NEWARK & SHERWOOD
DISTRICT COUNCIL

Castle House
Great North Road
Newark
NG24 1BY

Tel: 01636 650000
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Tuesday, 25 January 2022

Chairman: Councillor Mrs S Michael

Members of the Committee:

Councillor Mrs B Brooks
Councillor M Brown
Councillor R Crowe
Councillor D Cumberlidge
Councillor J Lee

MEETING:	**Audit & Accounts Committee**
DATE:	**Wednesday, 2 February 2022 at 10.00 am**
VENUE:	**Civic Rooms 1+2, Castle House, Great North Road, Newark, Notts, NG24 1BY**

You are hereby requested to attend the above Meeting to be held at the time/place and on the date mentioned above for the purpose of transacting the business on the Agenda as overleaf.

If you have any queries please contact Karen Langford on Karen.Langford@newark-sherwooddc.gov.uk.

Any questions relating to the agenda items should be submitted to Nick Wilson- Business Manager - Financial Services, at least 24 hours prior to the meeting in order that a full response can be provided.

AGENDA

NEWARK AND SHERWOOD DISTRICT COUNCIL

Minutes of the Meeting of **Audit & Accounts Committee** held in the Civic Suite, Castle House, Great North Road, Newark, Notts, NG24 1BY on Wednesday, 1 December 2021 at 10.00 am.

PRESENT: Councillor Mrs S Michael (Chairman)

Councillor Mrs B Brooks, Councillor R Crowe and Councillor D Cumberlidge

APOLOGIES FOR ABSENCE: Councillor M Brown (Committee Member)

26 DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS AND AS TO THE PARTY WHIP

That no Member or Officer declared any interest pursuant to any statutory requirement in any matter discussed or voted upon at the meeting.

27 DECLARATION OF ANY INTENTIONS TO RECORD THE MEETING

There were no declarations of intention to record the meeting.

28 MINUTES OF THE MEETING HELD ON 29 SEPTEMBER 2021

AGREED that the Minutes of the meeting held on 29 September 2021 be approved as a correct record and signed by the Chairman.

29 AUDIT COMMITTEE WORK PLAN

The Committee noted the Work Plan provided by the Business Manager for Financial Services providing those items currently on the Work Plan for February and April 2022 meetings apart from the Partnership Register.

Other items have not so far been identified for the new Governance Structure and will change what is brought to the Committee.

30 EXTERNAL AUDITORS' ANNUAL AUDIT COMPLETION REPORT

Jon Machej attended the meeting, giving apologies for his colleague David Hoose who was unable to attend the meeting.

The Committee considered the report from the Business Manager for Financial Services providing the Committee with the External Auditors Annual Audit Completion Report, as provided at Appendix 1.

The Mazars representative Jon Machej, present at the meeting, referred to the Audit Completion Report at page 8 advising one matter to be resolved, before being able to issue their Audit opinion. Page 15 onwards referring to the Pension fund highlighting a couple of errors. The Chairman enquired as to when the opinion is expected, the

Mazars representative expected this to be in the next couple of weeks.

The report confirmed that the external auditor anticipates issuing an unqualified opinion, without modification, of the 2020/21 Statement of Accounts. Once all the audited areas are finalised a supplementary letter and report will be presented to the next committee detailing any further amendments.

AGREED (unanimously) that:

a) the Committee received the External Auditors Annual Audit Completion Report for 2020/2021; and

b) the Committee noted the adjustments to the financial statements set out in the Audit Completion report.

31 RISK MANAGEMENT

The Committee considered the report from the Safety and Risk Manager taken at the meeting by the Business Manager for Public Protection providing an update to Members on the status of the Council's 2021/22 Strategic Risk Register.

The report highlighted that the strategic risk register is reviewed annually to ensure it remains relevant and effective.

Performance of all strategic risks continue to be reported to the Senior Leadership Team (SLT) quarterly via the Transformation team's assurance reporting system. This includes identification of failing or "red" risks.

All of the strategic risks identified in the report are owned by a member of SLT. Risk owners, with the assistance of lead officers and the Safety and Risk Manager meet on a quarterly basis to review and develop the risk. All of the current risks have been reviewed and action plans developed.

AGREED that the Members noted the content of the report.

32 INTERNAL AUDIT PROGRESS REPORT

The Committee considered the Internal Audit progress report at Annex A from Assurance Lincolnshire providing a summary of Internal Audit work undertaken during 2021/22 against the agreed audit plan.

The Acting Principal Auditor for Assurance Lincolnshire informed the Committee of an error to the pie chart on page 57 of the agenda which also impacted on the bar chart. The 14 actions due should in fact be 11, the Committee were advised that an updated version would be provided.

The Audit Plan for 2021/22 was agreed at the Audit and Accounts Committee in February 2021 and throughout the year it has reported on the progress made and any changes to the plan are forwarded to the Committee.

The report recommended that the Committee comment upon the latest Internal Audit Progress Report which covered the period up to 31 October 2021.

AGREED (unanimously) that the Committee considered and commented upon the latest internal audit progress report and approved the extensions to the implementation dates.

33 TREASURY MANAGEMENT 2021-22 MID YEAR REPORT

The Committee considered the report from the Assistant Business Manager for Financial Services providing an update on the Council's treasury activity and prudential indicators for the first half of 2021/22.

The report provided a summary of the Councils borrowing, investment and capital expenditure position as at 30 September 2021. It was noted on page 68 of the report at 2.3 that the fourth column heading should have been 2021/22 and not 2020/21.

AGREED (unanimously) that:

a) the Treasury Management activity be noted and recommended to Full Council on 14 December ; and

b) the Prudential Indicators detailed in section 9 of the report be noted.

34 COUNTER-FRAUD ACTIVITIES FROM 1 APRIL 2020 TO 30 SEPTEMBER 2021

The Committee considered the report from the Business Manager for Financial Services informing the Committee of counter-fraud activity undertaken since the last update reported on 21 April 2021.

The report highlighted the role of the Audit & Accounts Committee is to provide assurance to the Council that its anti-fraud arrangements are operating effectively. In order to do this, counter-fraud activity reports are brought to the Committee twice a year. These reports detail the number of cases detected, amounts lost, the outcome of cases and amounts recovered, together with any other counter fraud work that has been undertaken.

In order to promote a strong counter-fraud culture, Members of the Committee are aware of the Council's response to fraud and the results of any action taken.

AGREED that the Members noted the content of the report.

35 RESULTS OF THE ASSESSMENT OF EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

The Committee considered the report from the Business Manager for Financial Services informing the Committee of the results of the recent assessment of the effectiveness of the Internal Audit function including a self-assessment of the Committee.

The report advised that at the Audit & Accounts Committee held on 27 November 2019, the Committee had previously considered a report which reviewed the effectiveness of the Internal Audit function and the self-assessment of the Audit & Accounts Committee.

This recent assessment had been conducted by the Business Manager for Financial Services, the Chairman and one other Committee Member meeting with Assurance Lincolnshire to review the effectiveness of the Audit and Accounts Committee.

The self-assessment was undertaken using a questionnaire provided within CIPFA's Practical Guidance for Audit Committees. The self-assessment was facilitated by the Internal Audit Manager (Assurance Lincolnshire) and the Business Manager – Financial Services with the panel, scoring the assessment. The questionnaire aimed to determine whether the Audit Committee within a council meets with best practice as outlined in the guidance.

The subscription to CIPFA's Better Governance Forum, the Service Plan for this was attached at Appendix C. By subscribing to this network, the authority will gain access to a wide range of webinars and face-to-face events at various regional venues as well as expert support and guidance that is centred on all aspects of governance and internal audit and to take out the subscription from 1 April 2022.

Additionally to the self-assessment of the Committee, the panel reviewed the effectiveness of the Internal Audit function, and the results of this review were presented in the report. This concluded that the Internal Audit function is working effectively.

It is no longer a statutory requirement that an annual review of effectiveness be carried out, and the Audit & Accounts Committee had previously determined that an assessment should be carried out every two years.

AGREED (unanimously) that:

a) the Committee noted the results of the review of the effectiveness of the Internal Audit function;

b) the Committee noted the results of the Self-Assessment of the Effectiveness of the Audit & Accounts Committee;

c) the action plan is adopted;

d) the Committee recommends to the Policy and Finance Committee through the budget process to add £4,610 (subject to inflationary increase that CIPFA may apply) into the base budget for 2022/23 and beyond in respect of the subscription to the Better Governance Forum; and

e) the Committee agreed that the next assessment should be undertaken in September 2023.

36 APPOINTMENT OF EXTERNAL AUDITORS

The Committee considered the report from the Business Manager for Financial Services to agree a procurement route for the appointment of the Council's External Audit arrangements post for the 2023/24 financial year onwards.

The report advised that as a statutory requirement the current External Auditors being Mazars was for a period of 5 years from 2018/2019 to 2022/2023.

The Council having recently been contacted by PSAA regarding the potential to again Opt-in to the national exercise to procure External Auditors from 1 April 2023. The closing date to give notice to PSAA of the Council's acceptance of the invitation is Friday 11 March 2022, and it is Full Council that must make the decision as to whether to accept the offer.

AGREED (unanimously) that the Committee approve the report and recommend to Full Council on 14 December to opt into the National Appointment Arrangements with Public Sector Audit Appointments Limited (PSAA).

37 DATE OF NEXT MEETING

The next meeting would be held on Wednesday 2 February 2022.

Meeting closed at 11.10 am.

Chairman

AUDIT & ACCOUNTS COMMITTEE
2 FEBRUARY 2022 **WORK PLAN**

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
27 April 2022	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place
	Partnership Register (Annual Report)	Ella Brady	In order to gain assurance that the Council is managing the partnerships that it is involved within effectively
	Statement of Accounting Policies 2021/22	Andrew Snape	Gain assurance that the Council has appropriate accounting policies in place that reflect the way items are treated in the annual Statement of Accounts
	IAS19 Pension Assumptions 2021/22	Andrew Snape	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Property, Plant and Equipment Valuation Assumptions 2021/22	Andrew Snape	Gain assurance that the assumptions used by the Council's valuers to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	External Audit Plan for 2021/22 Accounts	TBC (Mazars)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts, Value for Money arrangements and Grant claims
	Internal Audit Progress Report 2021/22	Lucy Pledge/Emma Bee (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Draft Internal Audit Plan 2022/23	Lucy Pledge/Emma Bee (Assurance Lincolnshire)	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	Counter-Fraud Activity Report	Nick Wilson	Gain assurance that counter-fraud activity is appropriately targeted and effective

AUDIT & ACCOUNTS COMMITTEE
2 FEBRUARY 2022

HOMES ENGLAND COMPLIANCE AUDIT REPORT 2021-22 - HRA 5 YR DEVELOPMENT PROGRAMME

1.0 Purpose of Report

1.1 To inform the Committee the outcome of the Homes England Audit 2021/22 for the Council's 5 year Housing Revenue Account (HRA) Development Programme.

1.2 To advise the Committee of any actions taken and enable the Council to sign of the Audit on Homes England's Information Management System by the end of April 2022.

2.0 Background Information

2.1 As a Homes England grant recipient, the Council is routinely audited by external auditors (on behalf of Homes England) on the delivery of its Housing Revenue Account (HRA) 5 year development programme. Schemes for audit are randomly selected.

2.3 The Compliance Audit Programme provides assurance that organisations receiving grant have met with all Homes England's requirements and funding conditions and that providers have properly exercised their responsibilities as set out in the Capital Funding Guide, contract and any other supplementary compliance audit criteria.

2.4 The scope of the audit includes matters such as compliance with grant conditions, compliance in rent setting, contractor appointment and management and compliance in obtaining relevant planning and other approvals.

2.5 Homes England use the audit findings to inform future investment decisions and to assure them that public funds have been used properly.

2.7 It is part of the grant conditions that the outcome of the audits are reported to the Council's Senior Leadership Team and relevant Committee.

2.8 In 2020/21 The Council was audited (by Council appointed Independent Auditor Beever and Struthers and reported to Homes England) on a development scheme at Westhorpe, Southwell. It was concluded that the Council breached two elements of the audit checklist but that in breaching those checklist points, it did not misapply public funds and was awarded an Amber Grade. The Council took the necessary steps to ensure the breaches the Audit highlighted were addressed and a process review was undertaken to resolve the issues and reduce the risk of future audit failure as reported to the Accounts and Audit on 21st April, 2021.

3.0 **HRA Compliance Audit Scheme**

3.1 The Council was successful in a bid (August 2020) to the Department for Levelling Up, Housing and Communities (formerly the Ministry for Housing, Communities and Local Government) for funding for local housing authorities as part of the Next Steps Accommodation Programme (NSAP) to deliver the Council's vision to support the longer terms housing needs of rough sleepers.

3.2 The Council received grant (Sept 2020) for both capital and revenue assistance to purchase and fund support (managed by Framework) of six former almshouses at Northgate, Newark, for use as Move-on accommodation costing a total of £704,000. (Includes additional works to properties to reach appropriate EPC standards). The Council received grant for capital to the total of £387,200 (55% of total cost) and the remaining £316,800 (45%) was funded by the Council from the Homeless Prevention Fund. Revenue funding costs totalled £43,700 and the Council received grant totally £88,560 from MHCLG for the lifetime of the bid (3 years and 8 weeks).

3.3 The above scheme was selected for audit by Homes England as part of the HRA Audit Compliance Programme due to receiving grant.

4.0 Audit Findings

4.1 Standardised checks (off-site) were made by Council appointed Independent Auditors (Beever and Struthers) on a scheme in the district chosen by Homes England: Six Former Almshouses at Newark, Northgate. During the audit, the Independent Auditor checks the scheme for compliance using questions from Homes England's published checklists. The Independent Auditor reviews the information contained on file and reports any findings against Homes England's policy and procedures.

4.2 The Homes England Lead Auditor reviews the Independent Auditor findings and records any inconsistencies against their audit checklist that covers reconciliation of data as well as compliance with the capital funding guide. Breaches are used as the basis for awarding grades to the provider. The Compliance Audit Report awards Providers a red, amber or green grade based on the number and severity of breaches recorded.

4.3 The Grading structure is such that:

Green Grade – the provider meets the requirements through identifying no high or medium breaches.

Amber Grade – one or more high or medium breaches but the authority has not misapplied public funds.

Red Grade – one or more high level breaches and there is a risk that the authority has misapplied public funds.

4.4 The outcome of the Homes England Compliance Audit for Newark and Sherwood District Council's has now been agreed by Homes England's Chief Accounting Officer and has concluded that the Council (Provider) has complied with all the programme requirements and guidance. A **GREEN** grade has been assigned and no breaches were identified. The full Homes England Audit Findings are attached as appendix A.

5.0 Equalities Implications

5.1 There are no equalities implications.

6.0 Digital Implications

6.1 There are no direct digital implications except for the training required to support use of the Homes England IMS system.

7.0 Financial Implications

6.1 Failure to meet Homes England's requirements could adversely affect the Council's ability to access funding for new homes, thus impacting on the Community Plan objective to deliver new affordable homes.

8.0 Community Plan - Alignment to Objectives

7.1 Create more and better quality homes through our roles as landlord, developer and planning authority.

9.0 Comments of Director(s)

9.1

10.0 RECOMMENDATION(S)

That the Committee note the findings of the Compliance Audit have been accepted by the Council.

Reason for Recommendation(s)

The Committee is assured of any required improvements implemented as a result of the Audit.

Background Papers

Homes England Compliance Audit Report 2021/22

For further information please contact Jill Sanderson, Housing Development Officer on Extension 5624

Suzanne Shead
Director of Housing, Health and Wellbeing

Homes England

Compliance Audit Report – 2021/22

37UG – Newark and Sherwood District Council

Final Grade	Green - Meets requirements
Independent Auditor Organisation	Beever and Struthers
Independent Auditor Name	Stuart Jewell

Report Objectives and Purpose

Compliance Audits check Provider compliance with Homes England's policies, procedures and funding conditions. Standardised checks are made by Independent Auditors on an agreed sample of Homes England schemes funded under affordable housing programmes. Any findings, which may be a result of checks not being applicable to the scheme or an indication of procedural deficiency, are reported by the Independent Auditor to both the Provider and Homes England concurrently. The Homes England Lead Auditor reviews the findings and records those determined to be 'breaches' in this report. Breaches are used as the basis for recommendations and final grades for Providers. Grades of green, amber or red are awarded; definitions are provided on page 2 of this document.

Further information is available at: https://www.gov.uk/guidance/compliance-audit.

Provider's Acknowledgement of Report

The contents of this report should be acknowledged by your Board's Chair or equivalent. Confirmation of this acknowledgement should be recorded in the IMS Compliance Audit System by your Compliance Audit Lead on behalf of your Board's Chair or equivalent. Online acknowledgement should be completed within three calendar months of the report email notification being sent.

Confidentiality

The information contained within this report has been compiled purely to assist Homes England in its statutory duty relating to the payment of grant to the Provider. Homes England accepts no liability for the accuracy or completeness of any information contained within this report. This report is confidential between Homes England and the Provider and no third party can place any reliance upon it.

Homes England

Compliance Audit Grade Definitions

Green Grade	No high or medium severity breaches identified, although there may be low breaches identified. The Homes England audit report will show that the provider has a satisfactory overall performance but may identify areas where minor improvements are required.
Amber Grade	One or more medium severity breaches identified. The Homes England audit report will show that the provider has failed to meet some requirements but has not misapplied public money. The provider will be expected to correct identified problem(s) in future schemes and current developments.
Red Grade	One or more high level severity breaches identified, the Homes England audit report will show that the provider has failed to meet some requirements and there has been a risk of misapplication of public funds.

Compliance Audit Grade and Judgement

Final Grade	Green - Meets requirements
Judgement Summary	On review of the evidence provided, the outcome of the audit has shown the provider has complied with all the programme requirements and guidance. A GREEN grade has been assigned and no breaches were identified.

Scheme/Completions details

Scheme ID/ Completion ID	**Address/Site ID**	**Scheme type**
1018907	Newark and Sherwood AlmhousesNorthgate,NG24 1FP	Next Steps Accommodation - Capital

Audit Results

Number of Schemes/Completions Audited	1
Number of Breaches Assigned	0
Number of High Severity Breaches	0
Number of Medium Severity Breaches	0
Number of Low Severity Breaches	0

AUDIT & ACCOUNTS COMMITTEE
2 FEBRUARY 2022

REVIEW OF SIGNIFICANT GOVERNANCE ISSUES IN THE ANNUAL GOVERNANCE STATEMENT

1.0 Purpose of Report

1.1 To update members of the Audit & Accounts Committee on the significant governance issues identified in the Annual Governance Statement.

2.0 Background Information

2.1 At the meeting of the Audit & Accounts Committee on 29 September 2021, Members approved the Annual Governance Statement for the Council, which forms part of the Council's Statement of Accounts. To ensure that Members are able to undertake their assurance role, this report updates the Committee on the status of the significant governance issues identified within it.

2.2 An extract from the Annual Governance Statement showing the issues identified is attached at Appendix A.

3.0 Results of the Review

3.1 The issues identified are considered separately below with details of any further work undertaken.

3.2 Development Company – The first development at Bowbridge Road is now underway with a number of properties developed a number of sales completed and more expected by the end of the financial year. The loan agreement has been agreed between the Council and the Company and is currently active. Due to this, there are no further governance issues outstanding, it is proposed to remove this from the significant governance issues within the next Annual Governance Statement for 2021/22.

3.3 Re-Integration of the Housing Management Function – The Council is in phase 2 of their tenant engagement review to ensure effective opportunities for tenants to influence and scrutinise existing services and hold landlords to account. Whilst this is being finalised the Housing Advisory Group continues to meet ahead of Homes and Communities Committee to provide a tenants view. As part of the governance review, a Tenant Engagement Board is proposed to ensure the tenants views are being sought.

The performance of the housing services remains strong via the Survey of Tenants and Residents completed in March 2021, which is being repeated in March 2022.

Proposals for allocation of the efficiencies generated from re-integrating the Housing Services have been discussed with tenants and are working through the committee cycle. Substantial work is being done to ensure the financial framework is in a place to deliver the 30 year business plan as well as reviewing our baseline stock and tenant data.

3.4 Yorke Drive Development – The project was paused to consider constraints identified at the site and changes in government and local policy. Funding of £1.05m has been secured to enable the project to progress with early demolition of some homes and some infrastructure works with a programme of activity up to the end of 2022. Officers continue to work through issues and provide updates to relevant committees.

4.0 Financial Implications FIN(21-22/6029)

4.1 There are no direct financial implications arising from this report.

5.0 RECOMMENDATION

5.1 That the Committee notes the results of the review of significant governance issues as identified in the Annual Governance Statement.

Background Papers

Annual Governance Statement for 2020/21

For further information please contact Nick Wilson, Business Manager– Financial Services on Ext: 5317

Nick Wilson
Business Manager – Financial Services

Appendix A - Significant governance issues

Issue	Action	Responsible Officer
Development Company The Council has approved the formation of a wholly owned development company, Arkwood Developments Limited. The Company's primary objective is to develop market housing for sale or rent. The Company may also bring forward commercial build.	The Company was incorporated in 2018 and robust governance arrangements are in place to ensure that the Council retains a thorough overview of its wholly owned Company. The Company's Business Plan and a Business case for its first development site on land at Bowbridge Road have been approved by the Council through its shareholder and Policy and Finance Committees. Equity capital and loan funding (covered by a detailed Loan Agreement) has been approved and released to the Company. The company has progressed development of 87 homes and has to date sold 5 homes off-plan. Progress of the company in meeting the objectives set out in the Shareholders Agreement will be monitored by the Shareholders' Committee, and by the Policy and Finance Committee.	Chief Executive
Re-integration of Housing Management Function During 2018/19 the Council reviewed its arrangements regarding the Housing Management function, culminating in the "in principle" decision to bring the service in-house for direct service provision by the Council, subject to tenant consultation.	The Council brought back its Housing Service on the 1st February 2020. As part of this, the Council has established a review of tenant engagement. It is a regulatory requirement of housing providers to deliver effective opportunities for tenants to influence the design and delivery of housing services and their homes and to hold their landlord to account. This review will establish the preferred approach to ensure customers (future, present and	Director – Housing, Health and Wellbeing

	past) views are used to scrutinise and shape services. A Housing Advisory Group was established by the Homes and Communities Committee and its first meeting was held on 25th February 2020. The role of the Housing Advisory Group is to create an informal forum through which the comments/views of the tenant representatives can be heard on a range of tenant-related matters and then be incorporated into the consideration of these items by the Homes & Communities Committee. The Housing Advisory Group, is effectively a working party of the Committee, and does not have any delegated authority or decision-making powers. It will cease following the implementation of its work and conclusions around the review of tenant involvement and engagement.	
Yorke Drive Development The Council continues to develop the Yorke Drive area of Newark. There remains key risks to address with delivery from a technical and financial perspective.	The project is currently in the preliminary stage, for which site investigations continue and negotiations continue. Officers will continue to work through the issues and provide updates to relevant Committee meetings.	Director – Housing, Health and Wellbeing

AUDIT & ACCOUNTS COMMITTEE
2 FEBRUARY 2022

EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2020/21

1.0 Purpose of Report

1.1 To present the External Auditor's Annual Audit Report for 2020/21 for Newark & Sherwood District Council.

1.2 The Annual Audit Report summarises the key findings from the external audit work carried out by Mazars in 2020/21. It covers the 2020/21 Statement of Accounts and the Value for Money commentary for the same year.

2.0 Background Information

2.1 The document attached at Appendix A is the Auditor's Annual Report for 2020/21 which summarises the work that has been undertaken by the auditors for the year ended 31st March 2021.

2.2 It has three sections concentrating on:

- The audit of the financial statements
- Commentary on the Value For Money (VFM) Arrangements
- Other reporting responsibilities and fees

2.3 The Supplemental Letter to the Audit Completion Report, elsewhere on this agenda, gave details surrounding the audit of the financial statements which is also captured in section 2 of the attached appendix.

2.4 The VFM commentary detailed at section 3 considers whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work they are required to carry out and sets out the reporting criteria that they are required to consider. The three reporting criteria that must be considered are:

- **Financial sustainability –** how the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance –** how the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness -** how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

2.5 The section describes that no significant weaknesses have been identified across any of these areas.

3.0 Financial Implications (FIN21-22/6077)

3.1 The original fee proposed for the delivery of the audit for the 2020/21 financial year was £37,213.

3.2 As suggested within the report, the final proposed fee is £58,280 due to the additional work pressures around the change in the Council's group boundary, the additional testing on PPE, the implementation of new auditing standards and additional work arising from the change in the Code of Audit Practice. This amounts to an increase of £21,067 against the original scale fee. This is the proposed fee and will need to be approved by the Council.

3.3 The additional fee has been factored into the latest budget monitoring forecast outturn position as presented to Policy and Finance Committee on 27th January 2022.

4.0 RECOMMENDATIONS that:-

4.1 **The Committee consider the External Auditor's Annual Audit Letter for 2020/21.**

Background Papers

External Auditor's Annual Governance Report 2020/21
N&SDC 2020/21 Opinion and Value for Money Commentary

For further information please contact David Hoose, Partner Mazars on 0115 9644744.

Nick Wilson
Business Manager – Financial Services

Auditor’s Annual Report

Newark & Sherwood District Council – year ended 31 March 2021

21 January 2022

mazars

Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Newark and Sherwood District Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements
We issued our audit report on 06 January 2022. Our opinion on the financial statements was unqualified. Our audit report did however include an emphasis of matter paragraph drawing attention to disclosures in the financial statements relating to a material valuation uncertainty of specific property assets.

Value for Money arrangements
In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.

Wider reporting responsibilities
We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to issue our audit certificate until this is formally confirmed. We are unable to commence our work in this area until such instructions have been received.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 06 January 2022 gave an unqualified opinion on the financial statements for the year ended 31 March 2021. Our audit report also included a paragraph on the material uncertainty relating to a material valuation uncertainty of specific property assets, drawing readers' attention to the disclosures made in Council's financial statements

Qualitative aspects of the Council's accounting practices

We reviewed Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to Council's circumstances

Significant difficulties during the audit

We did not encounter any significant difficulties during the course of the audit and we have had the full co-operation of management.

2. Audit of the financial statements

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified a small number of opportunities to improve internal control as part of our audit and raised three internal control recommendations. Management agreed to address these recommendations during 2021/22.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We did not identify any risks of significant weaknesses through our work on Value for Money arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	10	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	12	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to Newark & Sherwood DC operating environment in 2020/21

Newark & Sherwood DC entered the 2020/21 financial year as the first national lockdown began and the Council immediately faced a significant operational impact to respond to the range of challenges presented by the pandemic. As part of the national response to Covid-19, central government made a series of policy announcements, a number of which have impacted on local authorities such as Newark & Sherwood. The Council was at the forefront of efforts to protect local residents, including the most vulnerable, and to support local businesses.

Some of the government's initiatives to respond to the covid-19 pandemic were supported by additional funding for the Council, and as a result, Newark & Sherwood received significant additional funding in the form of government grant for 2020/21. This emergency funding was to support the Council in managing the immediate pressures on public services and to fund support for vulnerable people. The Council also received a number of specific grants relating to additional responsibilities to address covid-19 including payments to local businesses with a value of approximately £43m. A range of other, smaller grant allocations were also paid to the Council over the course of the financial year.

2020/21 Financial statement performance

We undertook a high level analysis of the audited financial statements, including the Movement in Reserves Statement and the Balance Sheet. The total reserves per the Balance Sheet shows a £8.705m decrease to £226,283m, split by reduction in unusable reserves by £20.113m and an increase in useable reserves of £12.509m. However, net current assets increased by £2.775m to £22.422m showing a healthier short-term position. The Council's cash position remained fairly stable when comparing the current year and prior year cash flow statement, showing a small £0.258m decrease.

Below is an Expenditure Funding Analysis which shows an increase in usable revenue reserves of £11.804m for general fund reserves and £0.705m for HRA reserves. It should be noted that the increase in general reserves of £11.804m, includes £8.161m of s31 grants relating to business rates relief that is not a surplus as there is a corresponding deficit in the collection fund arising from Government policy, which will need funding in 2021/22.

	Balance at 31/03/2020	Increase / decrease	Balance at 31/03/2021
General fund	£25.535m	£11.804m	£37.339m
HRA fund	£6.756m	£0.705m	£7.461m
Total	£32.291m	£12.509m	£44.800m

Financial planning and monitoring arrangements

In March 2020 the Council set a balanced budget for the 2020/21 financial year. The budget proposals were formulated in accordance with the framework set out in the Council's Constitution. The Council's General Budget showed the Council's net budget requirements for the 2020/21 financial year, broken down by gross expenditure and gross income. The budget shows a budgeted net expenditure £13.5m. This is including total service budgets (£15.2m), other operating income & expenditure (£1.6m), financing and investment income (-£0.3) & expenditure, New Homes bonus and reversal of capital charges (-£3m). It's noted that the net service expenditure has increased from 2019/20 by £0.58m largely due to three main reasons:

1) Employee costs expected to increase as the Council has increased the number of posts for 2021,
2) Computer software costs increases. This mainly relates to an increase in licensing costs as part of the Council's move towards using the Microsoft Office 365 suite of applications.

During the year the Council reported its financial position through the quarterly financial performance reports, and carried out a thorough mid-year review before agreeing the revised budget in November 2020. We reviewed a sample of reports presented for 2020/21, which contain detail on any significant variances to budget and an update on performance against savings targets. The reports also contain information on progress against the approved capital programme and reasons for over or underspends against the budget profile to provide adequate scrutiny and oversight.

The general fund revenue outturn report for 2020/21 shows an unfavourable variance of £0.082m on service budgets, with a total favourable variance of £10.413m, which was transferred into specific reserves at year end. Therefore, there were no transfers into the general fund reserve, which keeps the overall general fund balance at £1.5m at March 2021. This is in accordance with the Medium Term Financial Plan approved on 09 March 2021.

Overall commentary on the Financial Sustainability reporting criteria - continued

Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Plan (MTFP) is a four year plan which sets out the resources available to deliver the Council's overall commitment to provide services that meet the needs of people locally and that represent good value for money.

A key part of the MTFP is to highlight the budget issues that need to be addressed by the Council in each of the years covered. This includes assumptions to allow forecasting of the level of available resources from all sources together with the budget pressures relating to both capital and revenue spending. It also assesses the adequacy of reserves and provisions held for past events which may impact on the Council's resources.

The Council has in place an embedded budget setting process with approval being sought for the assumptions and principles on which the budget is to be based. These are used as a part of the determination of the overall budget position. As part of the budget process, the Council explicitly identifies its savings gap for the following year. Once the gap has been identified, a savings programme is determined.

The savings gap identified in the MTFP, approved on 09 March 2021, for 2021/22, 2022/23 and 2023/24 are £1.681m, £2.327m and £2.719m respectively. The Council has a strong track record of delivery against savings programmes to bridge budget gaps in recent years.

Arrangements and approach to 2021/22 financial planning

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21. The budget for 2021/22 was approved at the 09 March 2021 Council meeting.

We noted above a series of short falls in the MTFP report for 2022/23, 2023/24 and 2024/25. The Council has established the following in addressing these short falls. For 2022/23, the Council intends to use surpluses made in previous year by use of contribution to reserves to offset contributions from reserves in future years. For 2023/24 and 2024/25, the Council has established further initiatives to cover the gap in fund such as dividends and profits from Council's more commercial endeavours, Savings/efficiencies from making business processes more efficient and savings from service reviews.

After the proposed mitigations noted above, the Council expects contributions from reserves for the years 2022/23 and 2023/24 of £0.120m and £0.603m respectively. The Council's total income will need to increase significantly, if it is to continue delivering and improving the services it currently provides and not use its reserves to cover the deficits currently anticipated for 2022/23 and 2023/24.

We have reviewed the 2021/22 budget papers and confirmed that the budget assumptions are sensible, realistic and properly applied.

Based on the above considerations we are satisfied there is not a significant weakness in Newark & Sherwood's arrangements in relation to financial sustainability.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an updated and approved Risk Management Strategy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities. There is a Strategic Leadership Team (SLT) in place which includes relevant senior managers. The group oversees all the Council's operational and strategic risk registers and provides challenge as part of the process. The Council provides regular reports to provide assurance on the risk management arrangements in place and confirm that they are regularly reviewed and are working effectively. These arrangements are consistent with what we would expect at a local authority and are adequate for the Council's purposes.

As mentioned above, there is a specific team within the Council that manages and monitors risk. The team categorises risk into three: strategic risk, operational risk and fraud risk. The Strategic risk register is reviewed and updated with agreement of the SLT. The strategic risk register provides the Council's SLT with oversight of the key risks faced by the organisation. The strategic risks are reviewed twice a year by the SLT, with each strategic risk identified being assigned a 'risk owner' in order for there to be accountability. The 'risk owners' would then review their allocated strategic risks at quarterly intervals. Additionally, the strategic risks are also communicated to the Audit and Accounts Committee for additional scrutiny. Similar actions are taken with operational and fraud risks.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, The Council has a team of internal auditors, led by the Head of Internal Audit. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Audit and Accounts Committee prior to final approval. We have reviewed the 2020/21 internal audit plan. The internal Audit plan has a series of key control assignments throughout the year which look at the critical areas of business for the Council. The main reason for these audits are to ensure that internal controls surrounding these key tasks are working effectively. Furthermore, the audit plan is based on an assessment of risks the Council faces and is determined to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Internal Audit progress reports are presented to each Audit and Accounts Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. We are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an opinion based on the work completed during the year. For 2020/21 the Head of Internal Audit concluded that an adequate level of assurance can be given that the Council's overall framework of governance, risk management and control remains appropriate and has been complied with.

We have confirmed that the committee receive regular updates on both internal audit progress and risk management in the form of risk registers. We have seen active member engagement from the audit committee who challenge the papers and reports which they receive from officers, internal audit and external audit. We have also reviewed meeting minutes from Council which evidence an appropriate level of member engagement and challenge.

Arrangements for budget setting and budgetary control

Business plans were prepared and approved by the Strategic Leadership Team (SLT) in January 2021 for a 14 month period, taking into account the anomalies that COVID 19 has brought. The Council's business plans set out the key activities that a Business Unit of the Council will undertake, alongside their performance indicators to demonstrate how the Council will monitor if a service is high or low performing. The business plans should also correlate with activities included in the approved Community Plan. Business plans are prepared in conjunction with Financial Services to ensure there activities are planned for in the budget planning process.

The business planning cycle was refreshed during 2020/21 to include a robust cycle of key council activities throughout a particular financial year. For example, business plan development, budget development, Community Plan refresh and customer insight activities. It is intended that this cycle will be followed during 2021/22.

A budget strategy is drafted and presented to the Policy and Finance Committee during the June cycle of meetings to set the context and the high level assumptions to be used in the budget production. We have reviewed the budget assumptions which are deemed to be appropriate and are consistently applied.

Subsequently, financial services officers would then liaise with budget holders to review their anticipated resource requirements, based on their deliverable objectives within the Community Plan. Once the resource requirements have been built into the budget, a report to SLT on the overall budget (with projected Business Rates and Council Tax allocations) is presented at the end of November for senior management approval. Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). We reviewed the AGS and observed the Audit and Accounts Committee's review of the AGS and monitoring of actions throughout the year in relation to any significant governance issues.

The governance structure, as described in the AGS includes the Council's Local Code of Corporate Governance and the Constitution. The governance structure comprises the systems, processes, culture and values by which the Council is directed and controlled. The structure also includes activities through which the Council accounts to, engages with, and leads the communities that it serves. It enables the Council to monitor and assess the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council's Local Code of Corporate Governance sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The Local Code identifies the arrangements in place to enable the Council to meet the good governance principles.

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution is subject to periodic review and change either through national legislation or local decision. The Constitution includes the Budget and Policy Framework, Financial Regulations and Contract Rules, Member and Officer codes of conduct.

During 2020/21 the Council facilitated policy and decision-making through a Committee system. Meetings are open to the public except where exempt or confidential matters are being considered. In addition, the Council's Constitution gives delegated authority for senior officers of the Council to make decisions in certain specified circumstances. Throughout this year the Council has utilised "The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020" in order to conduct its meetings. This has meant that all Members and Officers, that are presenting reports, have met virtually over Microsoft Teams in order for decision making to continue whilst in a Covid safe manner. As those regulations were not in place during March and early April 2020, the Planning Committee on 31st March 2020 and the Policy and Finance Committee 2nd April 2020, which met informally virtually recommended decisions to the Chief Executive in order for him to make the required decisions, in accordance with the provisions within the Constitution.

The Council has a cross-service Risk Management Group that meets regularly to identify and evaluate all significant risks. Strategic, Corporate and Operational Risk Registers are in place and appropriate staff have been trained in the assessment, management and monitoring of risks. In addition to this, a Fraud Risk Register is in place and a full refresh took place during 2020/21. This was presented to the Audit and Accounts Committee at its meeting in April 2021.

Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council's governance arrangements. We reviewed the Local Government and Social Care Ombudsman's (LGSCO) 2020/21 report to the Council. We also reviewed the report to the Standards Committee at its November 2021 meeting, which included benchmarking of the LGSCO report findings against neighbouring councils and did not highlight any specific concerns.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Performance Management

The Council has agreed a set of priorities in relation to Customers, Economy and the Environment. The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation.

In aim of achieving these priorities, the Council prepared quarterly finance and performance reports which are submitted to the Senior Leadership Team (SLT) and to the Council's Policy and Finance Committee. Increasingly, more customer insight is being used to drive performance improvement, for example, through complaints and compliments data and residents' surveys. Also, to inform the Community Plan refresh in 2020/21, the Council took on informal consultation with their residents in the form of feedback and from local community groups who had mobilised to support communities during the pandemic. The results from feedback informed the annual refresh of the Community Plan.

Bringing together finance and performance in this way has enabled more informed choices to be made about the allocation and re-allocation of resources. For example, over the previous year, additional investment has been allocated to a number of key services that were experiencing high levels of demand in relation to the COVID pandemic. A new business planning cycle has been designed so that the business plans are developed alongside the budget process. This enables the budget to accurately reflect the plans within the service areas. This is accompanied by the review of performance for the previous year. Business Managers are required to present their plans for the new year and performance from the previous to the SLT. Where there is a change in demand this is highlighted within the performance reporting and the senior managers can discuss the need for increased or reduced budget to reflect this.

As part of the internal audit function, improvements to the control environment are recommended to the Council as well as making plan of action for management to enact. This process assists the Council with performance improvements in services to ensure that services continue to deliver efficient and effective services.

The Council has a clear performance monitoring process. Performance is assessed using the following: Achievement of objectives and activities within the community plan, performance indicators of key activities, customer insight (customer satisfaction, resident panel, engaged tenants, customer experience survey, customer feedback) and staff delivery (sickness levels, staff survey results etc.). These four elements together give a broad and cohesive approach to performance measures and directly linked to identifying areas of improvement.

Additionally, the Council are also committed to ensuring efficiency and effectiveness through their procurement process. The Council procures services from third party procurement service to assist with any procurements the Council is involved in. The third party service runs procurement services for a number of other local authorities. They provide challenge and advice around ensuring that procurements are run in conjunction with legislative requirements and internal contract procedure rules. Once contracts are let, the Council has a contract management toolkit, which managers have training on, in order to ensure that contracts are managed effectively.

Council group activity

The Council has three entities within its group structure in order to assist with the delivery of key community priorities, taking the lead where it is considered appropriate or advantageous to do so. The three entities form part of the Council's group for accounting purposes and therefore included in the Council's consolidated financial statements. These entities include two wholly owned subsidiaries and a 50% joint venture for the redevelopment of a local hotel. These are listed below respectively:

- Arkwood Development Company Ltd – a wholly own subsidiary,
- Active4Today Ltd – a wholly owned subsidiary, and
- RHH Newark Ltd – a 50% joint venture

There are relevant governance frameworks in place for these three entities and the Council continues to keep its role in these activities under review. Designated officers are responsible for taking action or referring it on where appropriate.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data.

We have not yet received group instructions from the National Audit Office confirming this to be the case. We are unable to issue our audit certificate until this is formally confirmed.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in July 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:.

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£37,213	£37,213
Additional fees in respect of additional work on PPE valuation	£7,067	£7,067
Additional fees in respect of implementation of new auditing standards	-	£2,000
Additional fees in respect of work arising from the change in the Code of Audit Practice		£10,000
Additional fees in respect to work on Group Accounts	£3,000	£2,000
Additional fees in respect of testing and reporting of uncertainties in key estimates	£5,032	-
Total fees	**£52,312**	**£58,280**

* Fee variations subject to confirmation from PSAA.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

David Hoose – Audit Engagement Partner

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

AUDIT & ACCOUNTS COMMITTEE
2 FEBRUARY 2022

EXTERNAL AUDITORS' ANNUAL AUDIT COMPLETION REPORT

1.0 Purpose of Report

1.1 To present the External Auditors supplemental letter to the Annual Audit Completion Report, presented to this committee on 1st December 2021.

2.0 Background Information

2.1 The external auditor issues an Annual Audit Completion Report (ACR) in compliance with the International Standards on Auditing. The significant findings from the audit are reported in the Annual Audit Completion Report, together with the action taken in respect of these findings. The report also gives the auditor's proposed opinion on the Statement of Accounts.

2.2 An updated ACR was presented to this committee at its meeting on the 1st December 2021 (first brought to this committee on the 29th September 2021) whereby the report updated the committee in the progress of the audit to that point. The outstanding item at that point, prior to being able to issue their Independent auditor's report on the financial statements, was in relation to Property, Plant and Equipment, whereby further work was necessary surrounding the inputs and judgements made by the Council's valuation expert.

2.3 The original report, tabled at the committee on the 29th September 2021, approved the Annual Governance Statement and the Statement of Accounts, subject to the further work necessary, and gave delegated authority to the S151 Officer and the Chairman to sign a revised set of accounts if required.

2.4 Once the outstanding work had been completed, the documents were duly authorised as per paragraph 2.3 and the auditors' report was received on the 6th January 2022, at which point the Council published its accounts. The opinion was as anticipated in that it was an unqualified opinion, which did include an emphasis of matter paragraph, drawing attention to disclosures relating to a material valuation uncertainty of specific property assets. No material adjustments were required post the accounts presented on the 29th September 2021, prior to the publication on the 6th January 2022.

3.0 Audit Completion Report – Supplemental Letter

3.1 The document at Appendix A is the supplemental letter to the updated Audit Completion Report presented to this Committee on the 1st December 2021.

3.2 The document details that all work in respect of the opinion on the financial statements has been completed.

3.3 Work in relation to the Whole of Government Accounts is yet to begin. This is due to the National Audit Office not confirming its requirements. Additionally to this HM Treasury are yet to release the data collection tool for the Council to complete, hence work is yet to begin in this area.

3.4 The letter also references the Annual Audit Report which is elsewhere on this agenda.

4.0 RECOMMENDATIONS that:-

(a) the Committee receives the updated External Auditors Supplemental Letter to the Annual Audit Completion Report for 2020/21;

(b) the Committee notes the document;

(c) the Committee notes that the Statement of Accounts were published on the 6th January 2022.

Background Papers

Nil

For further information please contact Nick Wilson, Business Manager - Financial Services on extension 5317.

Nick Wilson
Business Manager - Financial Services

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21 January 2022

Dear Committee Member

Newark & Sherwood District Council Audit Completion Report 2020/21 – update

Following on from the Committee's 01 December 2021 meeting I am writing to update, in the table below, the Committee members of those matters that were reported within the Newark & Sherwood District Council Audit Completion Report dated 9 September 2021 and an updated version dated November 2021. As can be seen in the table below, all work in relation to the independent auditor's opinion on the financial statement has now been completed and the opinion was given on the 06 January 2022, which was an unqualified opinion with an inclusion of an emphasis of matter paragraph drawing attention to disclosures relating to a material valuation uncertainty of specific property assets.

Matter included in our Audit Completion Report	Update/Conclusion reached
Land, Buildings and Investment Property valuations	The audit work is now complete and there are no additional matters to report.
Whole of Government Accounts (WGA)	The National Audit Office (NAO) has still not confirmed its requirements and, as indicated in our Audit Completion Report, the Audit Certificate has not yet been issued for 2020/21.
Audit Quality Control and Completion Procedures	This process is complete. There are no other specific matters that we are required to report.

The Auditor's Annual Report, including the Value for Money Commentary

We provided the Committee in our Audit Completion Report with a summary of our responsibilities in relation to Value for Money. Our work on Value for Money is complete and detailed within the Annual Auditor's Report.

Our Annual Auditor's Report will be presented to the Committee on 02 February 2022.

Audit Certificate

I can confirm that we have not yet issued the 2020/21 Audit Certificate for the reasons set out in our Audit Completion Report (ie the NAO's delay in confirming its WGA requirements and the timing of the Annual Auditor's Report). We expect to issue the certificate once these matters are concluded.

We will update the Committee at its 02 February 2022 meeting but if you wish to discuss these or any other matters in the meantine then please do not hesitate to contact me.

Yours sincerely

David Hoose
Key Audit Partner
For and on behalf of Mazars LLP

AUDIT & ACCOUNTS COMMITTEE
2 FEBRUARY 2022

TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Purpose of Report

1.1 This report seeks approval for the Treasury Management Strategy, which incorporates the Borrowing Strategy, Investment Strategy, and Treasury Prudential Indicators, updated in accordance with latest guidance.

2.0 Background Information

2.1 Treasury Management is defined as "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 Statutory Requirements:

- The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes to set Treasury Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

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

2.3 CIPFA Requirements:

The primary requirements of the Code are as follows:

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy, a Mid-year Review Report and an Annual Report covering activities during the previous year;

2.4 CIPFA published the revised Treasury Management Code and Prudential Code on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

Members will be updated on how the changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

2.5 This report seeks approval for the Treasury Management Strategy 2022/23 (Appendix A), which encompasses the Treasury Prudential Indicators, the Borrowing Strategy, and the Annual Investment Strategy, in accordance with latest guidance as follows:

3.0 **Summary of Investment Limits and Indicators**

3.1 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). No investment limits have been amended for the financial year 2022/23. Also, it is proposed to use the same prudential indicators for the investing activity, further details are in the Appendix.

4.0 **Summary of Borrowing Limits and Indicators**

4.1 The Council's borrowing limits are directly affected by the Council's approved capital programme and any capital expenditure financed by borrowing will therefore increase the Capital Financing Requirement (CFR). In respect of the tables within the documents, these reflect the proposed capital programme that will be presented to Policy and Finance on 21st February 2022 to be approved at Council on 8th March 2022. Where changes occur, these will be reflected in the documents as appropriate. The CFR is the level of expected borrowing and when compared to the actual external debt the variance represents the over or under borrowing position.

4.2 The Council is currently in an under borrowed position which means that previous capital expenditure financed by borrowing hasn't yet required actual external debt due to the timing of cash backed reserves that haven't yet been utilised. However, this is always a temporary position as ultimately when the cash backed reserves are used there will be a requirement for actual external borrowing.

4.3 The table below shows the Councils increasing CFR due to capital expenditure financed by borrowing less the actual external debt, with no new borrowing assumptions, less the cash backed reserves and working capital (debtors less creditors), further details are in **Appendix A.**

	2022/23 Forecast £'000	**2023/24 Forecast £'000**	**2024/25 Forecast £'000**
Loans CFR	**174,002**	**171,295**	**167,347**
Less: External borrowing	-90,469	-84,935	-81,901
Internal (over) borrowing	**83,533**	**86,360**	**85,446**
Less: Usable reserves	-48,253	-46,565	-47,945
Less: Working capital	-10,500	-10,500	-10,500
Investments (or New borrowing)	**-24,780**	**-29,295**	**-27,001**

The table indicates that over the next forecasted three year period there will potentially be a minimum requirement to borrow an additional £29m.

4.4 Within the borrowing strategy the following limits are proposed for the operational boundary and authorised limit over the three year period, further details in **Appendix A.**

	2022/23 £'000	2023/24 £'000	2024/25 £'000
Operational Boundary	**179,626**	**176,919**	**172,971**
Authorised Limit	**186,826**	**184,119**	**180,171**

5.0 Proposals

5.1 That the Treasury Management Strategy 2022/23 as attached at an **Appendix A** to this report is approved.

6.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 8th March 2022 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

6.1 The Treasury Management Strategy 2022/23, incorporating the Borrowing Strategy and the Annual Investment Strategy **(Appendix A).**

6.2 The Treasury Prudential Indicators and Limits, contained within **Appendix A**.

6.3 The Authorised Limit Treasury Prudential Indicator contained within **Appendix A**.

Reason for Recommendation(s)
Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2011 Edition and the 2017 revised Edition
CIPFA Prudential Code Local Government Act 2003
CIPFA Standard of Professional Practice on Treasury Management

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APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23

Introduction

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

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

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

CIPFA defines treasury management as:

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

This strategy covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Treasury Management Reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital forecast summary;

- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how treasury investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the treasury position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports and strategies are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Treasury Management training has been undertaken by members on 1st December 2021 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Capital Summary and Liability Benchmark

On 31st December 2021, the Council held £96m of borrowing and £78m of investments. Forecast changes in these sums are shown in the balance sheet analysis table below.

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure and financing

	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000
General Fund services	5,799	17,123	48,810	12,463	1,256
Council housing (HRA)	15,211	19,990	29,543	11,626	6,616
Capital Loan (GF)	2,439	1,300	10,110	0	0
TOTAL	**23,449**	**38,413**	**88,463**	**24,089**	**7,872**
Capital Grants	1,935	6,326	20,725	10,860	860
Other Contributions	1,012	1,305	9,265	0	0
Capital Receipts	3,134	5,265	3,643	3,830	809
Revenue/ Major Repairs Reserve	8,158	13,170	20,074	5,679	6,203
Borrowing	9,210	12,347	34,756	3,720	0
TOTAL	**23,449**	**38,413**	**88,463**	**24,089**	**7,872**

The Council's borrowing need (the Capital Financing Requirement)

	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000
General Fund CFR	29,139	29,671	53,382	53,540	52,626
HRA CFR	109,023	114,003	120,844	117,979	114,945
Total CFR	**138,162**	**143,674**	**174,226**	**171,519**	**167,571**
Less: Other debt liabilities	-224	-224	-224	-224	-224
Loans CFR	**137,938**	**143,450**	**174,002**	**171,295**	**167,347**
Less: External borrowing	-95,212	-97,001	-90,469	-84,935	-81,901
Internal (over) borrowing	**42,726**	**46,449**	**83,533**	**86,360**	**85,446**
Less: Usable reserves	-69,311	-66,159	-48,253	-46,565	-47,945
Less: Working capital	-12,140	-10,500	-10,500	-10,500	-10,500
Investments (or New borrowing)	**38,725**	**30,210**	**-24,780**	**-29,295**	**-27,001**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council has an increasing CFR due to the proposed capital programme, and diminishing investments and will therefore be required to borrow up to a minimum of an additional £29m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the Council expects to comply with this recommendation during 2022/23.

Liability benchmark: A liability benchmark has been calculated showing the lowest level of borrowing required. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10m, as per MiFID II, at each year-end to maintain sufficient liquidity but minimise credit risk.

	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000
Loans CFR	137,938	143,450	174,002	171,295	167,347
Less: Usable reserves	-69,311	-66,159	-48,253	-46,565	-47,945
Less: Working capital	-12,140	-10,500	-10,500	-10,500	-10,500
Plus: Minimum investments	10,000	10,000	10,000	10,000	10,000
Liability Benchmark	**66,487**	**76,791**	**125,249**	**124,230**	**118,902**

Borrowing Strategy

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Current Borrowing portfolio position

The Council's treasury portfolio position at 31 March 2021, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000
External Debt					
Debt at 1 April	92,427	95,436	89,107	82,576	77,041
Expected change in Debt	2,785	-6,553	-6,755	-5,759	-3,258
Other long-term liabilities	224	224	224	224	224
Actual gross debt at 31 March	**95,436**	**89,107**	**82,576**	**77,041**	**74,007**
The Capital Financing Requirement	**138,162**	**143,674**	**174,226**	**171,519**	**167,571**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Treasury Indicators: limits to borrowing activity

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise of finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	148,674	179,226	176,519	172,571
Other long-term liabilities	400	400	400	400
Total Debt	**149,074**	**179,626**	**176,919**	**172,971**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	155,674	186,226	183,519	179,571
Other long-term liabilities	600	600	600	600
Total Debt	**156,274**	**186,826**	**184,119**	**180,171**

Separately, the Council has previously been limited to a maximum HRA CFR through the HRA self-financing regime and the Government set HRA Debt cap, however on 30 October 2018 the Government removed the HRA Debt cap. The Council deems it prudent to have a limit on the borrowing for the HRA, therefore it has chosen to use the Interest Cover Ratio (ICR) as its borrowing boundary for the HRA. The ICR represents the cover that the HRA has against its interest cost liabilities in any year. The ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest payments. The typical lending covenants used with the ratio varies between 1.10 and 1.50, the lower rate represents less cover and higher rate represents more cover, the Council will use the most prudent approach and therefore use 1.50 within the ratio to provide the most comfort of interest costs cover. The ICR has been modelled into the current HRA 30 year business plan and the maximum additional debt capacity set is £33.291m in order to maintain affordability in each financial year:

HRA Debt Limit	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
HRA CFR	114,003	120,844	117,979	114,945
Additional ICR Debt Capacity	33,291	33,291	33,291	33,291
HRA Authorised Limit	**147,294**	**154,135**	**151,270**	**148,236**

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed and variable rate borrowing will be:

	Upper	Lower
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Strategy: The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Director of Resources/Deputy Chief Executive will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The benefits of internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Link will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2022/23, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow (normally for up to one month) short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following additional sources.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- UK Municipal Bonds Agency plc any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

LOBOs: The Council holds £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £3.5m of these LOBOs have options during 2022/23, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £0m.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. Rescheduling of current borrowing in our debt portfolio is unlikely to occur. If rescheduling was done, it will be reported to Council, at the earliest meeting following its action.

Policy on borrowing in advance of need: The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Policy on internal borrowing interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other.

Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (capital financing requirement) will result in an internal borrowing situation. The internal borrowing on the HRA will charged at the 25 year fixed maturity interest rate for PWLB for the 31st March for the relevant financial year with the credit going to the General Fund balance.

Investment Strategy

Management of Risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy and Investment Strategy.

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

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Council's investment balance has ranged between £49 and £76 million. Levels available for investment are affected by capital expenditure and use of reserves, both will continue to be monitored throughout the financial year.

Objectives: As the CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

Strategy: Given the continued risk and very low returns from short-term unsecured bank investments, the Council aims to continue investing into more secure and/or higher yielding asset classes during 2022/23. This is especially the case for the estimated £15m that is potentially available for longer-term investment. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds.

Business models: As a result of the change in accounting standards for 2019/20 under IFRS 9, the Council must consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.).

Creditworthiness Policy; 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 that:

- 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; and
- 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.

The Director of Resources/Deputy Chief Executive will maintain a counterparty list in compliance with the following criteria in the table below and will revise the criteria and submit them to Council for approval as necessary.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the below criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows:

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£8m 5 years	£10m 20 years	£20m 50 years	£5m 20 years	£5m 20 years
AA+	£6m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£6m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years
AA-	£6m 3 years	£10m 4 years		£5m 4 years	£5m 10 years
A+	£6m 2 years	£10m 3 years		£5m 3 years	£5m 5 years
A	£6m 13 months	£10m 2 years		£5m 2 years	£5m 5 years
A-	£5m 6 months	£10m 13 months		£5m 13 months	£5m 5 years
None		n/a			£5m 5 years
Pooled funds and real estate investment trusts	£15m per fund or trust				

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Council will incur operational exposures through its current accounts, with Lloyds Bank. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £850,000 net in the bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Country and sector limits: Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA (excluding UK) from Fitch (or equivalent). This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

Investment limits: In order to limit the amount of reserves that will be potentially put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£15m in total
Local Authorities	£15m each
Money market funds	£12m each
Real estate investment trusts	£10m in total

Liquidity management: The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Policy on internal investment interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Interest receivable for HRA balance sheet resources available for investment will result in a notional cash balance. This balance will be measured at the end of the financial year and interest transferred from the General Fund to the HRA at the average investment rate for a DMO investment for the financial year due to the General Fund carrying all the credit risk per investment.

Investment returns expectations: The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%

Treasury Indicators: limits to investing activity

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a banding period, without additional borrowing.

Liquidity risk indicator	**Target**	**Limit**
Total cash available within;		
3 months	30%	100%
3 – 12 months	30%	80%
Over 12 months	40%	60%

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£200,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£200,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	**2022/23**	**2023/24**	**2024/25**
Limit on principal invested beyond year end	£15m	£15m	£15m

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Resources has produced its treasury management practices (TMPs). This part, TMP 1, covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments.
- The principles to be used to determine the maximum periods for which funds can be committed.

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in institutions.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Resources, and if required new counterparties which meet the criteria will be added to the list.

Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;

(ii) Audit and Accounts Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body;
- receiving and reviewing regular monitoring reports and acting on recommendations; and
- approving the selection of external service providers and agreeing terms of appointment.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above; and
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

Economic Background and Interest Rate Forecast

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.

- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16^H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    - Raising Bank Rate as "the active instrument in most circumstances".
    - Raising Bank Rate to 0.50% before starting on reducing its holdings.
    - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.

- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.

- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

INTEREST RATE FORECASTS

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table below, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields.

Interest Rate Forecasts 2022 – 2025

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

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

AUDIT & ACCOUNTS COMMITTEE
2 FEBRUARY 2022

CAPITAL STRATEGY 2022/23

1.0 Purpose of Report

1.1 To seek Committee approval to the Capital Strategy 2022/23, this incorporates the Minimum Revenue Provision Policy and Capital Prudential Indicators, updated in accordance with latest guidance.

2.0 Background Information

2.1 The Capital Strategy outlines the principles and framework that shape the Council's capital decisions. The principal aim is to deliver a programme of capital investment that contributes to the achievement of the Council's priorities and objectives as set out in the Corporate Plan.

2.2 The Strategy defines at the highest level how the capital programme is to be formulated; it identifies the issues and options that influence capital spending, and sets out how the resources and capital programme will be managed.

2.3 Statutory Requirements:

- The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Capital Prudential Indicators each financial year to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.4 CIPFA Requirements:

- The Prudential Indicators set out the expected capital activities during the financial year (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).

- Delegation by the Council of the role of scrutiny of Capital Strategy and Policies to a specific named body. For this Council the delegated body is the Audit and Accounts Committee.

3.0 Summary of Capital Expenditure and Financing

3.1 The table below summaries the total forecasted capital expenditure and financing over the next three years, further breakdown is contained within the Strategy;

	2022/23 budget	2023/24 budget	2024/25 budget
Total Capital Expenditure	**88,463**	**24,089**	**7,872**
Capital Grants	20,725	10,860	860
Other Contributions	9,265	0	0
Capital Receipts	3,643	3,830	809
Revenue/ Major Repairs Reserve	20,074	5,679	6,203
Borrowing	34,756	3,720	0
Total Capital Financing	**88,463**	**24,089**	**7,872**

4.0 Proposals

4.1 That the Capital Strategy 2022/23, including the Minimum Revenue Provision (MRP) Policy, as attached at **Appendix A** to this report is approved.

5.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 8th March 2022 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

5.1 The Capital Strategy 2022/23 **Appendix A**.

5.2 The Capital Prudential Indicators and Limits for 2022/23, contained within **Appendix A**.

5.3 The Minimum Revenue Provision (MRP) Policy Statement as contained within **Appendix C**, which sets out the Council's policy on MRP.

5.4 The Flexible Use of Capital Receipts Strategy, contained with **Appendix D**.

Reason for Recommendation(s)
Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

CIPFA Prudential Code Local Government Act 2003
CIPFA Treasury Management Code of Practice

For further information please contact Andrew Snape on Ext 5523.

Sanjiv Kohli
Deputy Chief Executive/Director – Resources and S151 Officer

Appendix A

Capital Strategy Report 2022/23

Introduction

This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance stakeholders' understanding of these sometimes technical areas.

As well as detailing the approved capital programme, the document also sets out the Councils ambitions over the medium to longer term.

The basic elements of the Strategy therefore include:

- A direct relationship to the Community Plan;
- An investment programme expressed over the medium to long term;
- A framework that prioritises the use of capital resources;
- A consideration of the need to pursue external financing (grants, contributions, borrowing etc), which reconcile external funding opportunities with the Council's priorities and organisational objectives, so that it is the achievement of the latter that directs effort to secure the former; and
- A direct relationship with the Treasury Management Strategy, and the limitations on activity through the treasury management Prudential Indicators.

This document is intended for the use by all stakeholders to show how the Council makes decisions on capital investment:

- for the Policy and Finance Committee and Council – to decide on capital investment policy within the overall context of investment need/opportunity and affordability;
- for Councillors – to provide an understanding of the need for capital investment and help them scrutinise policy and management;
- for Officers – to provide an understanding of the Council's capital investment priorities, to assist them in bidding for capital resources, and to confirm their role in the capital project management and monitoring arrangements;
- for taxpayers – to demonstrate how the Council seeks to prudently manage capital resources and look after its assets; and
- for partners – to share with them our Vision and help to co-ordinate and seek further opportunities for joint ventures.

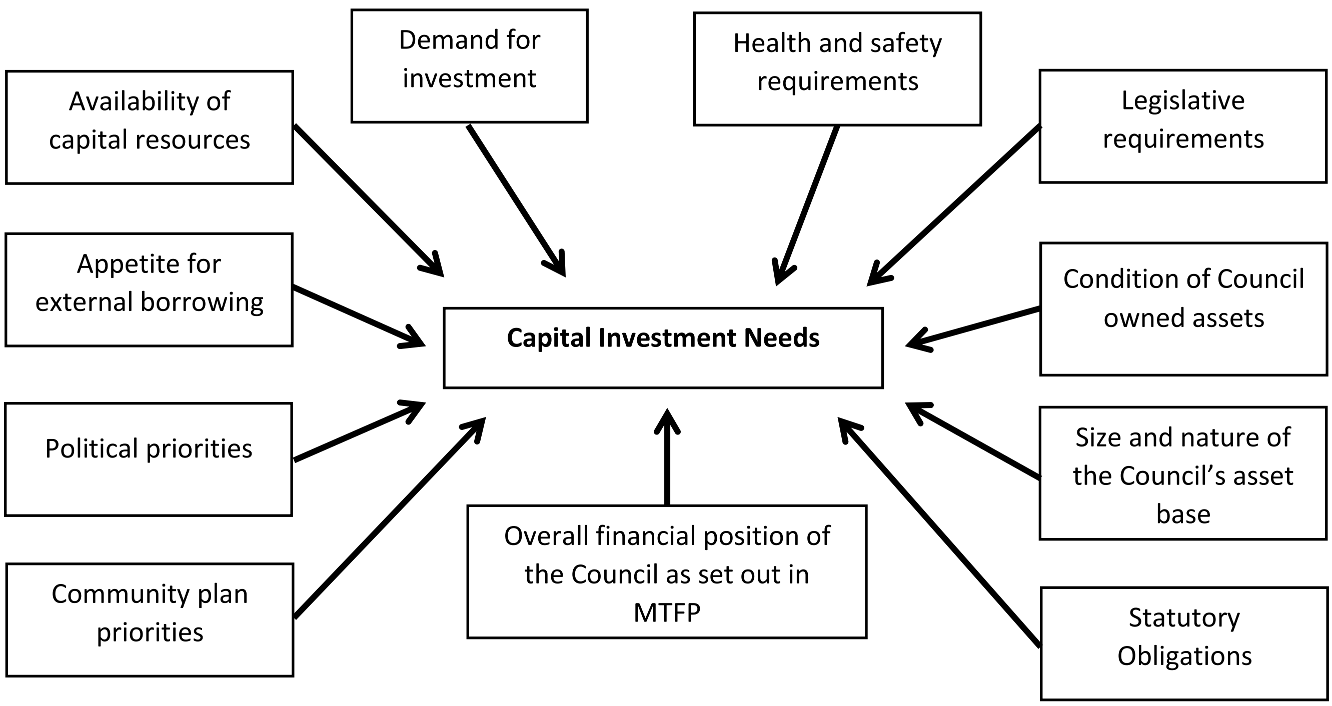
CAPITAL INVESTMENT PRIORITIES

The aim of the Council is to make a sustainable improvement to the long-term quality of life of our residents. The Community Plan 2020-2023 sets out the Vision for Newark and Sherwood. This Vision is intended to be external facing and clearly indicates the Council's ambition for the district and the people within it.

Underpinning the Council's contribution to the Community Plan vision are seven Corporate Objectives. These are:

- *Create vibrant and self-sufficient local communities where residents look out for each other and actively contribute to their local area;*
- *Deliver inclusive and sustainable economic growth;*
- *Create more and better quality homes through our roles as landlord, developer and planning authority;*
- *Continue to maintain the high standard of cleanliness and appearance of the local environment;*
- *Enhance and protect the district's natural environment;*
- *Reduce crime and anti-social behaviour and increase feelings of safety in our communities;*
- *Improve the health and wellbeing of local residents.*

Capital investment should be directly linked to the objectives as outlined in the Community Plan. There are however a number of other factors that affect the need for capital investment both internal and external. The diagram below identifies a number of these:



Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £15,000 are not capitalised and are charged to revenue in year in accordance with its de minimus limits as set out in the Financial Regulations.

- For details of the Council's policy on capitalisation, see: Accounting Policy 1.17 under note 1 of the Councils Statement of Accounts.

In 2022/23, the Council is planning capital expenditure of £88.4m as summarised below:

Prudential Indicator 9: Estimates of Capital Expenditure in £'000

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund services	5,799	17,123	48,810	12,463	1,256
Council housing (HRA)	15,211	19,990	29,543	11,626	6,616
Capital Loan (GF)	2,439	1,300	10,110	0	0
TOTAL	**23,449**	**38,413**	**88,463**	**24,089**	**7,872**

The General Fund Capital Programme with a proposed budget for 2022/23 of £58.9m. Of this amount, expenditure on the Council's General Fund assets totals £22.4m, and £0.8m will provide Disabled Facilities Grants to a number of private dwellings during the year. Also during 2022/23 the Council also plans to make available £10.1m of capital funding in the form of capital loans to the Councils housing development company for regeneration purposes.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and has a proposed budget for 2022/23 of £29.5m, which supports the maintenance of the Councils circa 5,500 council houses.

Governance: During early July a 'Capital Bid Request Form' is sent to all Business Managers and Directors. Each bid is required to include details of the nature of the scheme and how it meets the priorities within the Community Plan. It must also include detailed costs for expenditure and all financing costs (which can be nil if the project is fully externally financed) in order to assess the viability of each scheme against the available resources. All bids are required to be authorised by the relevant director and then collated by the Capital Finance team.

The Senior Leadership Team appraises all bids based on a comparison of service priorities against financing costs. Criteria can be found at **Appendix E**. Based on this assessment a final Capital Programme report is prepared for submission to Policy and Finance Committee in February before final approval by Council in March.

- Full details of the 'Capital Bid Request Form' and the prioritisation criteria can be found at **Appendix E**.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Prudential Indicator 9: Capital financing in £'000

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
External sources					
Capital Grants	1,935	6,326	20,725	10,860	860
Other Contributions	1,012	1,305	9,265	0	0
Own resources					
Capital Receipts	3,134	5,265	3,643	3,830	809
Revenue/ Major Repairs Reserve	8,158	13,170	20,074	5,679	6,203
Debt					
Borrowing	9,210	12,347	34,756	3,720	0
Leasing	0	0	0	0	0
TOTAL	**23,449**	**38,413**	**88,463**	**24,089**	**7,872**

Debt is only a temporary source of finance, since loans and leases must be repaid this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). This is a charge to the General Fund Balance and is mandated by legislation to ensure that a prudent charge for the repayment of debt be made by the revenue account. An MRP Statement which sets out how this charge should be calculated each year must be produced which is appended at **Appendix C**.

As the HRA account is self-financing there is no requirement for an MRP charge as the actual debt repayments are made as the loans mature. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The forecast General Fund MRP charge and the HRA actual debt loan repayments are below:

Replacement of debt finance in £'000

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund - MRP	544	546	619	892	913
General Fund – RHH Ltd	0	3,147	0	0	0
HRA - Debt Repayment	4,026	3,029	6,531	5,534	3,034

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and loan debt repayments and capital receipts used to replace debt. The CFR is expected to increase by £30.5m during 2022/23. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Prudential Indicator 10: Estimates of Capital Financing Requirement in £'000

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund services	25,992	28,371	43,272	42,130	41,216
Council housing (HRA)	109,023	114,003	120,844	117,979	114,945
Capital investments	3,147	1,300	10,110	11,410	11,410
TOTAL CFR	**138,162**	**143,674**	**174,226**	**171,519**	**167,571**

Asset management: The overriding objective of asset management within the council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The council's property portfolio consists of operational property and property held for specific community or regeneration purposes. The council has specific reasons for owning and retaining property:

- Operational purposes e.g. assets that support core business and service delivery e.g. office buildings.
- Parks, playgrounds and open spaces.
- Regeneration, enabling strategic place shaping and economic growth.

Asset management is an important part of the council's business management arrangements and is crucial to the delivery of efficient and effective services, the ongoing management and maintenance of capital assets will be considered as part of this strategy. The asset management planning includes an objective to optimise the council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

Asset disposal: The Council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions in order to maximise the sale proceeds, known as capital receipts, which can then be spent on new assets or repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2025/26, although the Council does not expect to utilise this ability during 2022/23. Repayments of capital grants, loans and investments also generate capital receipts.

- The Council's Flexible Use of Capital Receipts Policy is available at **Appendix D**.

Treasury Management

Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council typically has a surplus of cash in the short-term as revenue income is received before it is spent, but a shortfall of cash in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council at 31st December 2020 had £96m borrowing at an average interest rate of 3.4% and £78m treasury investments at an average rate of 0.7%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently between 1.5% to 2.0% depending on the length of the loan).

The table below shows the Council's actual debt position against the forecasted capital financing requirement, where no additional borrowing has been included based on the proposed capital program.

Gross Debt and the Capital Financing Requirement in £'000

Debt	**2020/21 actual**	**2021/22 forecast**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
External Debt					
Debt at 1 April	92,427	95,436	89,107	82,576	77,041
Expected change in Debt	2,785	-6,553	-6,755	-5,759	-3,258
Other long-term liabilities (OLTL)	224	224	224	224	224
Actual gross debt at 31 March	**95,436**	**89,107**	**82,576**	**77,041**	**74,007**
The Capital Financing Requirement	**138,162**	**143,674**	**174,226**	**171,519**	**167,571**
Under / (over) borrowing	**42,726**	**54,567**	**91,650**	**94,478**	**93,564**

Statutory guidance is that debt should remain below the capital financing requirement, except in exceptional circumstances that may incur for a short-term. As can be seen from the table above, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Authorised limit and operational boundary for external debt in £'000

	2021/22 revised	**2022/23 limit**	**2023/24 limit**	**2024/25 limit**
Authorised limit – total external debt	156,274	186,826	184,119	180,171
Operational boundary – total external debt	149,074	179,626	176,919	172,971

- Further details on borrowing are in pages 4 to 7 of the treasury management strategy.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons may be for purely financial gain or in order to stimulate the local economy and are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent over the short - term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property funds, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Treasury management investments in £'000

	2020/21 actual	**2021/22 forecast**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
Short-term investments	39,770	53,506	34,284	33,102	34,068
Longer-term investments	7,500	13,377	14,693	14,187	14,601
TOTAL	**47,270**	**66,883**	**48,977**	**47,289**	**48,669**

- Further details on treasury investments are in pages 8 to 13 of the treasury management strategy.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources/Deputy Chief Executive and treasury staff, who must act in line with the Treasury Management Strategy approved by Full Council. Half yearly reports on treasury management activity are presented to the Audit and Accounts committee and then to Full Council. The Audit and Accounts committee is responsible for scrutinising treasury management decisions. Quarterly reporting against the Prudential Indicators will be included within Budget

Monitoring and Forecasting reports from April 2022 which will be presented to the Audit and Accounts Committee.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

Governance: Decisions on service investments are made by the relevant Business Manager in consultation with the Director of Resources/Deputy Chief Executive and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are contained within the investment strategy.

Commercial Activities

With central government financial support for local public services declining, the Council has the ability to invest in commercial property if it meets both wider Council objectives and provides a financial return that can be used to support Council services.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return. The council may fund the purchase of the property by borrowing money. The rental income paid by the tenant should exceed the cost of repaying the borrowed money each year. The annual surplus then supports the council's budget position, and enables the council to continue to provide services for local people. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. In order that commercial investments remain proportionate to the size of the council, these are subject to an overall maximum investment limit of £15m. However, the Council does not hold any investment properties on its balance sheet and has no plans to invest in these types of assets.

Governance: Property and most other commercial investments would be classed as capital expenditure and purchases will therefore be approved as part of the capital programme.

- Further details on commercial investments and limits on their use are contained within the investment strategy.

Liabilities

In addition to debt of £95m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £95.2m 2020/21).

Governance: Decisions on incurring new discretionary liabilities are taken by Business Managers in consultation with the Director of Resources/Deputy Chief Executive. The risk of liabilities crystallising and requiring payment is monitored by the corporate finance team. New liabilities are reported to full Council for approval/notification as appropriate.

- Further details on liabilities and guarantees are on pages 85 to 90 of the 2021/22 statement of accounts.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Prudential Indicator 11: Proportion of financing costs to net revenue stream in £'000

	2020/21 actual	**2021/22 forecast**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
General Fund					
MRP Charge	544	546	619	892	913
Interest Payable	49	47	120	342	352
Less: Investment Income	-932	-793	-1,041	-1,092	-1,156
Total GF Financing costs	**-339**	**-200**	**-302**	**142**	**109**
Proportion of net revenue stream	-1.36%	-0.95%	-2.29%	1.05%	0.79%
Housing Revenue Account					
Interest Payable	3,907	3,775	3,909	3,656	3,451
Depreciation	4,860	5,420	5,516	5,636	5,636
MRR contributions including debt repayments	5,009	4,333	4,512	5,402	6,204
Less: Investment Income	-3	-5	-5	-5	-5
Total HRA Financing costs	**13,773**	**13,523**	**13,932**	**14,689**	**15,286**
Proportion of net revenue stream	56.57%	53.97%	52.52%	53.63%	53.59%

- Further details on the revenue implications of capital expenditure are contained within the 2022/23 revenue budget.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for potentially up to 50 years into the future. The Director of Resources/Deputy Chief Executive is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources/Deputy Chief Executive is a qualified accountant with 19 years' experience, the Business Manager – Corporate Property is a qualified Chartered Surveyor and also has 10 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, AAT, ACT (treasury) and actively encourages staff to attend relevant training courses and seminars.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Group as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

- The Council's policy on the use of temporary agency workers and consultants is available on the Councils Intranet.

APPENDIX B

MANAGING THE CAPITAL PROGRAMME

A key role in the monitoring of the capital programme is undertaken by the Capital Monitoring Group, which meets on a quarterly basis. This Group is attended by responsible officers and the relevant accountant and is chaired by the Business Manager for Financial Services. It is a supportive environment in which problem areas are identified and corrective actions agreed and implemented at an early stage to avoid slippage. Each scheme has a nominated project manager who is responsible for the successful completion of the scheme both to time and on budget.

The Council maintains comprehensive and robust procedures for managing and monitoring its Capital Programme. Ongoing monitoring arrangements for the delivery of the approved programme consist of:

- Project Managers are identified for each scheme who are responsible for monitoring progress, spend and income and producing action plans to respond to variations in pace or cost of delivery;
- The Deputy Chief Executive/Director of Resources and S151 Officer co-ordinates high level monthly reporting and detailed quarterly reporting to the Management Senior Leadership Team and Policy and Finance Committee;
- The quarterly capital monitoring where project managers report on performance outputs on each of their capital projects in progress. Variations and unexpected items are discussed and appropriate action taken; and
- Business Managers are responsible for ensuring that their Project Manager's monitoring reports are quality assured and challenged, and that corporate implications arising from capital monitoring are brought to the attention of the Senior Leadership Team and Policy and Finance Committee for approval of variations where necessary.

PROCUREMENT

The purchase of capital assets should be conducted in accordance with the Contract Procedure Rules, ensuring value for money, legality and sustainability at all times. Contract standing orders and rules governing the disposal or write off of assets are contained in the Constitution which is consistently reviewed.

VALUE FOR MONEY

The Council recognises that effective procurement lies at the heart of delivering value for money and is essential if the Council is to obtain real improvements to quality and service costs. The Council seeks to achieve value for money by applying rigorous procurement standards in the selection of suppliers and contractors to ensure efficiency, economy and effectiveness is received throughout the life of a contract. The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of our capital strategy. Specifically we will seek to strengthen the outcome indicators as part of post project reviews.

APPENDIX C

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2022/23

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments where it is deemed appropriate (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to Councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2016 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in the former DLUHC regulations (option 1);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year. However as the Council deems it more prudent MRP will be charged on a 2% straight line basis, net of 'Adjustment A'. This ensures that the debt will be repaid within 50 years.

From 1 April 2016 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's useful life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

APPENDIX D

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

Introduction and Background

Following the Spending Review 2015, the Ministry of Housing, Communities and Local Government (MHCLG) recently issued guidance on the flexible use of capital receipts which came into effect from 1 April 2016 to 31 March 2022. On 10 February 2021 the government announced a 3-year extension from 2022-23 onwards of the existing flexibility for councils to use capital receipts to fund transformation projects that produce long-term savings or reduce the costs of service delivery. The guidance, underpinned by a direction from the Secretary of State for Communities and Local Government, will enable local authorities to capitalise costs incurred on transforming or improving service delivery designed to generate ongoing revenue savings. The guidance also states that each local authority should prepare a Flexible use of Capital Receipts Strategy.

In summary, the key elements of the DLHUC guidance on the flexible use of capital receipts are:

Types of qualifying expenditure

1. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

2. Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure.

Financing of the qualifying expenditure

i. Up to 100% of capital receipts from property, plant and equipment disposals received from 2022/23 (excluding Right to Buy receipts) can be used to finance qualifying expenditure. Existing capital receipts in hand prior to 2022/23 are not permitted to be used.
ii. Local authorities may not borrow to finance qualifying expenditure.
iii. The guidance will apply for 2022/23.

APPENDIX E

NEWARK & SHERWOOD DISTRICT COUNCIL
CAPITAL PROJECT APPRAISAL FORM

COMMITTEE	
DIRECTORATE	
BUSINESS UNIT	
PROJECT OFFICER	
PROJECT TITLE	

1. DESCRIPTION OF PROJECT

2. DEMONSTRATION OF NEED e.g is the work a statutory obligation? Please include supporting information

3. DETAIL HOW THE PROJECT LINKS TO THE COMMUNITY PLAN

4. DESCRIBE THE IMPACT OF THIS PROJECT ON OTHER BUSINESS UNITS (including officers in other business units involvement in the project)

5. PROJECT DEPENDENCIES

6. RESOURCE REQUIREMENTS

6a. LAND/BUILDING CURRENTLY IN COUNCIL OWNERSHIP/LAND ACQUISITION REQUIRED (State whether General Fund or HRA)

6b. ESTIMATED CAPTIAL COSTS INCLUDING PROFILE OF SPEND OVER FINANCIAL YEARS

***Consideration to be given to inflation and contingency**

2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £

6c. FUNDING AVAILABLE

2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £	Source

6d. REVENUE IMPLICATIONS (this should include costs associated with implementation, ongoing revenue costs and ongoing savings and should be agreed with relevant accountant).

6e. VAT IMPLICATIONS (do we need to consider option to tax?)

7. OTHER INFORMATION

7a. HEALTH & SAFETY ISSUES

7b. EQUALITIES IMPLICATIONS

7c. CRIME & DISORDER ISSUES

7d. PLANNING IMPLICATIONS

7e. LISTED BUILDING IMPLICATIONS

7f. PROJECT RISKS/UNCERTAINTIES

7g. HAVE ALTERNATIVE PROCUREMENT STRATEGIES SUCH AS JOINT PROCUREMENTS BEEN EXPLORED?

FORM COMPLETED BY:	
DATE:	
SIGNATURE OF SPONSORING DIRECTOR:	

PRIORITISATION CRITERIA

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
1	**Key Priorities** Scheme must link to at least one of the Council's priorities and be an objective contained within a Service Plan.	If a scheme does not clearly relate to these areas it will not be considered further.	Each scheme to be marked as to how well it fits with the Community Plan	**35%**
2	**Evidence of Need** Service Strategy National Strategy or Guidelines Statutory Obligation	In some cases local demands are in excess of national guidelines and strategies and this tries to acknowledge that the two must be balanced. This will cover Health and Safety related schemes.	The following factors will receive equal weighting :- • Statutory Obligation • National Strategy • Validity of consultation in relation to project. e.g. How specific to this project? Who was consulted, was this comprehensive? • Quality of evidence of need for project .e.g. size of sample base, date of evidence, format of evidence	**10%**
3	**Partnership** Eligibility under existing criteria can be demonstrated.	Show that work has been done to ensure that the obtaining of external finance is realistic. The degree to which the partnership will add value to the project.	The proportion of finance which will be met by third party. The likelihood of receiving support. Assessment of the value the partner will add to the project.	**15%**

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
4	**Outputs and Outcomes** These have been clearly identified and can be justified from supporting evidence. Specific comments should be made as to how the scheme represents value for money when compared to other options	This will enable the council to improve the way it reports its work and clearly show what is being achieved. The comments should refer to any performance indicators which the proposal is addressing specifying what the improvement target is.	Assessment then made on what the scheme will achieve.	**15%** Assessment of all factors or group of factors
5	**Financial** Capital costs have been based on internal or external professional advice Revenue implications have been properly developed	Capital costs include both works and land purchase and cover all associated costs. Try and avoid "guesstimates" which result in schemes requiring increased finance or having to be reduced to meet finance available.	Capital will be based on the quality of work which has been put into estimate. e.g. costed feasibility studies. Revenue will be based on whether the effect is positive, neutral or negative on the revenue budget. Positive effect scores 10 Neutral effect scores 3 Negative effect scores 0	**5%** **10%**
6	**Risk Assessment** Identify the level of risk in a project not being able to proceed. For example planning appeals, listed building consent. Over subscription of partnership funds	Try and ensure that not all schemes selected are high risk with the danger that there will be delays in delivery or no-delivery.	The following will all need to be considered:- Technical Issues Financial Uncertainty Partnership uncertainty Planning Issues Legal issues Timescale	**10%**

AUDIT & ACCOUNTS COMMITTEE
2 FEBRUARY 2022

INVESTMENT STRATEGY

1.0 Purpose of Report

1.1 This investment strategy is for 2022/23, meeting the requirements of statutory guidance issued by Department of Levelling Up, Housing and Communities DLUHC (previously MHCLG) Investment Guidance in January 2018.

2.0 Background Information

2.1 The definition of an investment covers all of the financial assets of the Council as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

A loan is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.

2.2 Statutory Requirements:

- The DLUHC Investment Guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

- For each financial year, a local authority should prepare at least one Investment Strategy (“the Strategy”). The Strategy should contain the disclosures and reporting requirements specified in this guidance. The Strategy should be approved by the full council.

3.0 Summary of Limits

3.1 The below table summarises the proposed limits within the Investment Strategy 2022/23 for the non-treasury investments, each category has further details within the **Appendix**;

Category of borrower	2020/21 actual			2022/23
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Service Investments: Loans	3.210	0.032	3.178	14.500
Service Investments: Shares	3.833	(0.178)	3.655	5.000
Commercial Investments: Property	0	0	0	0

4.0 Proposals

4.1 That the Investment Strategy 2022/23 as attached at **Appendix A** to this report is approved.

5.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 8th March 2022 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

5.1 The Investment Strategy 2022/23, contained within **Appendix A.**

5.2 The Investment Prudential Indicators and Limits, contained within **Appendix A.**

Reason for Recommendation(s)
Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

DLUHC Investment Guidance 3rd Edition

For further information please contact Andrew Snape on Ext 5523.

Sanjiv Kohli
Director – Resources and S151 Officer

APPENDIX A

Investment Strategy Report 2022/23

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to, or buying shares in, other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories. This investment strategy has been created in line with the Councils Treasury Management Strategy Statement and the Councils Capital Strategy. The initial strategy may be replaced with a revised strategy at any time during the year in cases where any treasury management issues (including investment issues) need to be brought to the attention of Full Council.

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £20m and £60m during the 2022/23 financial year.

Treasury Management Investments

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2022/23 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council can lend money to its subsidiaries, local businesses, local charities and any other bodies to support local public services and stimulate local economic growth. The Councils main service investment loan during financial year 2020/21 was with its joint venture company Robin Hood Hotel Ltd (RHH), which had a rate of return of 4%. This loan was fully repaid during April 2021.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Prudential Indicator 12: Loans for service purposes

Category of borrower	2020/21 actual			2021/22	2022/23
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Forecast Actual £m	Approved Limit £m
Subsidiaries	3.147	0	3.147	1.300	13.000
Local businesses	0.032	0.032	0	0.031	0.500
Local charities	0	0	0	0	0.500
Other Bodies	0.031	0	0.031	0.030	0.500
TOTAL	**3.210**	**0.032**	**3.178**	**1.361**	**14.500**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2021/22 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet, and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Director of Resources/Deputy Chief Executive or Business Manager for Financial Services. All loans will be subject to contract agreed by the Legal Business Unit and the credit risk will be determined by reference to the "expected credit loss" model for loans and receivables as set out in International Reporting Standard (IFRS) 9 Financial Instruments. All loans must be approved by full Council and will be monitored by the Director of Resources/Deputy Chief Executive, or Business Manager for Financial Services.

Service Investments: Shares

Contribution: The Council can invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth. Currently the Council does not intend to invest further in any shares with suppliers or local businesses; however the Council has invested £4m of equity funding into Arkwood Development Limited for which it has received 100% of the share capital issued, making it wholly owned by the Council. The Council has also invested £500 of equity to acquire 50% of shares of the Joint Venture Company, Robin Hood Hotel Ltd (RHH).

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recoverable. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Prudential Indicator 13: Shares held for service purposes

Category of company		Previous Years	2020/21 actual			2022/23
	Original Investment £m	Accumulated Gains or (Losses) £m	Amounts invested £m	Gains or (losses) £m	Value in accounts £m	Approved Limit £m
Subsidiaries	4.000	(0.167)	3.833	(0.178)	3.655	5.000
Suppliers	0	0	0	0	0	0
Local businesses	0	0	0	0	0	0
TOTAL	**4.000**	**(0.167)**	**3.833**	**(0.178)**	**3.655**	**5.000**

Shares are classed as capital expenditure and purchases will therefore be approved as part of the capital programme.

Risk assessment: The Council would assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiary will be active in; including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The Council will use external advisors as thought appropriate by Director of Resources/Deputy Chief Executive, or Business Services Manager for Finance.

Liquidity: Although this type of investment is fundamentally illiquid, in order to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

<u>Commercial Investments: Property</u>

Contribution: The Council can invest in local, regional and UK commercial and residential property with the intention of making a profit that will be spent on local public services. Currently none of the Council properties meet the investment property definition as defined in International Accounting Standard 40: Investment Property.

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by ensuring they are prudent and has fully considered the risk implications, with regard to both the individual property and that the cumulative exposure of the council is proportionate and prudent. The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place, before entering into any commercial property investment and the business case will balance the benefits and risks. All investments of this type will be agreed by the Policy and Finance committee.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. The investment strategy for the Council for 2022-23 is proposed to remain broadly unchanged as it is considered overall to be well structured to limit any undue risks to the security of assets and preservation of liquidity whilst also allowing the council and delegated officers to access suitable investment opportunities.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands at the point of entry, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not provide such commitments and guarantees and this strategy does not include them for 2022/23.

Borrowing in Advance of Need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council’s overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £186 million. The maximum period between borrowing and expenditure is expected to be two years.

Capacity, Skills and Culture

Elected members and statutory officers: The Council recognises that those elected Members and statutory officers involved in the investments decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual assessments in the context of the strategic objectives and risk profile of the Council; and
- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

The Council establishes project teams from all the professional disciplines from across the Council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

The investment decisions are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management, which includes investment decisions, receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members of the Audit and Accounts Committee received training from the Council's treasury advisers, Link Group, on 1st December 2021. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

Commercial deals: The Council will ensure that the Audit and Accounts Committee, Policy and Finance Committee and officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

Corporate governance: Any investment decisions will be scrutinised by Senior Leadership Team before final approval by Members.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Total investment exposure	**2020/21 Actual £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
Treasury management investments	47.270	56.800	25.998
Service investments: Loans	3.210	1.361	11.469
Service investments: Shares	3.833	4.000	4.000
Commercial investments: Property	0	0	0
TOTAL INVESTMENTS	**54.313**	**62.161**	**41.467**
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**54.313**	**62.161**	**41.467**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing in year	**2020/21 Actual £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
Treasury management investments	0	0	0
Service investments: Loans	2.439	1.300	10.110
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	**2.439**	**1.300**	**10.110**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	**2020/21 Actual**	**2021/22 Forecast**	**2022/23 Forecast**
Treasury management investments	0.72%	0.90%	1.09%
Service investments: Loans	5.44%	5.44%	5.54%
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
ALL INVESTMENTS	**3.08%**	**3.17%**	**3.31%**