Audit Manager, presented a report to inform members of Audit Committee on the work programme for 2019/20 as detailed at Appendix A.

Jane Nellist, Independent Member queried whether Counter Fraud training was to be carried out for members of Audit Committee via e mail

John Scott, Audit Manager, circulated copies of the training documents for those members who hadn't attended the course.

RESOLVED that that the contents of the Audit Committee work programme 2019/20 be noted.

41. Fraud and Error Six Month Report (2019/20)

John Scott, Audit Manager:

a. presented his report on counter fraud arrangements 2019/20 (6 months) for members' consideration, including the Fraud Strategy Action Plan (attached at Annex A) which covered the following main areas:

   - An update on City of Lincoln Council (CoLC) activity
   - An update on the Lincolnshire Counter Fraud Partnership (LCFP)
   - A position statement on the National Fraud Initiative.
   - Fraud work within housing benefits and other areas.
   - An update on counter fraud outcomes

b. provided a summary of Fraud Case Summary 17/18 – 18/19 and 19/20 (six monthly data) as detailed at paragraph 2.1 of the report

c. updated members on areas of City of Lincoln Council progress in 2018/19 and specific priorities/progress for 2019/20 as detailed at paragraphs 2.2-2.3 of the report

d. included details of the CIPFA Fraud and Corruption Tracker report for context which focussed on the local government sector, as detailed within paragraph 3 of the report

e. updated members on the key messages in relation to the LCFP, areas of progress in 2019/20, and partnership priorities for the remainder of the year as highlighted within paragraph 4 of his report

f. highlighted City of Lincoln Council specific activity in relation to fraud and error at paragraphs 5-6 of the report, covering the following main topic areas:

- Housing Benefit and Council Tax Reductions (CTR)
- Verification of Earnings and Pensions (VEP)
- Council Tax Support
- Housing Tenancy
- Tenancy Fraud –Tenancy Verification Service
- Business Rates
- Council Tax (Single Person Discount – SPD)
- Whistleblowing and Fraud Awareness
- Cyber Fraud/Cyber Crime
- Other Fraud
- National Fraud Initiative and other Matching Services

g. reported on changes to fraud strategy/outcomes and fraud policies as detailed at paragraph 7 of the report

h. briefed members on the development of the Corporate Fraud Risk register effective from 2014, updated in December 2019 as attached at Annex B (restricted document)

i. requested members' comments on the content of the report.

Jane Nellist, Independent Member highlighted that the main issues seemed to stem from sub-letting within the Housing Service, which linked back to relevant Audit recommendations extended, as discussed earlier in tonight's agenda.

RESOLVED that the contents of the report be noted.

42. Exclusion of Press and Public

RESOLVED that the press and public be excluded from the meeting during consideration of the following item(s) of business because it is likely that if members of the public were present there would be a disclosure to them of 'exempt information' as defined by Section 100I and Schedule 12A to the Local Government Act 1972.

43. Annex B Fraud Risk Register 2019 PART B

Minute number 41 included details of the discussion associated with this item.

(Only Annex B Strategic Fraud Risk Register was contained here as exempt information.)

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Item No. 3

AUDIT COMMITTEE **6 FEBRUARY 2020**

SUBJECT:	**INTERNAL AUDIT PROGRESS REPORT**
REPORT BY:	**JOHN SCOTT, AUDIT MANAGER**
LEAD OFFICER:	**JOHN SCOTT, AUDIT MANAGER**

1. Purpose of Report

1.1 To present the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summaries of the outcomes of audits completed during the period.

2. Executive Summary

2.1 The report highlights progress against the audit plan.

3. Background

3.1 A key requirement of public sector internal audit standards is that Internal Audit should report progress periodically to those charged with governance. The Audit Committee has within its terms of reference the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan. The latest progress report for 2019-20 is attached as the appendix to this report.

3.2 Internal Audit Progress Report

3.3 The Internal Audit progress report attached (Appendix A) covers the following areas :-

- Progress against the plan
- Summary of Audit work
- Implementation of Audit recommendations
- Current areas of interest relevant to the Audit Committee

4. Organisational Impacts

4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 Audit Committee is asked to note the content of the latest Internal Audit Progress Report for 2019-20 and consider whether any of the following options are relevant:-

- Report and make recommendations to the Executive if they feel it appropriate.
- Refer any matter under review they feel appropriate to the relevant Portfolio Holder, Scrutiny Chair or Committee.
- Seek responses from Officers on matters arising (written or verbal) to be submitted to the next Audit Committee on any of the issues raised within this report or associated Appendices. Members may further wish to request the presence of the relevant Managers at the meeting to explain performance / specific issues.
- Accept the report and continue to monitor arrangements.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
How many appendices does the report contain?	One
List of Background Papers:	
Lead Officer:	Audit Manager Telephone 873321

Internal Audit

Progress Report

City of Lincoln Council

January 2020

Assurance LINCOLNSHIRE
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CITY OF Lincoln COUNCIL

Contents

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Introduction

The purpose of this report is to:

- Provide details of the audit work during the period December to January
- Advise on progress with the 2019/20 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have finalised two assurance reviews and one consultancy piece of work.

Audit Plan progress is at 64%, against a target of 75%.

0
HIGH ASSURANCE

2
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

1
CONSULTANCY

Assurances

The following audit work has been completed and a final report issued;

- Housing Rents - Substantial
- Recruitment – Substantial

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

Substantial Assurance

Housing Rents

The Council collects approximately £27m rental income per year from approximately 7,700 properties. The purpose of the audit was to give assurance on the effectiveness of the;

a) Arrangements for the collection and recording of rental income
b) Mechanisms for ascertaining the effects of Universal Credit on rental income and the processes for monitoring and mitigating the impacts

The review focussed on rent collection activity for current tenants only – the recovery of former tenant arrears is covered in a separate audit.

We are able to provide substantial assurance on the arrangements for the collection and recording of rental income. We found that;

- The process to calculate annual rent changes is robust
- The performance indicators for rent collection and rent arrears were achieved in 2017/18 and 2018/19 and are on target so far in 2019/20
- A wide variety of payment methods are offered. The cheapest method for the Council is direct debit, which is used by 28% of those tenants who have a liability to pay. Management would like this figure to be higher and have run a DD promotion campaign and introduced a target of 35%.
- There is a robust process for processing and authorising rent refunds
- Appropriate controls are in place to check the weekly debit raise, reconcile payments, deal with items posted to suspense and process direct debits
- Management would like the arrears management process to be more automated (i.e. the automatic production of arrears letters) but this requires improvements to the Universal Housing system which will take some time.

- A Rents Working Group is comparing processes to best practice and implementing any ‘quick wins’ identified.

Substantial Assurance

Housing Rents

- Area Housing Managers are closely monitoring arrears and have access to a range of monitoring information
- Housing Officers have recently been issued with laptops to enable them to access rent accounts whilst visiting tenants

We found that the target rents process is not working properly. When a tenancy changes the rent should be moved to the target rent, if it isn't already at this level. Testing found 2 that hadn't been moved to the target rent and although the rent 'lost' is negligible it is important that the correct rent is charged. A High priority recommendation has been made and procedures will be improved.

Some further areas for improvement have been identified and Medium priority recommendations have been made;

- There is no process in place to revalue Affordable Rent properties when a tenancy changes
- The Arrears Policy is out of date and arrears procedures are not documented.

The Finance & Leasehold Team have started work to establish a process to update policy and procedures.

The impacts of Welfare Reform on income management have been recognised for some time – the DHI risk register contains an Amber risk and there are a number of controls / actions in place to mitigate the risk.

Specific work being done to mitigate the impacts of UC on rent collection includes training on UC for all tenancy services staff, close liaison with the UC team in Revenues & Benefits so that staff and tenants have access to support, interviews for all tenants who move onto UC to offer support and advice, and weekly review meetings on proposed evictions to determine if anything further can be done to avoid eviction. An authority-wide review of the way in which advice on UC is provided is being undertaken, which may result in changes to how UC advice is provided in the Housing Directorate.

Substantial Assurance

Recruitment

A Recruitment Policy is in place which aims to ensure the effective recruitment of staff, in accordance with the law and the policies of the Council. Officers within the H.R. Department are available to help and support Managers through the recruitment process. The policy identifies Directors, Assistant Directors and Managers as being responsible for ensuring that the Policy is followed. Testing covered all Directorates and sought to confirm that the key aspects of the recruitment process were being applied across the Council.

We found that:-

- The Recruitment Policy is up to date and available to all staff.
- Comprehensive guidance provides additional information on the practical application of the policy
- At least one member of the interview panel in our test sample had attended training as required by the policy and the interview panel were of the of the correct grade for the post being recruited to.
- The assessment of applications and each candidates performance at interview are documented and retained by H.R. in case of challenge.
- All offers of appointment were conditional subject to pre employment checks.
- New employees did not start until all the relevant information / checks were obtained.
- There is an up to date Probation Policy which is being applied.

Recommendations have been made to strengthen existing controls or improve record keeping / compliance with policy, which include;

- Updating a list of posts that require Disclosure & Barring checks (High priority)
- Updating a list of posts that require a Disclosure Scotland check (High priority)
- Delivering refresher safer recruitment training
- Recording interview test results against the required benchmark on the interview assessment form
- Introducing quality assessment checks (by HR) of key aspects of the recruitment process

Consultancy

Fire Risk - High Rise Blocks

We undertook an audit of fire safety measures at the Council's three high rise blocks; the audit did not include sheltered accommodation. The completion of the audit coincided with an extended corporate review carried out by an independent fire specialist; who has worked proactively on the overall fire safety elements within the housing stock. The agreed actions within the audit fed into a wider fire safety action plan.

A fire safety update was reported to Performance Scrutiny Committee (23 Jan 2020) by the Assistant Director of Housing and the Fire Specialist. The report provided an update on COLC's progress against the proposed recommendations made by the Hackitt report that were accepted by the Ministry for Housing, Communities and Local Government ahead of the recommendations being implemented through legislation.

The actions that have been achieved include:-

- Improvements to the fire safety process and procedures
- Scheduling of fire risk assessments (FRA's); annual FRA's to be carried out at all 12 higher risk sites (3 high rise blocks, 7 sheltered schemes, 1 community hub & Hamilton House), and FRA every 5 years for low risk low rise housing stock.
- Spreadsheet to record all actions arising from FRA's with timelines and commentary to track progress.
- New fire safety log books introduced and improved safety checks & tests.
- Implementation of a monthly auditing regime
- Improved physical testing and checking and associated record keeping
- On-line training modules created
- Fire compartmentation improvements.
- Fire alarm upgrades at sheltered schemes

Area Housing Managers are undertaking Responsible Officer (RO) duties have received training and will accept their revised job descriptions shortly.

Future direction;
The Safety Assurance Team, within Housing and Investment currently advises and oversees fire assurance. A manager for this team is currently being recruited and the job description has been revised to include an increased emphasis on fire safety. Research and costings were also conducted into the possibility of adding sprinkler systems to the 3 high rise blocks; indicative costs and financial impact on the HRA is being assessed.

Other work

Audit Recommendations

Following Members observations and comments at the last meeting a Recommendation Follow Up protocol is attached at Appendix 3 for the Committee's consideration and comments.

Audit reports at draft stage

- Licensing – with management for approval

Work in Progress

- Treasury Management
- Payroll
- ICT Anti-Malware arrangements
- Sports Pitches improvements
- Homelessness
- Efficiency Savings
- Housing Allocations (Choice Based Lettings)
- Western Growth
- Partnerships (Consultancy)
- De Wint Extra Care Facility
- Project Management – the review of Lincoln Project Management Model is still ongoing so our report details will be now be provided in March.

Other work

- Combined Assurance Map update – the Map has been refreshed and a summary report is being produced
- Audit Strategy and Plan 2020/21
- Bribery / Whistleblowing Policy review – in progress
- NFI completion - Ongoing
- Tenancy fraud - Ongoing

Work to start in Quarter 4

- Performance management
- Website security
- ICT Combined Assurance
- Governance / Risk management
- Economic Development / Growth (will continue into 20/21 due to strategy development)
- Office 365 project (may defer to 20/21)
- Counter fraud training (continuation)
- Fraud Health check
- Money Laundering risk assessment
- Identity fraud

Benchmarking

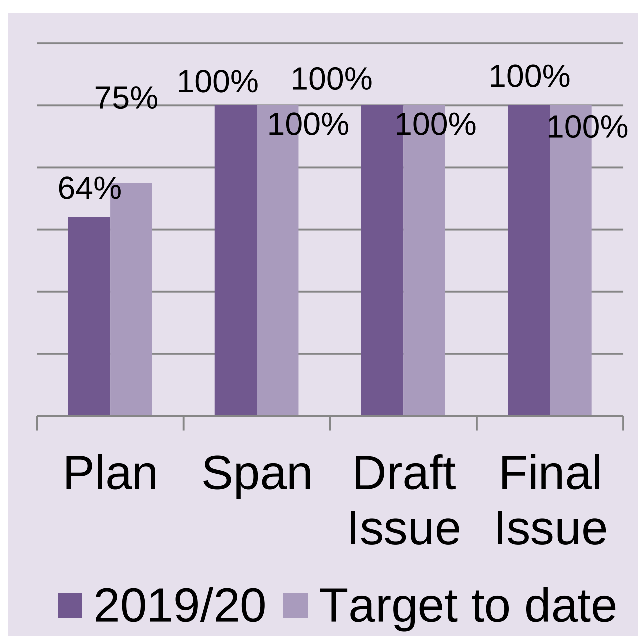
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent

Good achievement of Audit KPI's to date



<u>Planning guidance</u>

The Local Government Association has updated it's Probity in Planning guidance for officers and councillors on making planning decisions. The City Solicitor is aware and taking this forward.

<u>Business Rates Avoidance Survey Report 2019</u>

The Local Government Association has published its survey and a set of recommendations to address Business Rates avoidance.

The LGA estimate that around one per cent of total business rates income, or £250 million, is lost to business rates avoidance each year.

The survey report includes examples of rate avoidance and success factors in prosecuting avoidance.

The findings of the survey will help inform the development of government proposals for how to tackle this behaviour, reduce avoidance and raise revenues that are owed to local and central government.

There are none.

Assurance Definitions

High	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

The Recommendation Follow Up protocol below sets out the proposed way forward to monitor recommendations efficiently and effectively.

Audit Recommendation Follow Up protocol

Internal Audit will;

- Record recommendations on the tracker held in Authority Wide
- Monitor target dates monthly and obtain updates where the rec is due within 1 month
- Agree extensions to target dates
- Review evidence for High priority recommendations implemented
- Undertake detailed follow up work on all recommendations in Limited / Low assurance audits 12mths from the report date
- Liaise with Directorates to ensure that;
  - They are able to obtain recommendations data from the tracker
  - Recommendations are being monitored at least 6 monthly via DMT's
  - Portfolio Holders are aware of overdue recommendations
- Advise Service Managers Team and Assistant Director Group that Audit Committee are concerned with the number of recs overdue and the time being taken to implement them.

Audit Committee will;

- Receive recommendation update reports at alternating meetings, which mainly focus on High priority recommendations
- Receive verbal updates from service managers where there are outstanding recommendations 12mths from the report issue date
- Receive a 12mth update on Limited / Low assurance audits
- Receive an update on audits where there are outstanding recommendations 24mths from the report issue date – these recommendations will no longer be followed up and management will be advised that they will be accepting the risk

Directors will;

- Approve extensions where the audit recommendation has not been implemented within 12 months (Assistant Directors/ Manager will get approval) and this will form part of the 12 month review at Audit Committee.

Appendix 4 2019/20 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Chief Executive – Critical Activities					
Recruitment	Internal promotions and external recruitment	Q1	June	Dec	Completed Substantial
Treasury Management	Investments & borrowing	Q2	Nov		In progress
Efficiency Savings	Programme & project arrangements	Q4	Jan		In progress
Payroll	Risk Based Audit	Q3	Nov		In progress
Scrutiny	Scrutiny committee operation & Member training	N/A			Deferred to 20/21
Apprentice scheme	Financial arrangements	N/A			Deferred to 20/21
Housing & Regeneration – Critical Activities					
Housing ASB	Advice work – budgets	Q1	April	June	Completed
Rental income	Risk Based Audit, to include Universal Credit impacts	Q2	July	Nov	Completed Substantial
Housing Allocations	New Build allocations process	Q2			PIR done– no longer required
Housing Repairs	Interaction between reactive repairs & planned maintenance	N/A			Deferred to 21/22
Homelessness	Implementation of the Homeless Reduction Act	Q3			In progress
Housing Strategy	Implementation of the Housing Strategy including links with Major Development	N/A			Deferred to 20/21
Housing Allocations	Accuracy and processing arrangements on the new IT system	Q4	Jan		In progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Communities & Environment – Critical Activities					
Sport & Leisure pitches	Contract and operation review	Q2-4	June		In progress
Private Sector Housing follow up	Follow up of 17/18 HMO audit plus Private Sector Housing in general	Q2	Oct	Nov	Completed
Community Safety	Licensing	Q3-4	Oct		Draft Report
Performance management	Operation of the new PM system	Q4			Being prepared
Major Developments – Critical Activities					
Growth & Regeneration	Strategies, investment, partnerships, infrastructure	Q4			Being Prepared
Financial & Governance					
Counter Fraud	Fraud Strategy actions	Q1-4			In progress
Counter Fraud	Tenancy Fraud data matching	Q1-4			In progress
Counter Fraud	NFI data matching	Q1-4			In progress
Counter Fraud	Friends against Scams	Q1-2			Complete
Counter Fraud	Fraud Training	Q4			In progress
Counter Fraud	Identity fraud	Q4			May defer to 20/21
Welfare Reform	UC rollout and Welfare Advice	N/A			Deferred Q1 20/21
Counter Fraud	Fraud risk register update	Q3			Complete
Counter Fraud	Counter Fraud healthcheck	Q3-4			May defer to 20/21
Counter Fraud	Money Laundering risk assessment	Q4			

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Financial & Governance (cont'd)					
Counter Fraud	6 & 12 month reports	July 19 Dec 19			12 mth report in July 19 Completed
Counter Fraud	Policy reviews	Q3-4			Anti-bribery – complete Whistleblowing – Feb
Governance & Risk					
Governance	Key controls for annual assurance	Q4			
Risk Management	Key controls for annual assurance	Q4			
Information Management & Technology					
ICT	Assurance mapping and plan	Q1-2			Completed
ICT	IT assurance map follow up and Strategy actions	Q4			Commencing
ICT	Anti-Malware arrangements	Q3	Oct		In progress
ICT	New Website	Q4			Health Check
ICT	Mobile Working/Office 365 Pilots	Q4			Likely move to 20/21
Projects					
Western Growth	Programme governance and project management	Q4			Being prepared
De Wint Court	Project and contract arrangements	Q4			Being prepared

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Consultancy / VFM / No opinion work					
Emerging Legislation	Preparation for new and emerging legislation & policy (merged with 18/19 work)	Q1		May	Completed Full assurance
Brexit	Assist with risk and control issues as part of working group	Q1	Q1	Q4	In progress
Refuse & Recycling	Procurement arrangements	Q4			
Other work					
2018/19 audits	Complete audits from previous year	Q1	April	Dec	Completed
Annual IA report	Report for 2018/19	Q1	April	May	Completed
Housing allocations	Serious offenders risk assessment	Q1	June	June	Completed
De Wint project	Risk management support	Q1-4	April		Ongoing
Follow up	Review progress on audit recommendations	Q1-4			Ongoing
Advice, Management	Advice & management, reactive investigations	Q1-4			Ongoing
Combined Assurance	Update the assurance map	Q3-4	Dec		In progress
IA Strategy & Plan	New Plan for 2020/21	Q4	Jan		In progress
Housing Benefit Subsidy					
2018/19 Subsidy claim	2018/19 HB Detailed testing on behalf of External Audit	Q1-2	May	July	Completed

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Item No. 4

AUDIT COMMITTEE **6 FEBRUARY 2020**

SUBJECT:	**PRUDENTIAL INDICATORS 2019/20 – 2022/23 AND TREASURY MANAGEMENT STRATEGY 2020/21**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**SARAH HARDY, PRINCIPAL FINANCE BUSINESS PARTNER**

1. Purpose of Report

1.1 The purpose of the report is for the Audit Committee to scrutinise and recommend to the Executive the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2019/20 to 2022/23 together with the 2020/21 Treasury Management Strategy prior to reporting to Council for final approval.

2. Executive Summary

2.1 The table below summarises the key prudential indicators that have been incorporated into the 2020/21 strategy. The projected capital expenditure will determine the capital financing or borrowing requirement, which will in turn determine the actual level of external borrowing taken and hence, cash balances available for investment.

Key Prudential Indicators	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Capital Expenditure				
• General Fund	14,143	13,973	2,847	703
• HRA	18,302	22,968	16,386	13,536
• Total	**32,445**	**36,941**	**19,233**	**14,239**
Capital Financing Requirement				
• Non HRA	69,972	78,112	76,725	75,329
• HRA	62,624	68,827	70,578	73,078
• Total	132,596	146,939	147,303	148,407
Net Borrowing	96,400	108,500	109,500	106,500
External debt (borrowing only)	120,500	127,000	128,000	125,000
Investments				
• Under one year	24,100	18,500	18,500	18,500

2.2 The methodology employed for selecting investment counterparties is a multi-stage formula based creditworthiness methodology provided by the Council's treasury management advisors, Link Asset Services. The aim of the investment strategy is to generate a list of highly creditworthy counterparties, allowing the Council to maintain a diversified portfolio of investments that safeguards the cash balances whilst generating a reasonable rate of return. The Link methodology, which incorporates credit ratings, credit outlooks and watches and overlays credit default swaps as a measure of market risk, fully meets the aim of the strategy.

2.3 The Strategy for 2020/21 has been prepared taking into account changes in the Prudential Code and Treasury Management Code.

3. Background

3.1 This report covers the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year. It incorporates four key Council reporting requirements:

- **Prudential and Treasury Indicators** – the reporting of the statutory prudential indicators together with local indicators, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management Code of Practice.
- **Minimum Revenue Provision (MRP) Statement** – the reporting of the MRP policy which sets out how the Council will pay for capital assets through revenue each year (as required by regulation under the Local Government 2003)
- **Treasury Management Strategy –** which sets out how the Council's treasury activity will support capital decisions, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Authorised Borrowing Limit required by s3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.
- **Investment Strategy –** this is included within the Treasury Management Strategy and sets out the criteria for choosing investment counterparties and limiting exposure to the risk of loss. It is reported annually (in accordance with Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance).

4. Treasury Management Requirements 2020/21

4.1 The Capital Prudential Indicators 2019/20 – 2022/23

4.1.1 The Council's capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans. The Local Government Act 2003 requires the

Council to adopt the CIPFA Prudential Code and to produce prudential indicators. The Prudential Code requires the Council to approve as a minimum the statutory indicators and limits. This report revises the indicators for 2019/20 and details them for 2020/21 to 2022/23. An explanation and calculation of each Prudential Indicator is provided in **Appendix 1** and the key messages summarised in section 4.1.3.

4.1.2 Capital Expenditure and Financing

The Council's capital expenditure plans (as detailed in the Draft MTFS 2020-25) are summarised below. Capital expenditure can be paid for immediately (by resources such as capital receipts, capital grants or revenue resources) but if these resources are insufficient, any residual capital expenditure will form a borrowing need. This can be supported by government grant for the repayment of debt (very limited support available) or can be unsupported (prudential borrowing) where the Council needs to identify the resources to finance and repay debt through its own budget.

Indicators 1&2	**2019/20 Revised £'000**	**2020/21 Estimated £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**
Capital Expenditure				
General Fund	14,143	13,973	2,847	703
HRA (including New Build)	18,302	22,968	16,386	13,536
Total Expenditure	**32,445**	**36,941**	**19,233**	**14,239**
Financed by:				
Capital receipts	1,948	2,344	4,324	1,374
Capital grants & contributions	6,019	3,915	3,310	300
Depreciation (HRA only)	8,092	9,801	6,523	5,935
Revenue/Reserve Contributions	2,658	4,224	3,125	3,930
Borrowing need	13,729	16,657	1,951	2,700

4.1.3 The Council's Borrowing Need - the Capital Financing Requirement (CFR)

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either capital or revenue resources. It is essentially a measure of the Council's underlying borrowing need. Based on the capital expenditure plans in paragraph 4.1.2 the CFR for 2019/20 to 2022/23 is projected to be:

Indicators 3&4	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Capital Financing Requirement				
General Fund	69,972	78,112	76,725	75,329
HRA	62,624	68,827	70,578	73,078
Total CFR @ 31 March	132,597	146,939	147,303	148,407
Net movement in CFR	**12,467**	**14,342**	**364**	**1,104**
Actual debt (borrowing & other liabilities)	**120,605**	**127,000**	**128,000**	**125,000**
Net borrowing need for the year	13,729	16,657	1,951	2,700
Minimum Revenue Provision (MRP)	(1,113)	(1,510)	(1,437)	(1,596)
Repayment of GENF borrowing				
Application of Capital Receipts to reduce CFR	(150)	(150)	(150)	
Movement in CFR	**12,467**	**14,342**	**364**	**1,104**

The CFR also includes any other long term liabilities (e.g. finance and embedded leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility, so the Council is not required to separately borrow for them. The Council has £0.105m of such leases within the CFR in 2019/20 reducing to Nil by the end of 2020/21. The CFR does not yet include any allowance for the planned replacement of the majority of the vehicle fleet under leasing. If following a full financing options appraisal the most cost effective funding method is identified as either borrowing or finance lease then the CFR will be increased to reflect a borrowing requirement for the replacement fleet.

In future years all lease liabilities, including some of those currently treated as operating leases and expensed through revenue, will be 'on balance sheet' which will increase the CFR. At this point the Treasury Management Strategy does not reflect the effect of the change in accounting treatment and further updates will be presented to committee at the mid-year update, when the liabilities have been established.

4.1.4 **Limits on Borrowing –** In order to ensure that borrowing decisions are based on consideration of affordability, prudence and sustainability and that treasury management decisions are taken in accordance with good professional practice, in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to City of Lincoln Council, the Prudential Code requires that Council's set limits on borrowing activity.

Limiting Borrowing for Capital Purposes - the Council needs to ensure that its total borrowing net of any investments, 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 the current and next two financial years. The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future.

Operational Boundary for External Debt – boundary based on the expected maximum external debt during the course of the year.

Authorised Limit for External Debt - represents the limit beyond which external debt is prohibited. It represents the level of debt, which while not desired, could be afforded in the short term, but is unsustainable in the long term. This limit needs to be set or revised by full Council.

The level of the proposed operational and authorised limits is based on an assessment of the level of borrowing required to meet the Capital Financing Requirement (CFR) and also an allowance for temporary borrowing for working capital and also in lieu of other capital financing sources (e.g. capital receipts). Financial modelling has been carried out for both and the affordability and sustainability of the potential borrowing requirement has been assessed and can be contained within the Draft MTFS 2020-25. This is reflected in the table below and in the Prudential Indicators 7 and 8 tables in Appendix 1.

Indicator 7	**2019/20 Revised £'000**	**2020/21 Estimated £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**
Authorised limit				
Borrowing	149,050	156,855	157,605	154,890
Other long term liabilities	1,200	1,200	1,200	1,200
Total Authorised limit	**150,250**	**158,055**	**158,805**	**156,090**

4.2 Minimum Revenue Provision (MRP) Policy

4.2.1 The Council is required to pay off an element of the accumulated General Fund borrowing each year (the CFR) through a revenue charge - the Minimum Revenue Provision (MRP), and is also allowed to undertake additional voluntary payments (VRP). No revenue charge is currently required for the HRA. However, under self-financing, the HRA is now required to charge depreciation on its assets, which has been built into the revenue charges in the HRA 30 year Business Plan.

The Department of Homes, Communities and Local Government have issued statutory guidance on the options available for making prudent provision for the repayment of debt. The Council must have regard to this guidance. The guidance is not prescriptive and makes it clear that councils can follow an alternative approach, provided they still make a prudent provision. The broad aim of a 'prudent provision' is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits to service delivery.

Guidance issued by the Secretary of State requires that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to Full Council for approval. There has been no amendment to the proposed MRP policy for 2020/21.

The MRP policy statement is set out in **Appendix 2.**

4.3 The Treasury Management Strategy 2020/21

4.3.1 Treasury Management is an important part of the overall financial management of the Council's affairs. The treasury management service performs the borrowing and investment activities of the Council and effectively manages the associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management).

The Treasury Management Policy and Practices and the annual Treasury Management Strategy provides the operational rules and limits by which day to day treasury management decisions are made.

4.3.2 The Treasury Management Strategy for 2020/21 is attached at **Appendix 3**. The strategy outlines expected treasury activity for the coming year and expected prudential indicators relating the treasury management for the next three years. The key principals in the strategy are summarised below.

- **Debt and Investment Projections (Treasury Management Strategy section 2)** – based on the budgeted borrowing requirements, estimated balances and cash flow, year-end debt and investment projections are:

	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
External Debt				
Debt at 31 March (including other long term liabilities)	120,500	127,000	128,000	125,000
Investments				
Total Investments at 31 March	24,100	18,500	18,500	18,500

- **Expected Movement in Interest Rates (Treasury Management Strategy section 3)** - short term interest rates are not expected to rise until March 2021 and then will rise slowly in future years. Long term rates for external borrowing are expected to rise during 2020 and after this they will continue to rise slowly in future years.

- **Borrowing & Debt Strategy (Treasury Management Strategy section 4)** - The main aims are:
  - To reduce the revenue costs of debt
  - To manage the Council's debt maturity profile
  - To effect funding at the cheapest cost commensurate with future risk.
  - To forecast average future interest rates and borrow accordingly
  - To proactively reschedule debt in order to take advantage of potential savings as interest rates change.
  - To manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing.

- **Investment Strategy (Treasury Management Strategy section 5)** - The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time, then ensuring adequate liquidity, with investment return being the final objective.

The current investment climate continues to present one over-riding risk consideration, that of counterparty security risk. In order to fully consider counterparty risk factors when selecting investment counterparties, the Council employs the multi-stage formula based creditworthiness methodology provided by the Council's treasury management advisors, Link Asset Services. This methodology, developed by Link, uses credit ratings as the core criteria but also incorporates other market information on a mathematical basis. The methodology is continuously reviewed and changes are made in response to changes made by the credit rating agencies. There haven't been any major changes made to the credit rating methodology since last year's change when any reference to the implied levels of sovereign support (which were phased out last year) were taken out. The current methodology is explained in detail in the Council's Investment Strategy 2020/21 in **Section 5** of **Appendix 3**.

The aim of the investment strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk (i.e. placing a large proportion of investments with a small number of counterparties). The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use are listed in **Appendix 3** under the specified and non-specified investments categories. Counterparty limits will be as shown in **Appendix 3**. Examples of institutions which currently fall under the various colour coded categories are as follows:

- Blue (part-government owned - 1 year)
- Orange (1 year
- Green (100 days
- Yellow (5 years) – Local Authorities.

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

The criteria to be used to select investment counterparties are set out in Appendix 3. These include:-

- Maintenance of a counterparty list with approved credit ratings and time and principal limits
- Regular monitoring of counterparties with the help of the Council's treasury management advisors
- Limits on the amounts on non-specified investments (e.g. over 1 year investments)
- Limits on non-UK counterparties

Risk Benchmarking – The revised CIPFA Code and the CLG Investment

Guidance adopted 2nd March 2010 introduced the consideration and approval of security and liquidity benchmarks. The Investment Strategy for 2019/20 includes the following benchmarks for liquidity and security:-

Liquidity – The Council's bank overdraft limit is nil. The Council will seek to maintain liquid short-term deposits of at least £5,000,000 available with a week's notice. The weighted average life (WAL) of investments is expected to be 0.25 years.

Security – the Council's expected security risk benchmark from its budgeted investment strategy is 0.009% historic risk of default when compared to the whole portfolio. This means that the risk amounts to approximately £0.002m on the expected investment portfolio of £24.1 million.

- **Treasury Limits on Activity (Treasury Management Strategy section 6)** – This section includes statutory and local indicators covering treasury management activity. These include limits on fixed and variable interest rate exposure, maturity structure of debt and performance targets for interest rates on new investments and loans.

- **Breakdown of Investment Categories (Treasury Management Strategy section 7)** – covers authorised posts for treasury management activities

The need to limit the risk to the Council of loss from counterparty failure results in a restricted range of counterparties available for investment.

4.4 Treasury Management Practices

The Council adopted the CIPFA Code of Practice on Treasury Management (revised December 2017) on 2nd March 2010. The Treasury Management Policy Statement was also adopted at this time. The Treasury Management Policy and Practices (TMP's) are updated annually to reflect the Treasury Management Strategy approved by Council and to reflect any changes in staffing structures or working practices of the treasury function and are attached as Appendix 4.

5. Organisational Impacts

5.1 Finance

Financial implications are contained in the main body of the report.

5.2 Legal Implications

The Treasury Management Strategy and Prudential Indicators meet the requirements under legislation and code of practice.

6. Risk Implications

The risk implications are contained within the body of the report.

7. Recommendations

7.1 The Executive are recommended to:

7.2 Review and recommend for approval by Council the prudential indicators detailed in section 4.1 and appendix 1 of the report.

7.3 Review and recommend for approval by Council the Treasury Management Strategy (including the treasury management prudential indicators and the Investment Strategy) set out section 4 and appendix 3 of the report.

7.4 Review and recommend for approval by Council the revised MRP policy in appendix 2 of the report.

7.5 Review and recommend for approval by Council the revised Treasury Management Practices and Schedules in Appendix 4 of the report.

Is this a key decision?	Yes
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	4
List of Background Papers:	Medium Term Financial Strategy 2020-25 CIPFA Code of Practice CIPFA Prudential Code Treasury Management Practices
Lead Officer:	Colleen Warren – Financial Services Manager Telephone (01522) 873361

Appendix 1

Prudential Indicators 2019/20 – 2022/23

1.0 Introduction

1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and to produce prudential indicators. The Code sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Prudential Code operates by the provision of prudential indicators, which highlight particular aspects of the capital expenditure planning. This report revises the indicators for 2019/20 and details them for 2020/21-2022/23. Each indicator either summarises the expected capital activity or introduces limits upon the activity, and reflects the outcomes of the Council's underlying capital appraisal systems.

1.2 The Prudential Code requires the Executive and full Council to approve as a minimum the 15 statutory indicators. The Chief Finance Officer has added 8 local indicators that are believed to add value and assist understanding of the main indicators.

1.3 The purpose of the indicators is to provide a framework for capital expenditure decision-making. It highlights, through the prudential indicators, the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.

1.4 Within this overall capital expenditure framework there is a clear impact on the Council's treasury management activity, either through increased borrowing levels or the investment of surplus balances. As a consequence the treasury management strategy for 2020/21 (see Appendix 3) includes the expected treasury management activity, together with the 5 specific Prudential indicators and 8 local indicators, which relate to treasury management.

1.5 The 15 statutory prudential indicators can be categorised under the following four headings:

- Capital Expenditure and External Debt (numbers 1, 2, 3, 4, 5, 7, 8)
- Prudence (number 6)
- Affordability (numbers 9,10)
- Treasury Management limits (numbers 11, 12, 13, 14, 15)

(The numbers above relate to the reference given to each indicator).

1.6 The paragraphs 2 to 4 below detail the 10 statutory indicators under the headings of Capital Expenditure/External Debt, Prudence and Affordability. The remaining 5 statutory and 8 local indicators relating to the treasury management strategy are set out in appendix 3.

2.0 Capital Expenditure Prudential Indicators

2.1 The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants etc.), but if resources are insufficient any residual expenditure will form a borrowing need.

2.2 A certain level of capital expenditure may be supported by government grant; any decisions by Council to spend above this level will be unsupported and will need to be paid for from the Council's own resources. This unsupported capital expenditure needs to have regard to:

- Service objectives e.g. strategic planning
- Stewardship of assets e.g. asset management planning
- Value for money
- Prudence and sustainability e.g. implications for external borrowing and whole life costing
- Affordability
- Practicality e.g. achievability of plan

The revenue consequences of capital expenditure, particularly the unsupported expenditure, will need to be paid for from the Council's own resources.

The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been required.

2.3 The key risks to the plans are that some estimates for sources of funding, such as capital receipts, may be subject to change over this timescale. For instance, anticipated asset sales may be postponed due to the impact of the recession on the property market.

2.4 The summary capital expenditure and financing projections are shown in the table below.

Indicators 1&2	**2019/20 Revised £'000**	**2020/21 Estimated £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**
Capital Expenditure				
General Fund	14,143	13,973	2,847	703
HRA (including New Build)	18,302	22,968	16,386	13,536
Total Expenditure	**32,445**	**36,941**	**19,233**	**14,239**
Financed by:				
Capital receipts	1,948	2,344	4,324	1,374
Capital grants & contributions	6,019	3,915	3,310	300
Depreciation (HRA only)	8,092	9,801	6,523	5,935
Revenue/Reserve Contributions	2,658	4,224	3,125	3,930
Borrowing need	**13,729**	**16,657**	**1,951**	**2,700**

3.0 External Debt and Prudence Prudential Indicators

3.1 **Borrowing Need** - The Council's Capital Financing Requirement (CFR) represents the Council's borrowing need. The CFR is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

3.2 The CFR also includes any other long term liabilities (e.g. finance and embedded leases) brought on to the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, they are purely accounting adjustments and include a borrowing facility, so the Council is not required to separately borrow for them. The Council has £0.105m of such leases within the CFR in 2019/20 reducing to Nil by the end of 2020/21. The CFR does not yet include any allowance for the planned replacement of the majority of the vehicle fleet under leasing arrangements.

3.3 Capital Financing Requirement projections are detailed below:

Indicators 3&4	**2019/20 Revised £'000**	**2020/21 Estimated £'000**	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**
Capital Financing Requirement				
General Fund	69,972	78,112	76,725	75,329
HRA	62,624	68,827	70,578	73,078
Total CFR @ 31 March	132,597	146,939	147,303	148,407
Net movement in CFR	**12,467**	**14,342**	**364**	**1,104**
Actual debt (borrowing & other liabilities)	120,605	127,000	128,000	125,000
Net borrowing need for the year	13,729	16,657	1,951	2,700
Minimum Revenue Provision (MRP)	(1,113)	(1,510)	(1,437)	(1,596)
Repayment of GENF borrowing				
Application of Capital Receipts to reduce CFR	(150)	(150)	(150)	
Movement in CFR	**12,467**	**14,342**	**364**	**1,104**

* MRP = Minimum Revenue Provision – Statutory requirement to annually fund the repayment of General Fund borrowing.

3.4 **Estimates of External Debt** - The expected impact of the capital expenditure decisions on the Council's net debt position is shown below:

Indicator 5	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
External Debt				
Gross Borrowing	120,500	127,000	128,000	125,000
Other Long Term Liabilities*	105			
Total Debt at 31 March	**120,605**	**127,000**	**128,000**	**125,000**

*Other Long Term liabilities include finance leases

3.5 The expected movement in the CFR over the next three years is dependent on the level of capital borrowing taken during the budget cycle. Such borrowing is the capital expenditure freedom allowed under the Prudential Code i.e. prudential borrowing which allows the freedom to enter into projects such as spend to save schemes, or decisions to allocate additional resources from revenue to capital to enable service enhancements (subject to affordability).

3.6 There are two limiting factors on the Council's ability to undertake prudential borrowing:

1. Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs. Can the Council afford the implications of the capital expenditure?
2. The Government may use a long stop control to ensure that either the total of all the Councils' plans do not jeopardise national economic policies, or in the event of an assessment by Central Government that local plans are unaffordable at a council, it may implement a specific control to limit its capital expenditure plans. No such control has been implemented during 2019/20.

3.7 **Limits to Borrowing Activity -** Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.

3.8 For the first of these the Council needs to ensure that its total borrowing net of any investments, 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 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

Indicator 6	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Gross Borrowing	120,500	127,000	128,000	125,000
Investments	24,100	18,500	18,500	18,500
Net Borrowing	96,400	108,500	109,500	106,500
CFR	132,597	146,939	143,837	143,837
Net Borrowing is below CFR	36,197	38,439	34,337	37,337

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.9 A further two key prudential indicators control or anticipate the overall level of borrowing, these are:

- **The Authorised Limit for External Debt** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt, which while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.
- **The Operational Boundary for External Debt** – This indicator is based on the expected maximum external debt during the course of one year; it is not a limit and actual borrowing could vary around the boundary for short times during the year.

The level of the proposed operational and authorised limits is based on an assessment of the level of borrowing required to meet the Capital Financing Requirement (CFR) and also an allowance for temporary borrowing for working capital and also in lieu of other capital financing sources (e.g. capital receipts). The affordability and sustainability of the borrowing requirement for both have been assessed and can be contained within the Draft MTFS 2020-25. The operational and authorised limits for 2020/21 have been set to allow these.

Indicator 7	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Authorised Limit				
Borrowing	149,050	156,855	157,605	154,890
Other long term liabilities*	1,200	1,200	1,200	1,200
Total Authorised Limit	**150,250**	**158,055**	**158,805**	**156,090**

Indicator 8	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Operational Boundary				
Borrowing	135,145	141,855	142,605	139,890
Other long term liabilities*	105	1,200	1,200	1,200
Total Operational Boundary	135,250	143,055	143,805	141,090

*Other Long Term liabilities include finance leases

3.10 **Borrowing in advance of need** – The Council has some flexibility to borrow funds this year for use in future years. The Chief Finance Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Chief Finance Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 36 months in advance of need

3.11 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

4.0 Affordability Prudential Indicators

4.1 The 8 statutory indicators above cover the overall capital and control of borrowing, but in addition, within this framework, there are further indicators that assess the affordability of the capital investment plans. These indicators provide an indication of the impact of the capital investment plans on the Council's overall finances and these are shown below:

Indicators 9 & 10	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
General Fund	19.8%	24.2%	26.1%	23.3%
HRA	31.6%	31.0%	30.6%	30.9%

Appendix 2

Minimum Revenue Provision (MRP) Policy

1.0 The Council is required to pay off an element of the accumulated General Fund borrowing each year through a revenue charge (the Minimum Revenue Provision), and is also allowed to undertake additional voluntary payments (VRP).

1.1 MHCLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided so long as there is a prudent provision. The MRP policy takes into account recent changes to guidance issued by MHCLG.

1.2 Members are recommended to approve the following MRP Statement:

For capital expenditure incurred:

(A) Before 1st April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

Existing practice - MRP will follow the existing practice outline in former CLG Regulations, but on a 2% straight-line basis, i.e. provision for the full repayment of debt over 50 years;

(B) From 1st April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

Asset Life Method – MRP will be based on the estimated life of the assets on either a straight line or annuity basis (as deemed most appropriate for capital expenditure being financed through borrowing). Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(C) The Council has set aside £750k of capital receipts to the Capital Adjustment Account instead of applying these receipts to new expenditure in order to reduce the total debt liability (£150k per annum over the period 2017/18 to 2021/22). The Council will reduce the MRP provision for the year by the same amount.

Appendix 3

Treasury Management Strategy 2019/20

1.0 Introduction

1.1 Treasury Management is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. The prudential indicators in Appendix 1 cover the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992. There are 5 specific statutory treasury management prudential indicators and 8 local indicators.

1.2 The treasury management service performs the borrowing and investment activities of the Council and effectively manages the associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management - Revised December 2017). The adoption of the Code is one of the 12 statutory Prudential Indicators. This Council adopted the Code of Practice on Treasury Management on 2nd March 2010. As a result of adopting the Code, the Council also adopted a Treasury Management Policy Statement on 2nd March 2010.

1.3 The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. Further reports are produced; a mid-year monitoring report and a year-end report on actual activity for the year (Annual Treasury Management Stewardship Report). In addition, Treasury Management Practice (TMPs) documents are also maintained by the Chief Finance Officer. The TMPs have been reviewed and updated to reflect any changes in the Treasury Management Strategy and are attached as appendix 4.

1.4 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. This strategy covers:

- The Council's debt and investment projections;
- The expected movement in interest rates;
- The Council's borrowing strategy;
- The Council's investment strategy;
- Treasury Management prudential indicators and limits on activity;
- Local Treasury issues

2.0 Debt and Investment Projections 2019/20 – 2022/23

2.1 The borrowing requirement comprises the expected movement in the Capital Financing Requirement (CFR) and any maturing debt that will need to be re-financed. The table below shows the anticipated effect on the treasury position over the current and next three years based on the current capital programme. The expected maximum debt position during each year represents the Operational Boundary prudential indicator (for borrowing only) and so may be different from the year-end position. It also highlights the expected change in investment balances.

	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
External Debt				
Debt at 1 April	115,354	120,153	126,948	127,633
Expected change in debt	4,799	6,795	685	(2,715)
Debt at 31 March	120,153	126,948	127,633	124,918
Operational Boundary (debt only)	135,145	141,855	142,605	139,890
Investments				
Total Investments at 31 March	24,100	18,500	18,500	18,500
Investment change	(5,100)	(5,600)	0	0

Expected borrowing has been profiled to take out loans before current low borrowing interest rates are forecast to rise significantly.

2.2 The related impact of the above movements on the revenue budgets are:

	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
Revenue Budgets				
Total interest payable on borrowing	3,925	3,986	4,181	4,256
Related HRA charge	(2,424)	(2,495)	(2,573)	(2,653)
Net General Fund interest payable	1,501	1,491	1,608	1,603
Total investment income	163	151	169	169
Related HRA income share	(45)	(43)	(39)	(43)
Related to other commitments	(18)	(20)	(20)	(20)
Net General Fund income	100	88	110	106

3.0 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Link central view and paragraph 3.1 gives Link's view on economic prospects.

Annual Average %	Bank Rate	PWLB Rates*		
		5 year	25 year	50 year
March 2020	0.75	2.40	3.30	3.20
March 2021	1.00	2.60	3.60	3.50
March 2022	1.00	2.90	3.90	3.80
March 2023	1.25	3.20	4.10	4.00

* Borrowing Rates

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

3.1 **UK. Brexit.** 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to

0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by ‘growth friendly’ fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. 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. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

4.0 The Council's Borrowing and Debt Strategy 2020/21

4.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing.

4.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances as follows.

4.3 If it was felt that there was a significant risk of a sharp fall in long term rates e.g. due to a marked increase of risks around a relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

4.4 If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap

4.5 The Council's overall core borrowing objectives will remain uniform and follow a similar pattern to previous years as follows:

- To reduce the revenue costs of debt in line with the targets set for the Chief Finance officer (see local indicators).
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing.
- To effect funding at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.
- To monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements.
- To proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.
- To manage the day-to-day cash flow of the Council in order to, where possible, negate the need for short-term borrowing. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

4.6 There is unsupported borrowing in the General Fund Investment Programme (GIP) as detailed in the Capital Strategy – the requirement to produce a Capital Strategy was introduced in 2018. The Council expects to take out loans for the General Fund however, will continue to use internal balances whilst interest rates on investments remain low. Officers are continually evaluating the cost effectiveness of borrowing as opposed to selling capital assets. Proposals are presented to Members when borrowing becomes more cost effective.

4.7 During the next MTFS period borrowing is planned for the HRA investment programme.

4.8 The strategy allows for additional borrowing in line with the expected movement in the Capital Financing Requirement (CFR), should it become necessary for cash flow requirements. The Council will consider PWLB loans, Market loans, the Municipal Bond Agency and other financial institutions, if attractive rates are offered. In addition, should schemes be identified that benefit the Council's strategic aims and be deemed cost effective, i.e. Invest to Save schemes where the income streams more than pay for the borrowing costs, unsupported borrowing will be considered.

5.0 The Council's Investment Strategy 2020/21

5.1 The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, ensuring adequate liquidity, with the investment return being the final objective.

The intention of the strategy is to provide security of investment and minimisation of risk.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

In line with this aim, the Council will ensure:

- It maintains a policy covering the types of specified and unspecified investments it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the paragraphs below.

    - Specified Investments – these are high security investments (i.e. high credit quality) and high liquidity investments in sterling with a maturity of no more than one year.
    - Non-specified Investments – investments that do not fall into the category of Specified Investments, representing a potential greater risk (e.g. over one year).

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

5.2 Risk benchmarking

Yield benchmarks are widely used to assess investment performance. Discrete security and liquidity benchmarks are also requirements to Treasury Management reporting, although the application of these is more subjective in nature. Additional background in the approach taken is shown at the end of this appendix.

5.3 These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

5.4 Security

The Council's expected security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.009% historic risk of default when compared to the whole portfolio.

5.5 Liquidity

In respect of this area the Council seeks to maintain:

- Bank overdraft - £nil.
- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.25 years.

5.6 Yield

Local measure of yield benchmark employed is:

- Investments – return above the 7 day LIBID rate

5.7 Investment Counterparty Selection Criteria

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

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

5.8 The Chief Finance Officer will maintain a counterparty list in compliance with the criteria set out in the table contained within this appendix and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which chooses Specified and Non-Specified investments as they provide an overall pool of counterparties considered high-quality which the Council may use rather than defining what its investments are.

5.9 Following the reductions to the Council's grant funding settlement and ongoing financial pressures, the identification of savings and income generation are critical to the delivery of the Medium Term Financial Strategy. Treasury Management is an important area for further income generation and therefore, the main theme of the Council's investment strategy must continue to be to maximise interest from investments, after ensuring adequate security and liquidity. The Investment Strategy 2019-20 seeks to achieve this objective by establishing a pool of counterparties available for investment whilst still containing overall risk within acceptable levels.

5.10 The Council uses Link Asset Services' creditworthiness service. 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.

In accordance with the guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

As with previous practice, ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, engaging with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the creditworthiness methodology provided by Link Asset Services. The result is a colour coding system, which shows the varying degrees of suggested creditworthiness.

Alongside the credit ratings other information sources are used and include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process with regard to the suitability of potential investment counterparties.

The credit ratings of counterparties are supplemented with the following overlays:

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

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 resulting in 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	5 years
Purple	2 years
Blue	1 year (only applies to part-government owned UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

The Link Asset Services creditworthiness service uses a wider array of information than primary ratings alone and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

5.11 Typically, the minimum credit ratings criteria the Council use 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.

The credit ratings specified above are defined as follows:-

F1 (short term rating) – Highest credit quality

A- (long term rating) – High credit quality, denoting a very strong bank

5.12 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Link's creditworthiness service.

- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's counterparty list.

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

5.13 Country and sector considerations

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:

- No more than 50% will be placed with any non-UK country at any time (see below).
- Group limits have been set to ensure that the Council is not exposed to excessive risk due to concentration of investments within any one institution or group. These are detailed in the Investment Counterparty Limits table contained within this appendix.

Although the strategy sets a limit for investment in non-UK countries at no more than 50%, the Council has been operating a tighter operational strategy in the light of the Eurozone difficulties and has not been investing outside the UK. This operational restriction will continue until the problems in the Eurozone economy have been sufficiently resolved.

5.14 In the normal course of the Council's cash flow operations it is expected that both Specified and Non-specified investments will be used for the control of liquidity as both categories allow for short-term investments. The Chief Finance Officer will strive to keep investments within the Non-specified category to a prudent level (having regard to security and liquidity before yield). To these ends the Council will maintain a maximum of 75% of investments in Non-specified investments.

5.15 The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. The investment in longer-term instruments is also limited by the prudential indicator 14 shown in paragraph 6.3, which gives the maximum amount to be invested over 1 year, as well as the limits on the amounts that can be placed with the categories within the non-specified range of investments (see above paragraph 5.14).

5.16 Expectations on shorter-term interest rates, on which investment decisions are based, reflect the fact that an increase in the current 0.75% Bank Rate is unlikely until March 2021. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

5.17 There are operational challenges arising from the ongoing economic conditions. Ideally investments would be invested longer to secure better returns, however shorter dated investments provide better security.

5.18 The criteria for choosing counterparties set out above provide a sound approach to investment in difficult market circumstances.

5.19 Sensitivity to Interest Rate Movements

The Council's Statement of Accounts is required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 0.5% increase/decrease in the average interest rates for investments for next year. That element of the debt and investment portfolios, which are of a longer term, fixed interest rate nature, will not be affected by interest rate changes. There will be no effect on borrowing costs as all the Council's existing debt is fixed rate and the additional borrowing planned will also be fixed rate and has been included within the budget figures in this report at the forecast rate for 2020/21.

£000	**2020/21 Estimated + 0.5%***	**2020/21 Estimated - 0.5%**
Revenue Budgets		
Investment income	86	(86)
Related HRA Income	28	(28)
Net General Fund/Other Income	58	(58)

*This assumes that the rise of 0.50% would be reflected in the rates available to invest– in practice a rate rise of 0.50% would not equal an increase in the rates available.

6.0 Treasury Management Limits on Activity

6.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these is to contain the activity of the treasury function within certain limits, thereby managing the risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunity to reduce costs. The indicators are:

- **Upper limit on variable rate exposure** – this identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- **Upper limit on fixed rate exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- **Maturity structures of borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing at the same time and are required for upper and lower limits.
- **Total principal sums invested for periods longer than 1 year** – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

6.2 In addition the Chief Finance Officer has set eight additional local indicators. The aim of these indicators is to increase the understanding of the treasury management indicators.

6.3 The 4 treasury limits above together with the adoption of the Code of Practice indicators are shown below:

Indicator 11	2020/21 Target £m	2021/22 Target £m	2022/23 Target £m
Upper Limit on variable interest rate exposure	50.8	51.1	49.9

Indicator 12	2020/21 Target £m	2021/22 Target £m	2022/23 Target £m
Upper Limit on fixed interest rate exposure	122.3	123.0	120.2

Indicator 13	2020/21		2021/22		2022/23	
Maturity Structure of fixed borrowing	**Lower**	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	40%	0%	40%	0%	40%
12 months to 2 years	0%	40%	0%	40%	0%	40%
2 years to 5 years	0%	60%	0%	60%	0%	60%
5 years to 10 years	0%	80%	0%	80%	0%	80%
10 years and above	10%	100%	10%	100%	10%	100%

Indicator 14	2020/21 £m	2021/22 £m	2022/23 £m
Maximum principal sums invested for longer than 1 year	5	5	5

Indicator 15
CIPFA Code of Practice for Treasury Management in the Public Services (Revised December 2017) adopted by Council on 2nd March 2010.

6.4 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury management function over the year. The Chief Finance Officer has therefore set 8 local indicators, which are believed to add value and assist the understanding of the main prudential indicators. These indicators are:

- Debt – Borrowing rate achieved against average 7 day LIBOR.
- Investments – Investment rate achieved against average 7 day LIBID.
- Average rate of interest paid on the Councils Debt – this will evaluate performance in managing the debt portfolio to release revenue savings.
- Amount of interest on debt as a percentage of gross revenue expenditure.
- Limit on fixed interest rate investments
- Limit on fixed interest rate debt
- Limit on variable rate investments
- Limit on variable rate debt

6.5 The 8 indicators are shown below:

	2020/21 Target	2021/22 Target	2022/23 Target
Debt - Borrowing rate achieved i.e. temporary borrowing (loans of less than 1 year)	Less than 7 day LIBOR	Less than 7 day LIBOR	Less than 7 day LIBOR

	2020/21 Target	2021/22 Target	2022/23 Target
Investment rate achieved	Greater than 7 day LIBID	Greater than 7 day LIBID	Greater than 7 day LIBID

	2020/21 Target	2021/22 Target	2022/23 Target
Average rate of Interest Paid on Council Debt (%)	4.75%	4.75%	4.75%

	2020/21 Target	2021/22 Target	2022/23 Target
Interest on Debt as a % of Gross Revenue Expenditure	4.4%	4.6%	4.6%

	2020/21 Target	2021/22 Target	2022/23 Target
Upper Limit on fixed interest rate Investments	100%	100%	100%

	2020/21 Target	2021/22 Target	2022/23 Target
Upper Limit on fixed interest rate debt	100%	100%	100%

	2020/21 Target	2021/22 Target	2022/23 Target
Upper Limit on variable interest rate investments	75%	75%	75%

	2020/21 Target	2021/22 Target	2022/23 Target
Upper Limit on variable interest rate debt	40%	40%	40%

6.6 **Treasury Management Advisers**

The Council has engaged the services of Link Asset Services as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt rescheduling advice surrounding the existing portfolio;
- Credit ratings/market information service comprising the three main credit rating agencies.

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

6.7 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers.

This Council has addressed this important issue by:

- Member Training – Our treasury management advisers provided training to the Audit Committee prior to the consideration of this year's strategy. They also provided training to the Performance Scrutiny Committee to support their consideration of the mid-year report. The training needs will be regularly reviewed and updated as necessary in 2020/21.
- Staff Training – training needs for staff engaged in treasury management are addressed through the appraisal process. Training is provided both by the Council's treasury management advisers, other external providers and internally. In addition, the Council encourages staff engaged in treasury to undertake a professional accountancy qualification and ensures that the day-to-day trading is overseen by a professionally qualified accountant following the CIPFA Code of Practice.

7.0 Breakdown of Investment Categories with Maximum Amounts and Periods

The Chief Finance Officer, in accordance with TMP 1 (1) within the Council's Code of Practice, is authorised to invest funds surplus to immediate requirements with the following types of institutions subject to the minimum ratings produced by the three credit rating agencies Fitch, Moody's and Standard & Poor's. The Link Asset Services creditworthiness service is applied to determine a list of suitable counterparties available for investment. The minimum ratings applied by Link Asset Services in compiling their recommended counterparty list are set out in section 5.11 of the investment strategy.

All counterparty ratings are updated on a regular basis on the advice of the Council's Treasury Consultants. Notifications of rating changes are received as they happen.

Investment Counterparty Limits

Institution	Minimum credit criteria/colour band	Maximum limit per group or institution £ million	Maximum maturity period
SPECIFIED INVESTMENTS			
UK Bank *1	Orange/Blue Red Green	£5 million	1 year 6 months 100 days
Non-UK Banks*1 Sovereign rating AA	Orange Red Green	£5 million	1 year 6 months 100 days
Building Society*2	Orange Red Green	£5 million	1 year 6 months 100 days
Money Market Fund*3	Yellow	£5 million	Liquid

UK Government*4	Yellow	unlimited	6 months
UK Local Authority*4	Yellow	£2 million	1 year
NON-SPECIFIED INVESTMENTS			
UK Bank*1	Purple	£5 million	2 years
Non-UK Banks*1 Sovereign rating AA	Purple	£3 million	2 years
Building Society*2	Purple Yellow	£2 million	2 years 5 years
UK Local Authority*4	Yellow	£2 million	5 years
Lincoln Credit Union	N/A	£10K	N/A
Council's own bank*5 (operational cash limit in addition to the investment group limit)	N/A	£500K	Overnight

***1**Where the term 'Bank' is used, this denotes a UK or European Bank authorised to accept deposits through a bank account incorporated within the UK banking sector. The maximum amount indicated is the 'Group total' and covers the total amount that can be invested when spread over any number of subsidiaries within that group.

***2** Where the term Building Society is used, this denotes a UK Building Society.

***3** Money market funds (MMF) are mutual funds that invest in short-term high quality debt instruments. The assets are actively managed within very specific guidelines to offer liquidity and competitive returns. Recently MMFs have changed from a constant net asset value basis to a low volatility net asset value. Although money funds are regarded as short-term investments the rating agencies use a classification system based on long-term debt ratings.

***4** The UK Government (i.e. HM Treasury and its Executive Agency, the Debt Management Office) and Local Authorities, although not rated as such, are classified as having the equivalent of the highest possible credit rating.

***5**This limit covers normal treasury management activities but excludes any deposits received after money market trading has closed.

It allows up to £500K of operational cash to be held in the Council's main bank account in addition to the group investment limit for the bank, if the bank is included on the Council's counterparty list.

Approved Investment Instruments

In addition to determining the rating and limits of authorised counterparties TMP 4 "Approved instruments, methods and techniques" within the Council's Code of Practice requires the Council to define the instruments that the Authority will use in undertaking its Treasury Management activities. In accordance with this, and the investment regime issued as part of the prudential capital finance system, the Instruments that the Chief Finance Officer will consider investing surplus funds in are shown below:

Instruments of Specified Investments *1

1. Gilt-edged securities issued by the United Kingdom Debt Management Office (UK DMO), an Executive Agency of HM Treasury.
2. Treasury Bills issued by the UK DMO.
3. Deposits with the Debt Management Office Debt Management Account Deposit Facility (DMADF).
4. Deposits with a Local Authority, Parish Council or Community Council.
5. Deposits with Banks and Building Societies (Including opening Business Accounts).
6. Certificates of deposit issued by Banks and Building societies.
7. Pooled investment vehicles (e.g. money market funds)

***1** To be defined as a Specified Investment the above instruments will have these features common to all:

- Be denominated in Sterling,
- Of not more than 1 year maturity,
- Of longer than 1 year maturity but the Council has the right to be repaid within 12 months,
- For instruments numbered 5 to 7 these must be with institutions of high credit quality.

Instruments of Non-Specified Investments *2

1. Deposits with Banks, Building Societies and their subsidiaries.
2. The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.
3. Certificates of deposit issued by Banks and Building Societies.

***2** To be defined as a Non-Specified Investment the above instruments will have these features common to all:

- Denominated in Sterling,
- Of more than 1 year maturity,
- Of less than 1 year maturity with an institution that does not meet the basic security requirements under Specified Investments e.g. a deposit with a non-credit rated Bank or Building Society

Security, Liquidity and Yield benchmarking

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service

A requirement for Treasury Management reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Benchmarks for the cash type investments are set out below and these will form the basis of reporting in this area. In other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - nil
- Liquid short term deposits of at least £5m available with a week's notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – a shorter WAL would generally embody less risk. In this respect the proposed benchmark to be used is:

- WAL benchmark is expected to be 0.25 years.
- Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy.

The Council's expected security risk benchmark from its budgeted investment strategy is:

- 0.009% historic risk of default when compared to the whole portfolio which equates to a potential loss of £2,169 on an investment portfolio of £21.4m. In addition that the security benchmark for each individual year is:

	1 year	2 year	3 year	4 year	5 year
Maximum	0.30%	0.30%	0.30%	0.30%	0.30%

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported

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CITY OF LINCOLN
TREASURY MANAGEMENT POLICY – CODE OF PRACTICE FOR TREASURY MANAGEMENT
(March 2020)

KEY PRINCIPLES

The City of Lincoln Council adopts the following three key principles identified within the *CIPFA Treasury Management in the Public Services Code of Practice* (The Code).

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2

The policies and practices should make clear that the effective management and control of risk are prime objectives of the treasury management activities and that responsibility for these lies clearly within the organisation. The appetite for risk should form part of the annual investment strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and *portfolio* liquidity when investing *treasury management* funds.

Key Principle 3

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

ADOPTED CLAUSES

In accordance with *CIPFA's Treasury Management in the Public Services Code of Practice* (The Code), the City Of Lincoln Council adopts the following four clauses:

1. The City of Lincoln Council will create and maintain, as the cornerstones for effective treasury management:

   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

   - suitable treasury management practices (TMP's), setting out the manner in which it will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the policy statement and TMP's will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the City of Lincoln Council materially deviating from the Code's key principles.

2. The Performance Scrutiny Committee of the City of Lincoln Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, a mid-year review and an annual report after its close, in the form prescribed in its TMP's. The Audit Committee of the City of Lincoln Council will receive on at least an annual basis a report of the treasury management strategy before approval by the Executive and full Council. Revised strategies may be prepared and presented to full Council for approval at any point during the year if deemed necessary e.g. there may be investment issues that full council should be made aware of.

3. The City of Lincoln Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Performance Scrutiny Committee, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs.

4. The City of Lincoln Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

TREASURY MANAGEMENT POLICY STATEMENT

1. The City of Lincoln Council defines its treasury management activities as:

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

2. The City of Lincoln Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organization, and any financial instruments entered into to manage these risks.

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

TREASURY MANAGEMENT PRACTICES

TREASURY MANAGEMENT PRACTICE 1

RISK MANAGEMENT

General statement

The City of Lincoln Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly it will ensure that robust due diligence procedures cover all external investments. The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the City of Lincoln Council's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements.* In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out in the schedule to this document.

[1] Credit and counterparty risk management

Credit and counter-party risk is *The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing (not part of the Treasury Management function), particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources"*

The City of Lincoln Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow or with whom it may enter into other financing arrangements.

In preparing the annual strategy, the City of Lincoln Council will:

- Produce a list of approved investment instruments for both Specified and Non-specified Investments,
- Identify criteria for inclusion on the Council's Counterparty List,
- Determine the minimum credit ratings required for both Specified and Non-Specified Investments and the maximum amounts and periods to be invested in Specified and Non-specified Investments,

[2] Liquidity risk management

This is *"The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisations business/service objectives will be thereby compromised."*

The City of Lincoln Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The City of Lincoln Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day at £500,000. Borrowing or lending shall be arranged in order to achieve this aim.

[3] Interest rate risk management

This is *"The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately."*

The City of Lincoln Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information arrangements.*

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

[4] Exchange rate risk management

This is *"The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately."*

City of Lincoln Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

[5] Inflation risk management

This is "The chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation,"

The City of Lincoln Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

[6] Refinancing risk management

"The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and / or that the terms are inconsistent with prevailing market conditions at the time."

The City of Lincoln Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the City of Lincoln Council as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

Debt/Other Capital Financing, Maturity Profiling, Policies and Practices
The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Council at the meeting immediately following its action / in the annual Review Report.

Projected Capital Investment Requirements
The responsible officer will prepare a five year plan for capital expenditure for the Council. The capital plan will be used to prepare a five year revenue budget for all forms of financing charges.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing
In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and (in the case of authorities with an HRA), housing rent levels. It will also take into account affordability in the longer term beyond this three year period.

- Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

[7] Legal and regulatory risk management

This is *"The risk that the organisation itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly."*

The City of Lincoln Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *Credit and counterparty risk management,* it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the City of Lincoln Council, particularly with regard to duty of care and fees charged.

The City of Lincoln Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the City of Lincoln Council.

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council.

Procedures for Evidencing the Council's Powers/Authorities to Counterparties
The Council's powers to borrow and invest are contained in legislation.

In addition, it will make available on request the following: -
a) the scheme of delegation of treasury management activities which is contained in Financial Procedure Rules
b) the document which sets out which officers are the authorised signatories.

Required Information on Counterparties
Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard and Poors and CDS prices.

Statement on the Council's Political Risks and Management of Same
The responsible officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

Monitoring Officer
The monitoring officer is the City Solicitor; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

Chief Financial Officer
The Chief Financial Officer is the Chief Finance Officer, the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if she has concerns as to the financial prudence of its actions or its expected financial position.

[8] Fraud, error and corruption, and contingency management

"The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its TM dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk."

The City of Lincoln Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

a. seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b. Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
c. Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d. Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

[9] Price risk management

"The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated TM policies and objectives are compromised, against which effects it has failed to protect itself adequately."

The City of Lincoln Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TREASURY MANAGEMENT PRACTICE 2

PERFORMANCE MEASUREMENT

The City of Lincoln Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the City of Lincoln Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TREASURY MANAGEMENT PRACTICE 3

DECISION-MAKING AND ANALYSIS

The City of Lincoln Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TREASURY MANAGEMENT PRACTICE 4

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The City of Lincoln Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk management.*

City of Lincoln Council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TREASURY MANAGEMENT PRACTICE 5

ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The City of Lincoln Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the City of Lincoln Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements,* and the implications properly considered and evaluated.

The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Chief Finance Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule to this document. The Chief Finance Officer will fulfil all such responsibilities in accordance with the City of Lincoln Council's policy statement and TMP's.

TREASURY MANAGEMENT PRACTICE 6

REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The City of Lincoln Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the full Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year. Revised strategies may be presented to full Council at any point in the year if deemed necessary.
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with its treasury management policy statement and TMP's.

The Performance Scrutiny Committee will receive regular monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices. It will receive an annual report on the treasury management strategy before approval by the Executive and full Council.

The Executive will receive the Treasury Management Strategy prior to submission to Full Council, regular monitoring reports and an annual report on the Treasury Management function, on the effects of the decisions taken and the transactions executed in the past year.

The City of Lincoln Council will report the treasury management indicators as detailed in the local authority guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TREASURY MANAGEMENT PRACTICE 7

BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will as a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The form, which the City of Lincoln Council's budget will take, is set out in the schedule to this document. The Chief Finance Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The City of Lincoln Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the City of Lincoln Council's accounts is set out in the schedule to this document.

The City of Lincoln Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.

TREASURY MANAGEMENT PRACTICE 8

CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the City of Lincoln Council will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TREASURY MANAGEMENT PRACTICE 9

MONEY LAUNDERING

The City of Lincoln Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in treasury activities and accepting payments are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

Money Laundering is defined as "*a process where the identity of the proceeds of criminal proceedings (dirty money) is changed through apparently legitimate transactions so that the money appears to originate from a legitimate source*"

TREASURY MANAGEMENT PRACTICE 10

STAFF TRAINING AND QUALIFICATIONS

The City of Lincoln Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Finance Officer will recommend and implement the necessary arrangements.

The Chief Finance Officer will ensure that the council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

TREASURY MANAGEMENT PRACTICE 11

USE OF EXTERNAL SERVICE PROVIDERS

The City of Lincoln Council recognises that the responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. It will also ensure that where any external investment manager is used that they are contractually required to comply with the Council's Strategies. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

TREASURY MANAGEMENT PRACTICE 12

CORPORATE GOVERNANCE

The City of Lincoln Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The City of Lincoln Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS

City of Lincoln Council recognizes that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcome, investments in subsidiaries, and investment property portfolios.

City of Lincoln Council will ensure that all its investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, its risk appetite and specific policies and arrangements for non-treasury investments. It will be recognized that the risk appetite for these activities may differ from that for treasury management.

The City of Lincoln Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and its risk exposure

TREASURY MANAGEMENT PRACTICES – SCHEDULES

This section contains the schedules, which set out the details of how the Treasury Management Practices (TMP's) are put into effect by City Of Lincoln Council.

TREASURY MANAGEMENT PRACTICE 1
RISK MANAGEMENT

[1] Credit and counterparty risk management (reviewed and updated annually as part of the Council's Treasury Management Strategy)

- ***Debt Management Office*** – The council to use at the discretion of the Chief Finance Officer.

- ***Criteria to be used for creating/managing approved counterparty lists/limits*** – the type of institutions that are included on the Council's counterparty list are based on the Council's ethical policy and by reference to investment guidance. The Council uses the creditworthiness service provided by its treasury management advisors, Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies, Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with overlays of credit watches and credit outlooks from credit rating agencies; Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings; and sovereign ratings to select counterparties from creditworthy countries. The criteria used for the counterparty list are based on the Council's attitude to investment risk and advice from the Council's treasury management consultants. Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of F1 (highest credit quality) and a long-term rating A- (high credit quality). There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but the counterparty may still be used if consideration of the whole range of ratings available and other topical market information supports their use.

  The Link Asset Services modelling approach described above combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

  - Yellow 5 years
  - Purple 2 years

- Blue 1 year (only applies to part-government owned UK banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour Not to be used

The current minimum criteria for inclusion of counterparties on the list using the colour coding are as shown below, along with the allowable time and money limits.

Investment Counterparty Limits

Institution	Minimum credit criteria/colour band	Maximum limit per group or institution £ million	Maximum maturity period
SPECIFIED INVESTMENTS			
UK Bank *1	Orange/Blue Red Green	£5 million	Up to 1 year Up to 6 months Up to 100 days
Non-UK Banks*1 Sovereign rating AA	Orange Red Green	£5 million	Up to 1 year Up to 6 months Up to 100 days
Building Society*2	Orange Red Green	£5 million	Up to 1 year Up to 6 months Up to 100 days
Money Market Fund*3	AAA	£5 million	Liquid
UK Government*4	Yellow	unlimited	Up to 6 months
UK Local Authority*4	Yellow	£2 million	Up to 1 year
UNSPECIFIED INVESTMENTS			
UK Bank*1	Purple	£5 million	Up to 2 years
Non-UK Banks*1 Sovereign rating AA	Purple	£3 million	Up to 2 years
Building Society*2	Purple Yellow	£2 million	Up to 2 years Up to 5 years
UK Local Authority*4	N/A	£2 million	Up to 2 years
Lincoln Credit Union	N/A	£10K	N/A
Council's own bank*5 (operational cash limit in addition to the investment group limit)	N/A	£500K	Overnight

***1** Where the term 'Bank' is used this denotes a UK or European Bank authorised to accept deposits through a bank account incorporated within the UK banking sector. The maximum amount indicated is the 'Group total' and covers the total amount that can be invested when spread over any number of subsidiaries within that group.

***2** Where the term Building Society is used this denotes a UK Building Society.

***3** Money market funds are mutual funds that invest in short-term high quality debt instruments. The assets are actively managed within very specific guidelines to offer safety of principal, liquidity and competitive returns. Although money funds are regarded as short-term investments the rating agencies use a classification system based on long-term debt ratings.

***4** The UK Government (i.e. HM Treasury and its Executive Agency the Debt Management Office) and Local Authorities, although not rated as such, are classified as having the equivalent of the highest possible credit rating.

***5** This limit covers normal treasury management activities but excludes any deposits received after money market trading has closed. It allows up £500K operational cash to be held in the Council's main bank account in addition to the group investment limit for the bank, if the bank is included on the Council's counterparty list.

- ***Approved methodology for changing limits and adding/removing counterparties*** - The Council's treasury management consultants compile a full list of counterparties, with their appropriate colour coding, designated as the "Credit list". This list is issued to the Council and renewed on a weekly basis. Notifications of any changes are received as they occur. The latest position is also available on Link's Passport system. The credit rating position is updated on this system as soon as any changes are made to credit ratings. The latest position will be checked and is used as a source of reference before any investments are undertaken. If the change to a counterparty is a downgrade and no longer meets the Council's minimum criteria then its further use as a new investment will be withdrawn immediately.
- ***Full individual listings of counterparties and counterparty limits*** – the minimum creditworthiness (indicated by the colour coding) for inclusion of a counterparty is shown in the table above. Investments are categorised as specified and non-specified (in line with the investment guidelines issued in March 2010) and the maximum amounts and periods to be invested within the two categories are shown in the table above (based on the current Treasury Management Strategy).
- ***Details of credit rating agencies' services*** – The creditworthiness service provided by Link Asset Services and used by the Council uses the three credit rating agencies, Fitch, Standard and Poor's and Moody's, which are recognised worldwide. Each of them is established in most countries and has a universal credit rating scale. These three leading international rating agencies have established a universal and open methodology of drawing up rating reports. Activities of the rating agency are public and all necessary information of rating decisions is available on the Internet.

- **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:
  - No investments to be placed in non-EU banks.
  - No more than 50% will be placed with any non-UK country that is within the EU.

- **Use of additional information other than credit ratings** - Additional requirements under the Code of Practice now require the Council to supplement credit rating information. The creditworthiness service provided by Capita Asset Services now employed by the Council fully meets this requirement as the sophisticated modelling approach combines credit ratings, credit watches and credit outlooks and then overlays CDS spreads to produce a final creditworthiness score. However, sole reliance is not placed on the use of this external service. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

[2] Liquidity risk management

- ***Minimum cash balances and short term investments*** – the Council has a policy of a minimum of £5m to be deposited in instruments that can be accessed within a week but does not have set amounts for minimum cash balances to cover shortages in cash flow. A twelve month cash flow forecast model is used as a tool to forecast cash inflows and outflows, and investments are made for specific periods, which take into account when money is required to fund cash outflows, thereby keeping short term borrowing to an absolute minimum. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

- ***Standby facilities*** – these relate to any tools that the Council has to manage its liquidity and as such are covered by short-term borrowing facilities (see below). In addition the Council also maintains several Money Markets Funds and five Deposit accounts. These are exceptionally liquid investment instruments that offer same day access to any funds placed therein. The Council does not have a Policy of maintaining a minimum balance within any of these funds but in reality these funds are used as an alternative to overnight and other short-term periods of investment.

- ***Bank overdraft arrangements*** – the Council does not currently have an overdraft facility with its bankers (currently Lloyds Bank). Accurate cash flow forecasting and immediate access to funds in Money Market Funds mean that under normal circumstances an overdraft facility is not required. On the very rare occasions that the bank balance may be overdrawn the fees charged are considerably less than the annual overdraft fee. The need for an overdraft facility is reviewed annually in August 30th and forms part of the 'Overdraft and other Facilities' agreement with the Bank.

- ***Short term borrowing facilities*** – When the Council has a need to borrow short-term (up to 364 days), Money Market Brokers are contacted (currently Tradition, BGC or King and Shaxson) to obtain the necessary funds. The broker will quote a rate that is based on current market conditions. A fee is payable to the broker for this service, typically between 3 and 10 basis points.

- ***Insurance/guarantee facilities*** – the Council is insured in respect of loss of money or other property belonging to it or in its trust or custody under a Fidelity Guarantee with Travelers. This only relates to loss occurring as a direct result of any act of fraud or dishonesty on the part of an employee (as specified under the Policy Schedule). This Policy is renewable annually in April. The full terms and conditions of the Fidelity Guarantee and Policy schedule including the designated Officers, the employees and sums for which they are covered are available from the Financial Services Manager.

- ***Other contingency arrangements*** – in line with investment guidance the Council has set maximum amounts and periods for which funds may prudently be committed to ensure it has sufficient liquidity in its investments.

The limits are shown below in section 5 Credit and counterparty risk management (limits are based on the current Treasury Management Strategy):

In addition the Council has adopted the following Prudential Indicator to limit the amount that can be invested over 364 days as shown below:

Prudential Indicator No.16	2020/21 £m	2021/22 £m	2022/23 £m
Maximum principal sums invested for longer than 364 days	5	5	5

[3] Interest rate risk management

- ***Approved interest rate exposure limits*** – in order to minimise the risk of wide fluctuations in interest rates the Council sets annually upper limits on variable and fixed interest rate exposure (based upon the debt position net of investments), the current limits are as follows:

	2020/21 Upper £m	2021/22 Upper £m	2022/23 Upper £m
Upper Limits on variable interest rate exposure	50.8	51.1	49.9

	2020/21 Upper £m	2021/22 Upper £m	2022/23 Upper £m
Upper Limits on fixed interest rate exposure	122.3	123	120.2

These limits are based on the following limits on borrowing and investment exposures:

- Upper limit on fixed rate investments – 100%
- Upper limit on variable rate investments – 75%
- Upper limit on fixed rate borrowing – 100%
- Upper limit on variable rate borrowing – 40%

The indicators above are set as part of the Council's annual Prudential Indicators and Treasury Management Strategy.

- ***Trigger points and other guidelines for managing changes to interest rate levels*** – the Council's current Treasury Management consultants provide regular interest rate forecasts and economic advice, which assists the Council to manage changes in interest rate levels. This forecasting and economic advice includes:

- Regular forecasts of PWLB rates and imminent changes are given to the Council, with particular regard to the agreed underlying strategy. Continuous updates on market conditions and trends affected by economic, fiscal and political factors are also provided
- A weekly and monthly newsletter
- A quarterly ‘Economic and Interest Rate Forecast’ bulletin

- ***Minimum/maximum proportions of variable rate debt/interest*** – the Council has set the maximum proportion of variable interest rate exposure (based upon the debt position net of investments) as shown above.

  The Council also sets a minimum level for the proportions of variable rate debt and interest (detailed above). These limits feed into the limit on the net debt position, which is based on estimated levels of debt and investments.

[4] Exchange rate risk management

- The Council only invests and borrows funds in sterling; thereby avoiding any risk associated with fluctuations in exchange rates.

[5] Refinancing risk management

- ***Debt/other capital financing maturity profiling, policies and practices*** – as part of the annual Prudential Indicators and Treasury Management Strategy the gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing. The current limits are as follows:

Maturity Structure of fixed borrowing	**2020/21**		**2021/22**		**2022/23**	
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	40%	0%	40%	0%	40%
12 months to 2 years	0%	40%	0%	40%	0%	40%
2 years to 5 years	0%	60%	0%	60%	0%	60%
5 years to 10 years	0%	80%	0%	80%	0%	80%
10 years and above	10%	100%	10%	100%	10%	100%

  The Council’s treasury management consultants are continually reviewing the Council’s debt portfolio in terms of seeking opportunities for debt restructuring to ascertain the most beneficial loans in terms of savings and spreading the maturity profiles.

- ***Projected Capital Investment Decisions*** – The Council has a 5-year Financial Strategy that is updated annually. The strategy incorporates the projected capital programme together with the associated funding i.e. grants, capital receipts, Direct Revenue Financing (DRF) and borrowing. Any new capital schemes are appraised in terms of funding; if any unsupported borrowing is required this is determined in terms of affordability and the Council assesses the loan type, loan period and interest rate with reference to the current strategy and age debt profile of the current portfolio.

[6] Legal and regulatory risk management

- ***Relevant statutes and regulations*** – in all the treasury management activities, the City Council follows the Local Government Act 2003. Chapter 1 of the Act sets out the statutory powers of local authorities; to borrow, control borrowing, duty to determine affordable borrowing limit, imposition of borrowing limit, temporary borrowing, protection of lenders and power to invest. In addition the City Council follows the regulations as set out below:

    - CIPFA Code of Practice on Local Authority Accounting ("The Code")
    - CIPFA Code of Practice on Treasury Management
    - Prudential Code for Capital Finance in Local Authorities (CIPFA)
    - Local Government Investment Guidance (ODPM/DLGC)

[7] Fraud, error and corruption, and contingency management

- ***Systems and procedures to be followed*** – in order to minimise the possibility of fraud, error or corruption, procedures for carrying out and monitoring treasury management activities involve rigorous requirements for audit, checking, control and reporting. These requirements are detailed in the relevant schedules i.e. TMP5 – Organisation, Clarity and Segregation of Duties and Dealing Arrangements. In the event of any fraud or corruption this will be immediately reported to either the Financial Services Manager or Chief Finance Officer who will determine the appropriate course of action. Similarly, any errors, which result in the breach of procedures set down in these schedules, will be reported either to the Financial Services Manager or Chief Finance Officer.

- ***Emergency and contingency planning arrangements*** **–** Procedures to be implemented in the event of a disaster will be contained in the Council's I.T. Disaster Recovery Plan.

- ***Insurance cover details*** **–** see TMP 1[2] for details.

[8] Market risk management

- ***Approved procedures and limits for controlling exposure to investments whose capital value may fluctuate* -** the Council does not expose itself to this risk as it does not use investments whose capital value may fluctuate; in addition the Council does not use Fund Managers who may use investments whose capital value may fluctuate.

TREASURY MANAGEMENT PRACTICE 2
PERFORMANCE MEASUREMENT

- ***Methodology to be applied for evaluating the impact of treasury management decisions –*** to assess the adequacy of the treasury management function, the Council has set 8 local indicators. These indicators are as follows:

  - **Debt** (Borrowing rate achieved against average 7 day LIBOR) - target; less than 7 day LIBOR.
  - **Investments** (Investment rate achieved against average 7 day LIBID) – target; greater than 7 day LIBID.
  - Upper limit on fixed rate investments – 100%
  - Upper limit on variable rate investments – 75%
  - Upper limit on fixed rate borrowing – 100%
  - Upper limit on variable rate borrowing – 40%
  - **Average rate of interest paid on the Councils Debt during the year** (this will evaluate performance in managing the debt portfolio to release revenue savings) – target; 4.75%
  - **The amount of interest on debt as a percentage of gross revenue expenditure** target; 4.4%

The local indicators are subject to scrutiny through the mid year treasury management reports submitted to the Council's Performance Scrutiny Committee.

In addition the Council sets budgetary targets for investment interest receivable (net of short-term borrowing interest) and borrowing interest payable, both on the General Fund and Housing Revenue Accounts. These budget targets are included in the Council's 5-year Financial Strategy and are monitored on a regular basis to ensure there are no material variances. In the event of material variances, these would be reported to the Council's Performance Scrutiny Committee and Executive as part of the quarterly budget monitoring reports and reported to the Chief Finance Officer and the Financial Services Manager through regular updates.

- ***Policy concerning methods for testing value for money in treasury management***

  - The Council appoints an external treasury management consultant to advise on treasury management activities and in order to obtain expert independent advice on a range of treasury management issues e.g. interest rate forecasts, investment instruments, investment and borrowing strategy, credit ratings. Link Asset Services are to be reappointed for a 3-year period (with an option to extend the contract for a further period of one year) following the expiry of the previous agreement plus extensions on 28th February 2018. This reappointment was made using a framework agreement established by ESPO by competitive tender, thus ensuring value for money was obtained. The contract will be renewed in February 2021 following further use of a framework.

  - Banking Services are also re-tendered or renegotiated periodically to ensure that the level of prices reflect efficiency savings achieved either by the Council or the supplier. The current banking contract is for three and a half years with the option of two further extensions of two years each i.e. a maximum of seven and a half years in total. The option to extend has been utilised and the current arrangement will end in September 2021.

  - The Council sometimes uses money broking services in order to make deposits or to borrow. Charges for all services are established prior to using them and the use of brokers takes account of both the prices and quality of services.

TREASURY MANAGEMENT PRACTICE 3
DECISION-MAKING AND ANALYSIS

Detailed records are maintained of all borrowings and investments made by the Council. In respect of every decision concerning changes to existing patterns of lending or borrowing made, the Council will:

- above all be clear about the nature and extent of the risks to which the organisation may become exposed
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- be content that the documentation is adequate both to deliver the Council’s objectives and protect the Council’s interests, and to deliver good housekeeping
- ensure that third parties are judged satisfactory in the context of the Council’s creditworthiness policies and that limits have not been exceeded
- be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive

With the need to realise significant General Fund revenue savings to ensure that the budget is balanced and sustainable in the long term and the need to achieve efficiency savings in the Housing Revenue Account, the main theme of the borrowing and debt strategy is to reduce the individual average interest rates paid by each fund. The reduction in interest rates will be undertaken through debt restructuring opportunities and taking new borrowing with lower interest rates than the rates that have been projected in the budget estimates. However, restructuring that increases the interest rate payable may be considered if it offers the Council the opportunity to take a discount, as part of the rescheduling exercise. In respect of borrowing decisions, the Council will:

- Manage the Council's debt maturity profile, considering the optimum period leaving no one future year with a high level of repayments that might cause problems in re-borrowing in light of the maturity profile of existing loans and prevailing market conditions.
- Effect funding at the cheapest cost commensurate with future risk.
- Forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.

- Monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements. Consider whether fixed or variable interest rates offer best value, whilst ensuring that variable and fixed rates do not exceed the Prudential Indicator limits as shown in TMP1 schedule [2] above.
- Proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.
- Manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates. Before proceeding to borrow the Council will consider the optimum period and prevailing market conditions and compare interest rates to bank overdraft rates to ensure best value.
- Consider the alternative financial institutions and borrowing products that the Council can use.
- Ensure total borrowing does not exceed the Authorised Limit set for that financial year, approved as part of the Prudential Indicators and Treasury Management Strategy.

The main theme of the investment strategy is to ensure the security of the sums invested as a first priority and secondly to ensure that the Council has access to sufficient liquid funds. Then thirdly to maximise interest from investments, within the constraints imposed by having regard to security and liquidity, in order to contribute towards the General Fund and Housing Revenue Account savings targets as detailed above. The increase of investment income will be sought through actively undertaking investments with higher interest rates than the rates that have been projected in the budget estimates. In respect of investment decisions, the Council will:

- consider the optimum period, in light of cash flow availability and prevailing market conditions
- consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital, although the Council does not use such products
- ensure investments are included in the Councils ‘approved investment instruments’ (see TMP4 below)
- consider financial institutions and ensure they meet the minimum requirements for inclusion in the Council’s counterparty list (see TMP1 schedule [1] above)

- ensure that the counterparty individual/group investment limits are not exceeded (see TMP1 [1] above)
- ensure the non-specified investment limit is not exceeded current limit is 75% of the total of investments, as approved in the Prudential Indicators and Treasury Management Strategy
- ensure that investments over 364 days do not exceed the limit of £5m (see TMP1 schedule [1] above). This includes forward deals.

A meeting will be held for the Treasury Management officer to advise the Financial Services Manager when it is necessary to make investment and borrowing decisions where the length of the deal to be brokered has a maturity period of over 3 months, and as necessary when other issues arise. A briefing note is prepared giving details of the proposed deal and supporting information which is discussed at the meeting. It will be signed off by the Financial Services Manager and then the Chief Finance Officer (or City Solicitor in their absence) before the investment is made or any borrowing is taken.

TREASURY MANAGEMENT PRACTICE 4
APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

- ***Listings and individual limits for the use of approved instruments –*** In accordance the Council's current treasury management strategy, the instruments (split between specified and non-specified investments) that the Council will consider investing surplus funds in are shown below (individual limits are not set for approved investment instruments):

Instruments of Specified Investments *1

1. Gilt-edged securities issued by the United Kingdom Debt Management Office (UK DMO), an Executive Agency of HM Treasury.
2. Treasury Bills issued by the UK DMO.
3. Deposits with the Debt Management Office Debt Management Account Deposit Facility (DMADF).
4. Deposits with a Local Authority, Parish Council or Community Council.
5. Deposits with Banks and Building Societies (Including opening Business Accounts).
6. Certificates of deposit issued by Banks and Building societies.
7. Investment Schemes i.e. a Money Market Fund.

***1** To be defined as a Specified Investment the above instruments will have these features common to all:

- Be denominated in Sterling,
- Of not more than 1 year maturity,
- Of longer than 1 year maturity but the Council has the right to be repaid within 12 months,
- For instruments numbered 5 to 7 these must be with institutions that have been awarded a high credit rating by a Rating Agency (i.e. see Appendix 4).

Instruments of Non-Specified Investments *2

1. Deposits with Banks, Building Societies and their subsidiaries.

***2** To be defined as a Non-Specified Investment the above instruments will have these features common to all:

- Denominated in Sterling,
- Of more than 1-year maturity,
- Of less than 1-year maturity with an institution that does not meet the basic security requirements under Specified Investments e.g. a deposit with a non-credit rated Bank or Building Society.

- ***Approved method/techniques and sources of raising capital finance* –** capital finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These could include:

	Fixed	Variable
PWLB	●	●
Market Loans (long-term)	●	●
Local Bonds	●	
Negotiable Bonds	●	●
Finance Leases	●	●

Other methods of financing include Government and European Capital Grants, Lottery monies, Private Finance Initiative (PFI) (now PF2), Public-Private Partnerships (PPP), operating leases and other capital contributions from relevant partners and stakeholders.

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers, in accordance with the Officers' Scheme of Delegation within the Constitution and the Treasury Management Strategy, to borrow using the most appropriate sources.

- ***MIFID II* –** the council has opted for professional status for the purposes of MIFID II. The council is registered as a professional client with:

Link Asset Services
King and Shaxson
BGC
Tradition
Institutional Cash Distributors Ltd

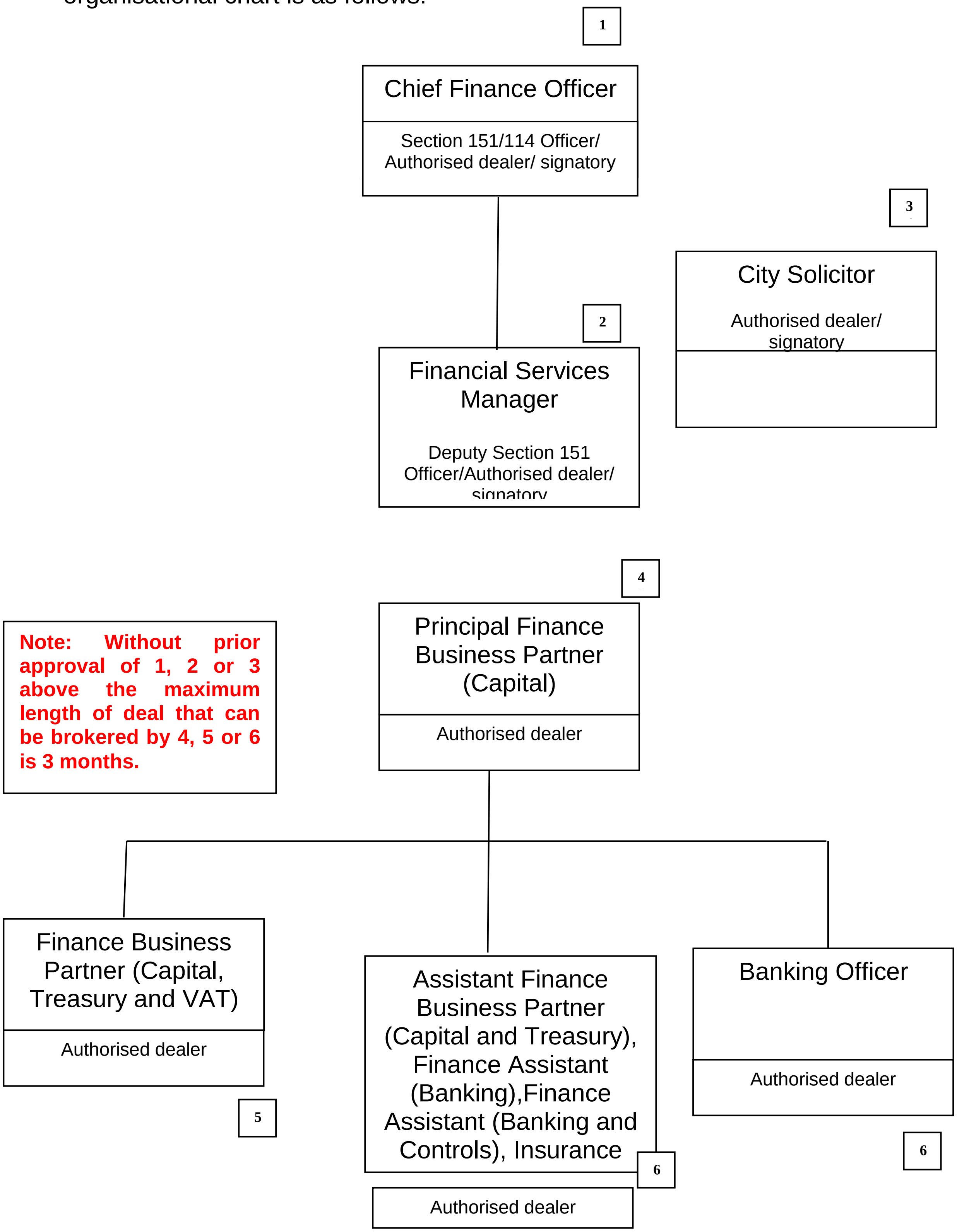
TREASURY MANAGEMENT PRACTICE 5
ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

- ***Limits to responsibilities/discretion at committee/executive levels*** – in accordance with the Council's financial procedure rules, full Council is responsible for approving the annual prudential indicators and treasury management strategy, which is proposed to full Council by the Executive. All decisions on borrowing, investment or financing are delegated to the Chief Finance Officer, who is required to act in accordance with CIPFA's Code of Practice for Treasury Management in Local Authorities. In addition at the end of each financial year an outturn report detailing the years performance against the Prudential and local indicators and treasury management activities is submitted to the Council's Performance Scrutiny Committee, Executive and full Council. Mid Year treasury management reports are submitted to the Council's Executive and Performance Scrutiny Committee, to update Members as to the actual position against the local and Statutory Prudential Indicators, and to summarise the treasury management activities undertaken during the previous six months.

- ***Principles and practices concerning segregation of duties*** – in order to reduce the risk of fraud and corruption, the following duties are divided between different staff:

    - As part of the procedures for making CHAPS payments (i.e. repayment of loans, depositing investments and urgent payments) three different members of staff undertake the stages of setting up the payment, approval and authorisation
    - Any investment or borrowing over 3 months must be agreed by the Financial Services Manager and then the Chief Finance Officer (or City Solicitor in their absence). A briefing document giving all the details of the investment or borrowing will be presented for approval to all three signatories.
    - The principal and practices concerning segregation of duties is set out in the hierarchical responsibilities/duties of each post, as set out below

Treasury Management organisation chart – the Council's current organisational chart is as follows:



- ***Statement of duties/responsibilities of each treasury post*** –

1. Chief Finance Officer

- Duties in line with S151 and S114 responsibilities
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised Signatory

2. City Solicitor

- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised signatory

3. Financial Services Manager

- Duties in line with deputy S151 responsibilities
- Advise the Chief Finance Officer on Treasury Management matters
- Receive and review Treasury Management investment and borrowing proposals
- Review and appoint Treasury Management consultants
- Ensure that staff involved in treasury management receive appropriate training
- Ensure that the treasury management function is adequately resourced to meet current requirements
- Absence cover for the Chief Finance Officer for responsibilities detailed above.
- Ensure there is adequate internal checking and control
- Ensure the Treasury Management Strategy, the Treasury Management Outturn Report and mid-year Monitoring Reports are prepared and complied with
- Ensure implementation of Treasury Management actions agreed by the Chief Finance Officer
- Ensure Treasury Management Practices are complied with and are reviewed at least annually
- Ensure the appropriate division of duties within the section
- Identify and recommend opportunities for improved Treasury Management Practices
- Implementation of the Treasury Management Strategy
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised signatory

4. Principal Finance Business Partner (Capital) PFBP

- Advise Financial Services Manager on Treasury Management matters
- Oversee the compilation of the yearly cash flow
- Oversee the monitoring, update, revision and reporting on the authorities cash flow
- Prepare the annual Treasury Management Strategy and Outturn Reports
- Compile mid year treasury management reports to the Council's Performance Scrutiny Committee
- Monitor and calculate the prudential indicators/local indicators and performance against budget targets (i.e. borrowing and investment interest)
- Prepare an annual budget for Treasury Management activities (i.e. borrowing and investment interest, debt management expenses)
- Ensure implementation of Treasury Management actions agreed by the Financial Services Manager and Chief Finance Officer
- Assist the Financial Services Manager in implementation of the Treasury Management Strategy
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)

5. Finance Business Partner (Capital, Treasury and VAT)

- Construction of yearly cash flow
- Advise Financial Services Manager and PFBP (Technical and Exchequer) on Treasury Management matters
- Monitor, update, revise and report on the authority's cash flow
- Monitor and calculate the prudential indicators/local indicators and performance against budget targets (i.e. borrowing and investment interest)
- Maintain the Council's Money Market Funds and Call accounts
- Liaise with brokers on a day to day basis and monitor interest rates
- Invest short-term cash surpluses in line with Councils investment policy/strategy
- Take short-term borrowings to cover cash flow shortages in line with Council's investment policy/strategy.
- Maintain the Councils Counterparty list in line with Council's investment policy/strategy
- Action periodic interest payments on long term loans
- Instigate year-end accruals for investments and loans.
- Assist in the preparation of mid year treasury management reports and Annual Treasury Management Strategy and Outturn Reports.
- Administer the Council's 3% Stock, war stock and local bonds
- Monitor the Councils approved Prudential Indicators/Local Indicators and percentage of investments held as Specified/Non-Specified Investments

- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Production of quarterly reconciliations for all Treasury Management ledger accounts

6. Assistant Finance Business Partner (Capital and Treasury), Finance Assistant (Banking), Finance Assistant (Banking and Control) and Insurance Assistant, Banking and Controls Officer

- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Absence cover for Finance Business Partner (Capital, Treasury and VAT)
- Download on a daily basis the Council's bank statements in order to monitor Council's cash position

▪ ***Absence cover arrangements*** – The Banking Team (within the Technical and Exchequer section) provides absence cover for the Finance Business Partner (Capital, Treasury and VAT) and the Assistant Finance Business Partner (Capital and Treasury).

▪ ***Dealing Limits* –** all staff authorised to deal on behalf of the Council must comply with the Council's Counterparty list limits set out in the Treasury Management Strategy as detailed in TMP schedule 1

▪ ***List of approved brokers*** –BGC Brokers, Tradition, King and Shaxson and Link Asset Services

▪ ***Policies on taping of conversations* –** Calls to Brokers are currently taped by the Brokers only. Taping facilities from the main Council switchboard are not available at present.

▪ ***Direct dealing practices*** – interest rates/risks are evaluated through comparing the rates offered by brokers and those offered direct from institution e.g. Debt Management Office. Should deals from direct institutions prove to be better value this option will be preferred.

▪ ***Settlement transmission procedures* –** all funds to be remitted in respect of a treasury management transaction are via CHAPS. The Council uses the Lloyds Commercial Banking online Electronic Payments System provided by the Council's Bankers. The procedure is as follows:

- The officer setting up the payment completes a pro-forma detailing the agreed transaction(s) together with a batch header
- An officer with the appropriate level of access (see below) sets up the transaction(s) on Lloyds Commercial Banking online
- The transaction is approved by a separate officer with the appropriate level of access (see below) on Lloyds Commercial Banking online

- The transaction is then authorised by a separate officer with the appropriate level of access (see below) on Lloyds Commercial Banking online
- Finally, the transaction is submitted via Lloyds Commercial Banking online for onward transition to the borrower/lender

Lloyds Commercial Banking online Authorisation Levels

Post	**Lloyds Commercial Banking online Level ***
Chief Finance Officer	Authorisation
City Solicitor	Authorisation
Financial Services Manager	Authorisation
Principal Finance Business Partner (Revenue)	Authorisation
Principal Finance Business Partner (Capital)	Authorisation
Finance Business Partner (Capital, Treasury and VAT)	Set up, verify and first level of approval
Assistant Finance Business Partner	Setup
Banking Officer	Set up, verify and first level of approval
Exchequer Officer	Set up, verify and first level of approval

Lloyds Commercial Banking online is the electronic banking system of the Council's bank, Lloyds.

- ***Documentation requirements* –** Money market deals are confirmed using either the Institutional Cash Distributors (ICD) treasury portal, this is an online independent trading platform, or verbally with the money market fund, counterparty or broker. All the Money market funds currently in use by the Council are registered with ICD. All deals are followed by written confirmation of the transaction from the borrower/lender i.e. amount, interest rate, period, bank account details, proceeds or liability on maturity. Deposit accounts require an email/fax instruction when placing or withdrawing funds and this must be signed by one the Council's Authorised signatories. The Debt Management Office requires all deposits and withdrawals to be agreed verbally. In the event of the Council having temporary borrowing, the Council will confirm in writing the transaction. In addition, for those deals carried out via a broker, the broker will send their own confirmation of the transaction.

TREASURY MANAGEMENT PRACTICE 6
REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

- ***Content and frequency of board/committee reporting requirements* –** the annual Treasury Management Strategy sets out the expected treasury activities for the forthcoming financial year. This Strategy is submitted to the Audit Committee for review and scrutiny then onto the Executive who in turn recommends it to full Council, before the beginning of each financial year. The formation of the annual Strategy involves determining the appropriate treasury management decisions in light of the anticipated movement in both fixed and shorter-term variable interest rates. The Strategy is concerned with the following elements:

  - Debt and Investment Projections
  - Council's estimates and limits on future debt levels
  - The Expected Movement in Interest Rates
  - The Council's Borrowing Strategy
  - The Council's Investment Strategy
  - Treasury Performance Indicators and limits on activity
  - Local Treasury Issues

  In addition an annual report is presented to the Executive and Full Council at the earliest practicable meeting after the end of the financial year. The report details the performance against the Prudential and local indicators and treasury management activities carried out during the year (i.e. borrowing and investment levels).

  If any breach of the Policy occurs it will be reported to the Executive and Full Council i.e. breach of Prudential Indicators or Counterparty limits as soon as possible after they are identified.

  Any breaches of indicators and limits will be verbally reported to the Financial Services Manager and the Chief Finance Officer as soon as they are identified.

- ***Content and frequency of management information reports* -** The Chief Finance Officer reports on a mid year basis to the Performance Scrutiny Committee on the performance against the Prudential Indicators and summarises the treasury management activities over the previous six months. In addition the Council sets budgetary targets for investment interest and interest payable on borrowing, both on the General Fund and Housing Revenue Accounts. These budget targets are included in the Council's 5-year Financial Strategy and are monitored on a regular basis to ensure there are no material variances. In the event of material variances, these would be reported to the Council's Performance Scrutiny Committee and Executive as part of the quarterly budget monitoring reports. As soon as any variances are identified they will be reported to the Financial Services Manager and then to the Chief Finance Officer.

TREASURY MANAGEMENT PRACTICE 7
BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

- ***Accounting practices and standards* –** in accordance with the Accounting Code of Practice issued by CIPFA, the Council will bring together for budgeting and management control purposes all the costs associated with treasury management activities. These costs and income will be included in the respective revenue accounts included in the Councils 5-Year Financial Strategy.

- ***Sample budgets/accounts* –** the budgets/accounts arising from treasury management activities are as follows:

  - Investment interest (HRA, GF and other balances)
  - Interest payable on borrowing (HRA and GF)
  - Debt management expenses (HRA and GF)

  These budget targets are included in the Council's 5-year Financial Strategy and are monitored on a regular basis to ensure there are no material variances. In the event of material variances, these would be reported to the Council's Performance Scrutiny Committee and Executive as part of the quarterly budget monitoring reports.

- ***List of information requirements of external auditors* –** external auditors will have access to all papers supporting and explaining the operation and activities of the treasury management function. It is expected that the auditor will enquire whether the CIPFA Code on Treasury Management has been adopted and adhered to.

TREASURY MANAGEMENT PRACTICE 8
CASH AND CASH FLOW MANAGEMENT

- ***Arrangements for preparing/submitting cash flow statements*** – An up to date cash flow estimate will be maintained in order to effectively manage cash balances. The regular review and updating of the cash flow will be submitted to each internal treasury management meeting and will influence the treasury management decision-making and analysis processes detailed in TMP3.

- ***Content and frequency of cash flow budgets*** – An annual cash flow forecast is produced prior to the beginning of the financial year. This is reconciled to the closing ledger balance of the Council's Summary a/c bank statement on a daily basis. Cash flow forecasts are continually updated and revised in line with information received from a variety of sources.

  The annual cash flow forecast consists of an estimate of the total income, total expenditure and Treasury Management transactions in the financial year. Income receipts can be broken down into the following types:

  - NNDR, Council Tax and Council House Rents
  - Grants and Subsidy (including adjustments from previous years)
  - Capital Receipts from sale of assets
  - VAT
  - Debtor bills and other miscellaneous income from services provided by the Council
  - Interest from maturing investments, Money Market Funds and Bank accounts

  Expenditure can be broken down as follows:

  - NNDR to MHCLG and Lincolnshire County Council
  - Precepts to Lincolnshire County Council and Police Authority
  - Pooling of Housing Capital Receipts to MHCLG
  - General creditor payments for goods and services received
  - Payment of Benefit to claimants
  - Capital programme spend
  - Monthly salary payments
  - Income Tax and other deductions from salary (to HM Revenue and Customs)
  - Grants
  - Levies
  - Insurance premiums

Treasury Management can be broken down as follows:

- Interest payments on the Council's outstanding long-term debt
- Investments (deposits to borrowers) and investment maturities
- Repayment of maturing debt including debt restructuring
- Receipt and repayment of short and longer-term loans

- ***Listing of sources of information*** – the sources of information used to initially compile and regularly up date the cash flow are as follows:

  Income:

  - MHCLG grant schedules (i.e. RSG)
  - Other grant schedules (i.e. Home Office, DWP,)
  - Internal Systems (i.e. Council Tax, Council House Rents, Capital Receipts, VAT, Debtors, Short and longer-term loans, Investment maturities and interest.)

  Expenditure:

  - MHCLG and Lincolnshire County Council payment schedules (i.e. NNDR payable)
  - Lincolnshire County Council and Lincolnshire Police precept schedules
  - Drainage Board schedules (Levies)
  - Grant Forms (i.e. MHCLG pooling of Right To Buy capital receipts)
  - Internal Systems (Housing Benefit Payments, Revenue and Capital Creditors, Payroll, Insurance premiums, Interest payments on the Council's outstanding debt, Investments, Maturing Debt)
  - The Council's 5-year Financial Strategy to calculate the creditor payments for goods and services received (capital and revenue)

- ***Bank statements procedures*** – Bank statements are available to be downloaded electronically on a daily basis from the Lloyds Commercial Banking online system.

- ***Payment scheduling and agreed terms of trade with creditors*** – Creditor payment runs are currently scheduled twice weekly. The majority of these payments (approximately 95% by total value) are paid by electronic means (primarily by BACS). The City Council aims to pay 100% its creditors within their agreed payment terms or if no terms are quoted within 30 days of receipt of their demand for payment.

- ***Arrangements for monitoring debtor/creditor levels*** – the raising of debtors is currently carried out within departments, but centrally controlled by the Exchequer Section. The recovery of outstanding Debtor invoices is undertaken by the Recovery Team within the Revenue and Benefits Shared Service, who follow strict recovery procedures.

- ***Procedures for banking of funds*** – See Banking Officer for further detail.

TREASURY MANAGEMENT PRACTICE 9
MONEY LAUNDERING

- ***Procedures For Establishing Identity / Authenticity Of Lenders***

  The City of Lincoln Council will not accept loans from individuals. All loans are obtained from the Public Works Loan Board, other local authorities, or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA web site on www.fca.gov.uk. When repaying loans, the procedures below will be followed to check the bank details of the recipient.

- ***Methodology For Identifying Sources Of Deposit***

  In the course of its treasury activities, the Council will only lend money to, or invest with, those counterparties that are on its approved lending list and meet minimum criteria (TMP schedule 1). The Council only places deposits with counterparties which have been credit checked by the Rating Agencies Fitch, Moody's or Standard and Poor's. All transactions will be carried out by Direct Debit, BACS or CHAPS for making deposits or repaying loans.

- ***Anti-Money Laundering Reporting Officer***

  The Council has appointed the City Solicitor to be the responsible officer to whom any suspicions that transactions involving the Council may involve the processing of criminal proceedings, should be reported. The City Solicitor will investigate the suspicion and will report the findings to the Chief Executive (the Disclosure Officer) if deemed necessary. Suspicious transactions will be investigated, as far as the Council is in a position to do so, or it is appropriate for the Council to do so and, if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

TREASURY MANAGEMENT PRACTICE 10
STAFF TRAINING AND QUALIFICATIONS

- ***Details of approved training courses*** – In addition to extensive on the job training, all staff involved in Treasury Management are given the opportunity/encouraged to attend courses that are both specific to relevant issues and developmental in nature, to provide a wider context of the treasury management function e.g. to provide updates on the implications of new regulations/legislation/codes of practice or to obtain the latest economic forecasts for the economy and interest rates. Staff keep a record of courses and seminars they have attended.

- ***Approved qualifications for treasury staff***

  - Chartered Institute of Public Finance and Accountancy (CIPFA)
  - Other CCAB qualifications i.e.
    - Institute of Chartered Accountants in England and Wales (ICAEW),
    - Chartered Institute of Management Accountants (CIMA)
    - and Association of Certified Chartered Accountants (ACCA).
  - Association of Accounting Technicians (AAT).

  Those staff that are CIPFA members are required by their Institute to act in accordance with CIPFA's Standard of Professional Practice on Treasury Management and the Chief Finance Officer also has a responsibility to ensure that the relevant staff are appropriately trained.

TREASURY MANAGEMENT PRACTICE 11
USE OF EXTERNAL SERVICE PROVIDERS

- ***Details of contracts with service providers, including bankers, brokers, consultants and advisors*** –

  - Lloyds Bank provides the primary Banking services.
  - Allpay provide services for the collection of Council Tax, Rent and sundry debtors through Post Office and Paypoint facilities.
  - BGC Brokers, King and Shaxson, Tradition and Link Asset Services provide money brokering services to the Authority. The City Council does not have a formal written contract with any of these organisations, therefore the Council is not restricted to using these brokers.
  - The Council contracts with an external consultant to provide expert independent advice on all aspects of Treasury Management services from a complete analysis of the Council's financial position with regard to its strategy and objectives, technical advice on all aspects of capital finance through to interest rate forecasting and economic advice. The current external consultant is Link Asset Services.
  - The Council makes use of a number of money market funds (MMFs), all of which are AAA rated, to place cash deposits. These MMFs have no fees and are used when their interest rates are competitive. The amount deposited with any MMF is restricted in line with the limits detailed in TMP1. The use of MMFs has the benefit of providing a liquid source of cash for cashflow management as funds can be withdrawn at any time with no notice.
  - The Council makes use of a number of Call Accounts operated by UK banks to place cash deposits. These accounts have no fees and are used when interest rates are competitive. The amounts deposited with Call Accounts are restricted in line with the counterparty limits detailed in TMP1. The funds deposited in call accounts require notice before they can be withdrawn.

- ***Procedures and frequency for tendering services*** – The Council's main banking services are subject to tender on a five-year cycle.

- The Allpay contract was renewed for two years from December 2019 utilising a framework agreement.

TREASURY MANAGEMENT PRACTICE 12
CORPORATE GOVERNANCE

- ***List of documents to be made available for public inspection*** – The Council is committed to openness and transparency in its treasury management activities as demonstrated by the production of these TMP's and the adoption of the Treasury Management Code of Practice. In addition information about the Council's treasury management activities is freely accessible and contained in public documents;

    - 5-Year Medium Term Financial Strategy (Executive and Full Council)
    - Annual Prudential Indicator and Treasury Management Strategy (Audit Committee, Executive and Full Council)
    - Treasury Management Outturn Report (Performance Scrutiny Committee and Executive and Full Council)
    - Half Yearly Treasury Management Performance Report (Performance Scrutiny Committee and Executive)

- The procedures set out in these TMP's for reporting and audit of treasury management activities (both by internal and external audit) are designed to ensure the integrity and accountability of the function and these will be rigorously enforced. Furthermore the use of performance indicators should ensure continued best value in the allocation of treasury management resources.

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Item No. 5

AUDIT COMMITTEE **6 FEBRUARY 2020**

SUBJECT:	**AUDIT COMMITTEE WORK PROGRAMME**
REPORT BY:	**JOHN SCOTT, AUDIT MANAGER**
LEAD OFFICER:	**JOHN SCOTT, AUDIT MANAGER**

1. Purpose of Report

1.1 To provide details of the Audit Committee work programme for 2019/20.

2. Executive Summary.

2.1 Audit Committee approves a work programme each year and monitors progress.

3. Details

3.1 The proposed work programme is attached at Appendix A. The frequency of meetings has been reviewed and is considered appropriate for 2019/20.

4. Organisational Impacts

4.1 Finance

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 Audit Committee should comment on and agree the work programme for 2019/20.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
How many appendices does the report contain?	One
List of Background Papers:	None
Lead Officer:	Audit Manager Telephone 873321

AUDIT COMMITTEE
AUDIT WORK PROGRAMME FOR 2019/20

Meeting dates	Audit Items	Training (Suggested)	Comments
13th June 19	• Internal Audit Progress report • Statement of Accounts (Draft) • Annual Governance Statement (Draft review) • Audit Committee Work Programme • Annual Internal Audit Report • External Audit Progress report	• Local Government Financial Statements explained • Annual Governance Statement/Corporate Governance (Part of Meeting)	
18th July 19	• 12 month Fraud and Error report • Audit recommendations report	• Audit Committee effectiveness	
17th Sept 19	• Statement of Accounts / Annual Governance Statement (Final) • Annual Governance Report / Auditors Report (External Audit)	•	
26th Sept 19	• Internal Audit progress report • Audit Committee Work Programme • Annual Complaints report • Audit recommendations report • Information Governance Update • Annual Governance Statement update report	•	

17 Dec 19	• **Audit recommendations report** • **Internal Audit progress report** • **Six Month Fraud and Error report** • **Annual Governance Statement - monitoring** • **Audit Committee Work Programme** • **Counter fraud policies** • **Fraud risk register** • **Terms of Reference review - Internal Audit (Audit Charter)** • **Annual Audit Letter (External Audit)**	• **Counter Fraud** **(Via e-learning)**	
6th Feb 20	• **Internal Audit Progress report** • **Treasury management policy and strategy (consultation prior to approval by Council)** • **Audit Committee Work Programme**	• **Treasury Management**	

24 Mar 20	• **Internal Audit Progress report** • **Audit recommendations report** • **Combined Assurance report** • **Annual Governance Statement –update report** • **Internal Audit Strategy and Plan 19-20** • **Risk Management Strategy / annual report** • **Statement on Accounting Policies** • **Audit Committee Work Programme** • **External Audit Inquiries – 19/20 Statement of Accounts** • **IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations** • **External Audit plan** • **Review of the effectiveness of Internal Audit and Audit Committee** • **Audit Committee terms of reference review** • **Whistleblowing policy review** • **Information Governance Update report*** ***may defer to June***		

A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.

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