

ASHFIELD DISTRICT COUNCIL



Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Audit Committee

Date: **Monday, 1st February, 2021**

Time: **7.00 pm**

Venue: **[Ashfield District Council's YouTube Channel](#)**

For any further information please contact:

Lynn Cain

l.cain@ashfield.gov.uk

01623 457317

AUDIT COMMITTEE

Membership

Chairman: Councillor David Walters

Councillors:

John Baird
Christian Chapman
Kevin Rostance

Jim Blagden
Arnie Hankin
Dave Shaw

FILMING/AUDIO RECORDING NOTICE

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SUMMONS

You are hereby requested to attend a meeting of the Audit Committee to be held at the time and on the date mentioned above for the purpose of transacting the business set out below.



Carol Cooper-Smith
Chief Executive

	AGENDA	Page
1.	To receive apologies for absence, if any.	
2.	Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests.	
3.	To receive and approve as a correct record the minutes of the meeting of the Committee held on 30 November 2020.	5 - 8
4.	Mazars: Annual Audit Letter - Year Ending 31 March 2020.	9 - 26
5.	Mazars: Audit Strategy Memorandum - Year Ending 31 March 2021.	27 - 60
6.	Capital Strategy.	61 - 100
7.	Treasury Management Strategy.	101 - 140
8.	Corporate Risk Update.	141 - 214

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AUDIT COMMITTEE

Virtual Meeting held on Monday, 30th November, 2020 at 7.00 pm

Present: Councillor David Walters in the Chair;

Councillors John Baird, Christian Chapman,
Arnie Hankin, Kevin Rostance and Dave Shaw.

Apology for Absence: Councillor Jim Blagden.

Officers Present: Bev Bull, Lynn Cain, Peter Hudson and
Mike Joy.

In Attendance: Mandy Marples and Hannah McDonald (CMAP).

AC.18 Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests

No declarations of interest were made.

AC.19 Minutes

RESOLVED

that the minutes of the meeting of the Committee held on 19 October 2020, be received and approved as a correct record.

Councillor Christian Chapman requested that his concerns in relation to the annually recurrent underspend on the Housing Capital Programme be noted.

AC.20 Treasury Management Mid Year Report 2020/21

The Council's Chief Accountant presented the report and asked Members to consider the Treasury Management mid-year report, written in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, which covered the following:

- An economic update for the 2020/21 financial year as at 30 September 2020;
- The Council's capital position and 6 month performance (including prudential indicators);
- The Council's investment portfolio for 2020/21;
- The Council's borrowing position for 2020/21.

RESOLVED that

a) the mid-year report, as presented be received and noted;

- b) the changes to the 2020/21 Prudential Indicators following in year changes to the 2020/21 Capital Programme, be approved;
- c) the reported breach of Treasury Management Strategy, as outlined in the report, be noted.

AC.21 Audit Progress Report

Mandy Marples, CMAP's Audit Manager, presented the report and summarised audit progress between 6 October 2020 and 17 November 2020, with one assignment having being completed during that time in relation to Disabled Facilities Grants. The audit has received a substantial assurance rating and 5 low risk recommendations had been agreed with 3 already being implemented.

With regard to the recommendation tracking, Members acknowledged that the impact of the pandemic was continuing to cause delays in some areas and since publication of the agenda, some of the recommendation implementation dates for the 'Depot Investigation' and 'Procurement' reviews had been reconsidered and duly extended.

Councillor Chapman acknowledged that where some recommendations that were linked to the Digital Services Transformation (DST) Programme were still pending, these would now be further progressed due to recent recruitments and the DST moving at a greater pace.

The Corporate Finance Manager (and Section 151 Officer) in response to a request at the last meeting, advised Committee that the contract for the replacement fire entrance doors to Council owned flats had now been awarded and works were due to commence in January 2021. It was reported that most of the fire doors had been replaced with doors that met the new level of accreditation, however, the remaining doors (around 30) would be installed early in the new year.

RESOLVED

that audit assignment progress as at 17 November 2020, as presented to Committee, be received and noted.

AC.22 Section 100A Local Government Act 1972: Exclusion of the Press and Public

RESOLVED

that in accordance with the provisions of Section 100A of the Local Government Act 1972, the press and public be now excluded from the meeting during the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and in respect of which the Proper Officer considers the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AC.23 Mid Year Investment Property Performance 2020/21
(Exempt by virtue of Paragraph 3)

The Council's Chief Accountant gave Members an update regarding the 6 month performance and monitoring of the Council's Commercial and Investment Property portfolio.

RESOLVED

that performance in relation to the Council's Commercial and Investment Property portfolio, as presented, be received and noted.

The meeting closed at 7.37 pm

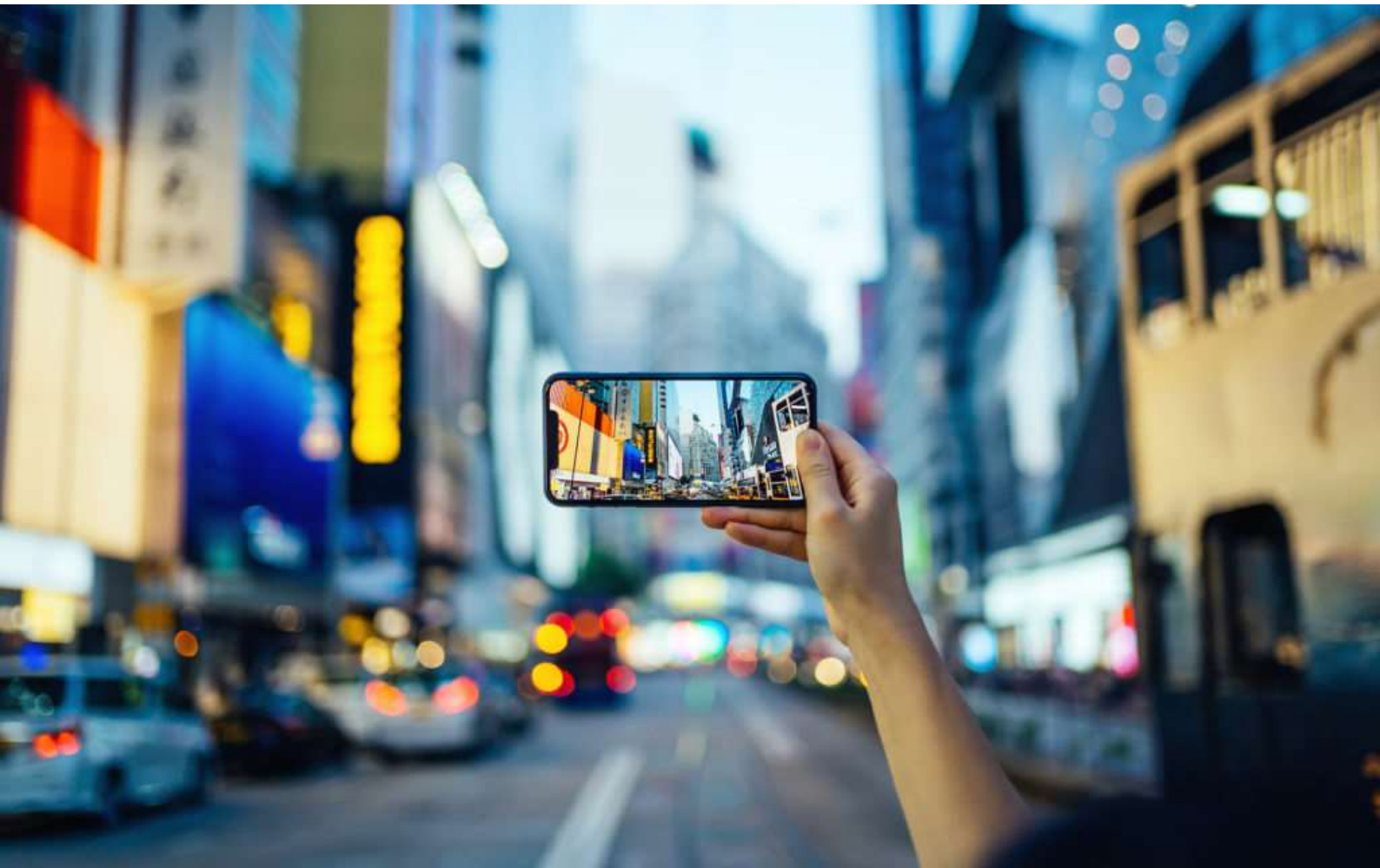
Chairman.

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Annual Audit Letter

Ashfield District Council

Year ending 31 March 2020





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.






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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Ashfield District Council (the Council) for the year ended 31 March 2020. Although this letter 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Assessment	Summary
Audit of the financial statements	 [Green]	<p>Our auditor's report issued on 11 December 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	 [Green]	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	 [Green]	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020</p>
Reporting to the group auditor	 [Green]	<p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.</p>
Statutory reporting	 [Green]	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

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 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matters paragraph, drawing attention to the financial statement disclosure explaining that Covid19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land & buildings and investment properties and in the Council's share of Nottinghamshire Pension Fund's property assets.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£1,715k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£51k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none">• Senior Officer Remuneration• Termination payments• Members Allowances• External Audit Fee	<div>£5k</div> <div>£29k</div> <div>£90k</div> <div>£9k</div>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk through performing audit work over: <ul style="list-style-type: none">Accounting estimates impacting on amounts included in the financial statements;Consideration of identified significant transactions outside the normal course of business; andJournals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
Valuation of property, plant and equipment	We addressed this risk through performing the following audit work:	The procedures we have undertaken have not identified to date any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention except for one adjustment made in regards to Investment Property revaluations.
Land and buildings are a significant balance on the Council's balance sheet.	<ul style="list-style-type: none"> critically assessed the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; 	
The valuation of land and buildings is complex and is subject to a number of management assumptions and judgements.	<ul style="list-style-type: none"> considered whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; 	We identified a total of 2 assets, were incorrectly accounted for as gross (should be accounted net of stamp duty and legal costs) in regards to the upward/downward revaluation movement at year-end. Resulting in an overstatement of assets as at 31 st March 2020. Discussions were held with management and it was concluded than an adjustment of £581k was required. Refer to page 13 for the adjustments made.
Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.	<ul style="list-style-type: none"> assessed whether valuation movements are in line with market expectations by using third party information provided by Gerald Eve to provide information on regional valuation trends; 	
This risk covers:	<ul style="list-style-type: none"> critically assessed the treatment of the upward and downward revaluation movements in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; 	
- HRA Council Dwellings		
- Investment Properties		
- Other PPE related assets	<ul style="list-style-type: none"> critically assessed the approach that the Council adopts to ensure that assets are not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and tested a sample of items of capital expenditure, disposals and reclassifications (where balances are material) to confirm that the amounts used and accounting treatment applied is appropriate in line with the CIPFA Code of Practice 	At the outset of the Covid19 outbreak, set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date. The Council's valuers have followed guidance issued by the Royal Institute of Chartered Surveyors and as expected their valuation reports conclude that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This has currently only been disclosed in the Critical Judgement note and an adjustment is required to the PPE Note for consistency. We expect, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. Our draft Auditor's Report at Appendix B includes the 'emphasis of matter' paragraph we expect to include.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
Valuation of the Net Pension Liability The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	We addressed this risk through performing the following audit work: <ul style="list-style-type: none"> critically assessed the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary; liaised with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; tested payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by PWC and consulting actuary engaged by the National Audit Office; and agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. 	<p>The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements.</p> <p>Part of our assurance over the net pensions liability is derived from specified procedures commissioned from the external auditors of the Nottinghamshire Pension Fund. We are yet to receive their final report over the procedures we are seeking assurance over for our consideration and how these findings may impact our audit opinion. An update will be provided to members as part of our Annual Audit Letter.</p> <p>In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sergeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 was likely to have led to an overstatement of the pension fund liability as at 31 March 2020. Management has obtained an updated notification from the Actuary for these matters and no adjustment is required to the financial statements.</p> <p>A second emerging issue is the Goodwin case that was brought against the Secretary of State for Education earlier this year regarding discrimination owing to sexual orientation in the Teachers' Pension Scheme. MHCLG have commissioned Government Actuary Department to undertake a review of the potential impact and at a local level, there is an additional risk to evaluate as to whether the scheme is misstated. Management has liaised with the Pension Fund and its actuary and taken the view that this matter would not have a material impact on its estimated net pension liability valuation and it is not reflected in the Statements.</p> <p>We will update the Audit Committee if any significant reporting issues emerge from these areas.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

Valuation of the Net Pension Liability – Update as per audit follow up letter

As discussed with you at the audit committee, the pension fund assurance letter was not received until 26 November 2020 leaving us insufficient time to review and complete our work.

The only additional matter that we need to report on is:

- The Pension Fund submitted asset information to the actuary as at 31 December 2019 and not 31 March 2020. The actuary then estimated asset investment returns as -7%, whereas the actual return for the period was -6.4%. The movement in asset values in the pension fund leads to an estimated £635k understatement of the Council's share of pension fund assets. This has been recorded as an unadjusted audit misstatement.

The only matter to bring to Members' attention is the 'material valuation uncertainty' in relation to Pension fund assets as disclosed within our Audit Completion Report.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Our audit approach

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.

When we perform our work, we consider whether there are any areas requiring additional audit attention as a “Significant Audit Risk”, which we report to the Audit Committee prior to finalising our conclusion. For 2019/20, we identified the following significant risks to our VFM work:

- Financial Sustainability – Sustainable resource deployment
- Commercialisation of Investment Properties strategy – Informed decision making

Overall Conclusion

Our auditor’s report stated that that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Description, planned response and work undertaken to date has been detailed on the following pages.



3. VALUE FOR MONEY CONCLUSION

Risk:	Financial Sustainability – Sustainable resource deployment
Description	<p>The continued financial pressure that all Local Government bodies are facing; both locally and within the wider sector are well documented. There is an increased/ significant pressure on bodies to identify cost saving measures to ensure a balanced budget, whilst dealing with a significant decrease in grant funding and an increase in service demand.</p> <p>The Council have reviewed their budgets under their current medium term financial plan arrangements with the expectation of obtaining a balanced budget for 2020/21, whilst currently identifying a gap for the following financial years (although the Council has strategies in place going forward to address this gap).</p> <p>The budget is based on a number of assumptions and holds a level of risk to whether the Council will be able to generate additional revenues or deliver any cost savings that are crucial in order to meet and deliver the associated budget gap.</p>
Planned response	<p>We will critically review whether the Council has arrangements in place to ensure financial sustainability, specifically that the Medium Term Financial Plan (MTFP) has duly taken in to consideration the latest available information on factors such as:</p> <ul style="list-style-type: none"> • funding reductions; • business rates reform; • fair funding; • salary and general inflation; • demand pressures • restructuring costs; and • sensitivity analysis given the degree of variability in the above factors. <p>We will review the delivery of savings in 2019/20 and progress to identify savings for 2020/21 and future financial years, to understand and evaluate the financial impact on the Council's revenue reserves.</p> <p>We will also review any strategy's that the Council have in place to reduce the budget gap and ensure that theses appear reasonable and in line with the Council's expected activities.</p>
Results	<p>We performed the tasks in line with our planned response. We also reflected on the impact of Covid19, which was limited to the last two weeks of March 2020.</p> <p>The Council's revenue outturn for 2019/20 was a £2,666k underspend. Mainly through £4,330k additional income, offset by £1,721k additional spending on supplies and services. The variance on income was mainly through additional government grants, such as the Apprenticeship Levy and Rapid Rehousing Pathway, that will be matched to expenditure in 2020/21. Expenditure variances were mainly caused by contractor payments linked to additional grant income during the year. The Council's financial performance, as laid out in the 2019/20 financial statements, led to:</p> <ul style="list-style-type: none"> • General fund reserves increasing from £6,116k to £6,713k • Earmarked revenue reserves also increasing, from £7,885k to £9,670k • The Council's Housing Revenue Account also remains positive with reserves of £36.871k as at 31 March 2020. <p>The Council's MTFP was updated in February 2020 as part of the pre-Covid19 budget for 2020/21. It showed</p> <ul style="list-style-type: none"> • <i>Projected general fund earmarked reserves for 2020/21 will be £8,842k, which sees a net contribution to reserves of £689k</i> • <i>Estimated funding gap for 2020/21 currently stands at £nil</i> <p>The Council recognises the need to revisit the MTFP as a result of Covid19, including the profiling of expenditure reduction and income generation schemes.</p>
Conclusion	We are satisfied that the Council's arrangements are adequate.



3. VALUE FOR MONEY CONCLUSION

Risk:	Commercialisation of Investment Properties strategy – Informed decision making
Description	<p>The Council has identified the use of its capital and treasury activities as a way of establishing a new income stream and in turn obtaining additional revenue over a number of financial years. The Council has made a number of material purchases over the past 12 months (worth a total £39m), with the potential investment of around £23m in 2020/21 in addition to what has already been spent (£3.3m spent to date for 2020/21). Whilst the investment strategy is projected to deliver financial returns for the Council (both revenue and capital), the strategy represents a significant monetary value and exposure to risk that may have not been anticipated or carefully evaluated.</p>
Planned response	<p>We will critically review whether the Council has:</p> <ul style="list-style-type: none"> • exposed itself to too much financial risk through its borrowing and investment decisions; • ensured that it has been mindful of changes in the accounting and regulatory environment when undertaking any sensitivity analysis as part of its investment decision making process; • ensured that an appropriate level of legal and due diligence work has been undertaken prior to making specific investment decisions; • responded appropriately to the revised Statutory Guidance on Local Government investments, to ensure that there is appropriate transparency to understand the exposure that the Council has as a result of its borrowing and investment decisions; and • ensured that Members have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.
Results	<p>We performed the tasks in line with our planned response, which included a substantial level of professional challenge to management over the arrangements it had in place during 2019/20. We also reflected on the impact of Covid19, which was limited to the last two weeks of March 2020. As part of our findings, we noted:</p> <ul style="list-style-type: none"> • Original Commercial property investment strategy has been updated for 2019/20. Document confirms strategy that was taken to Council and approved in September 2019. Strategy has been updated to take in to consideration new guidance available in the sector. Properties purchased in 2019/20, were purchased after the approval of this strategy. • The Council updated its yield net percentage when assessing the commercial return on a potential investment. The yield was reduced 1% to reflect the increase in borrowing rates from PWLB. This reduces the built in risk premium to any investment, which has been, and will continue to be, stress-tested by Covid19. • The Audit Committee received training on Treasury Management by the external treasury management advisors Link in December 2019. The Audit Committee also receive performance reports on the Commercial Properties and both Audit Committee and Cabinet received reports on the investments strategy and performance indicators established for 2020/21 in February 2020 and had the opportunity to ask questions. <p>Our considerations and findings were also discussed at a national consistency panel to provide an additional level of rigour.</p>
Conclusion	<p>We are satisfied the Council's arrangements for the year ending 31 March 2020 are adequate.</p> <p>However, the Council must take notice of new and emerging significant matters relating to commercial property investment relevant to 2020/21 onwards.</p> <p>We say more about this on the following page.</p>



3. VALUE FOR MONEY CONCLUSION

Key Matters for Council Attention: Commercial Property Investment

The Council's strategy faces higher levels of inherent financial and reputational risk for 2020/21 and onwards, not just from the onset of Covid-19.

National Audit Office – February 2020

We contributed towards the National Audit Office's publication "Local authority investment in commercial property", published in February 2020. The report recognises the rapid expansion in the acquisition of commercial property in response to finding alternative sources of revenue. The NAO report states: "Buying commercial property can deliver benefits for local authorities including both the generation of income and local regeneration. However, as with all investments, there are risks. Income from commercial property is uncertain over the long term and authorities may be taking on high levels of long-term debt with associated debt costs, or may become significantly dependent on commercial property income to support services. At the national or regional level, local authority activity could have an inflationary effect on the market or crowd out private sector investment."

The Council should ensure this report has been circulated and received by Audit Committee.

Public Accounts Committee – July 2020

There has been wider criticism and comment on how local authorities have pursued this strategy, including concerns over investments outside of a borough that does not generate any direct benefit to the local population. A specific review by The Public Accounts Committee (13 July 2020) expressed significant concerns over local authority investments in commercial property and has made a series of recommendations, including:

- Further strengthening of guidance and the prudential framework
- Further strengthening of local governance arrangements.

The Council must ensure it formally reflects upon these recommendations.

The Council will be aware of various news articles that indicate some authorities may have made unlawful transactions in pursuing such a strategy, raising profile and enhancing reputational risk.

Regulation

The reform of Public Works Loan Board (PWLB) borrowing has also led to the Treasury blocking any loans to councils with any commercial property investment from 26 November. Any redirection of strategy from commercial property investment to 'local regeneration' schemes as a mechanism to retain access to PWLB borrowing is expected to be heavily scrutinised.

There is also the prospect of additional oversight and data monitoring over commercial property investments, the exact requirements are, as of the date of this report, not yet known.

Recommendation

The matters above highlight the emerging and substantial challenges for authorities in 2020/21 and beyond from following a commercial property investment strategy that is fully informed by a robust risk assessment and risk appetite statement and supported by adequate arrangements to both govern the strategy and manage the portfolio.

Recommendation 1: The Council formally reviews and reflects on whether its strategy remains relevant and that its arrangements both adequately reflect and address the known and potential changes in governance and regulation over commercial investments.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

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 National Audit Office, as group auditor, requires us to complete a Whole of Government Accounts Assurance Statement in respect of financial consolidation data produced by the Council. We submitted this information to the NAO on 14 December 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£43,148	
Fee Variations*:		
• Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes		£7,952
• Additional costs associated with 2019/20, including, but not limited to:		£5,032
• Impact of 'Material Valuation Uncertainty' in Council's Assets and its share of Pension Fund Assets		
• Updating audit risk assessments, including the value for money conclusion		
• Additional considerations of estimation uncertainty in going concern,		
• Changes impacting pension liabilities through McCloud & Goodwin		
Final audit fee		£56,132
Assurance**:		
• Pooling of Housing Capital Receipts Return	£3,250	
Other non-Code work	Nil	Nil

*Fee variations subject to confirmation from PSAA.

**Work is ongoing

Fees for other work

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



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

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

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and fees.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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Michael Butler

Manager

Email: michael.butler@mazars.co.uk

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.

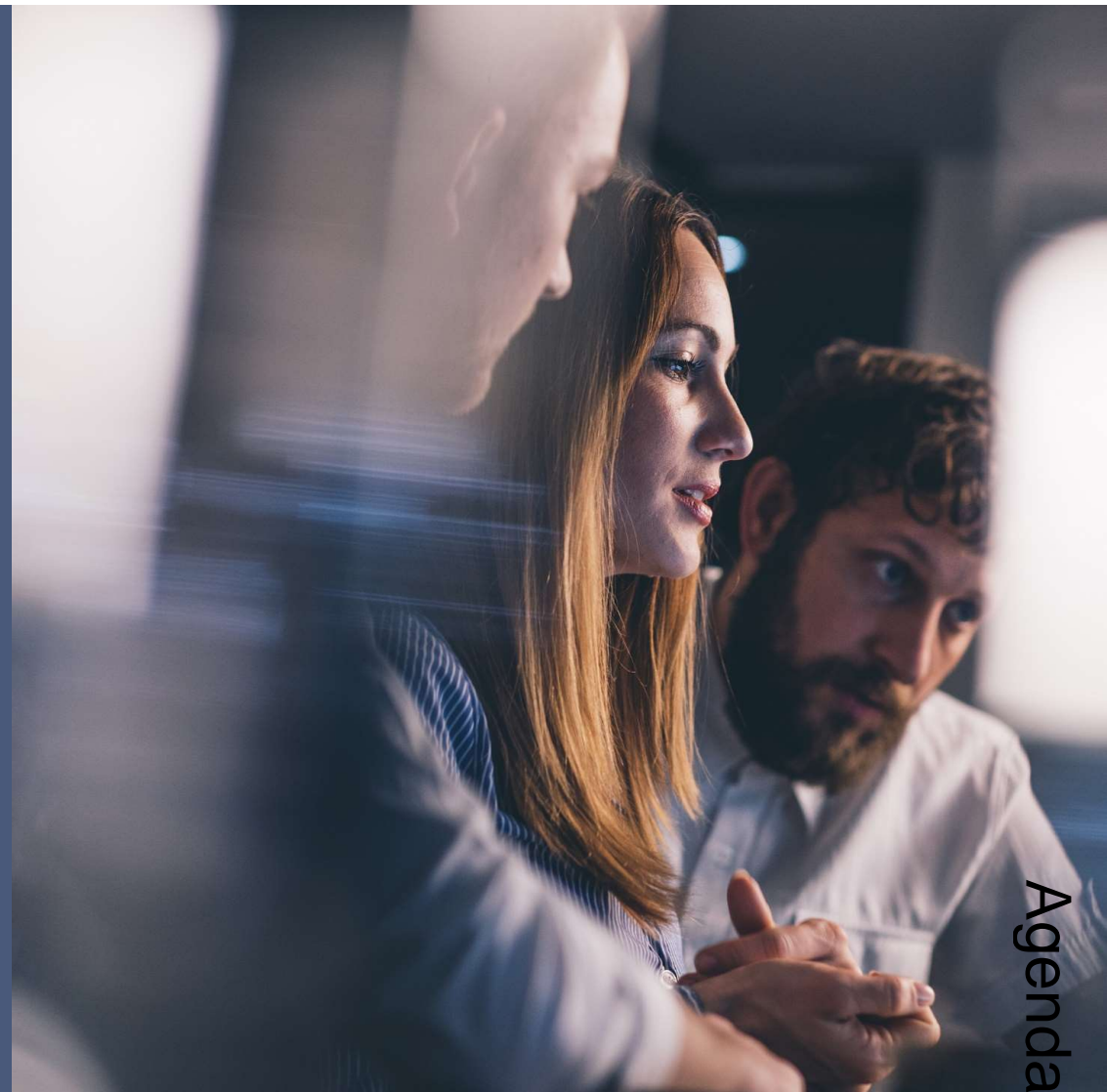
*where permitted under applicable country laws

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Audit Strategy Memorandum

Ashfield District Council

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Appendix – Key communication points

This document is to be regarded as confidential to Ashfield District Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Board of Directors. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.



Audit Committee
Ashfield District Council
Council Offices
Urban Road
Kirkby in Ashfield
Nottinghamshire
NG17 8DA

22 January 2021

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Ashfield District Council for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Ashfield District Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0115 964 4744.

Yours faithfully

David Hoose

Mazars LLP

Mazars LLP – Park View House, 58 The Ropewalk, Nottingham, NG1 5DW

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Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

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01

Section 01: **Engagement and responsibilities summary**

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Ashfield District Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.



Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Financial Officer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for reaching a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.



Fraud

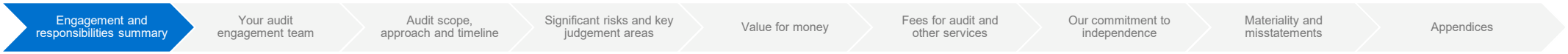
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management [include Internal audit, other key individuals where relevant] as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. We expect that Ashfield District Council will be below the thresholds required for this reporting, but we are required to issue an assurance statement to the National Audit Office confirming income, expenditure, assets and liabilities of the Council.



02

Section 02: **Your audit engagement team**

2. Your audit engagement team

Your external audit service continues to be led by David Hoose.

Who	Role	E-mail
David Hoose	Engagement Lead	David.Hoose@mazars.co.uk
Michael Butler	Engagement Manager	Michael.Butler@mazars.co.uk

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03

Section 03:

Audit scope, approach and timeline

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3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

Planning January 2021

Planning visit and developing our understanding of the Council

- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim February - March 2021

Documenting systems and controls

- Performing walkthroughs
- Interim controls testing including tests of IT general controls and application controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork June - August 2021

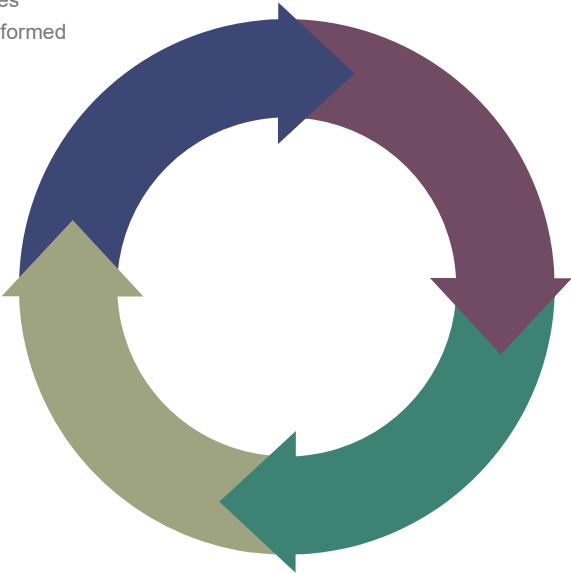
Receiving and reviewing draft financial statements

- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

Completion September 2021

Final review and disclosure checklist of financial statements

- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor's report



3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management’s and our experts

Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Property Plant and Equipment	Internal Valuer Mr M Kirk – Estates Manager	None. Third party evidence provided via the NAO to support our challenge of valuation assumptions.
	External Valuer/s Covers Other PPE and Investment Properties	
Pensions	Barnett Waddingham Actuary for Nottinghamshire Pension Fund	PWC (Consulting actuary appointed by the NAO)
Financial Instrument disclosures	Link Asset Management (LAM) Treasury management advisors	None. We expect to use information supplied by LAM to support our challenge and assumptions to management.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the [Council] that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the [Council] and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net Interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net Pension liability	Nottinghamshire Pension Fund <i>The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.</i>	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about relevant controls at the service organisation.



04

Section 04:

**Significant risks and other key
judgement areas**

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4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

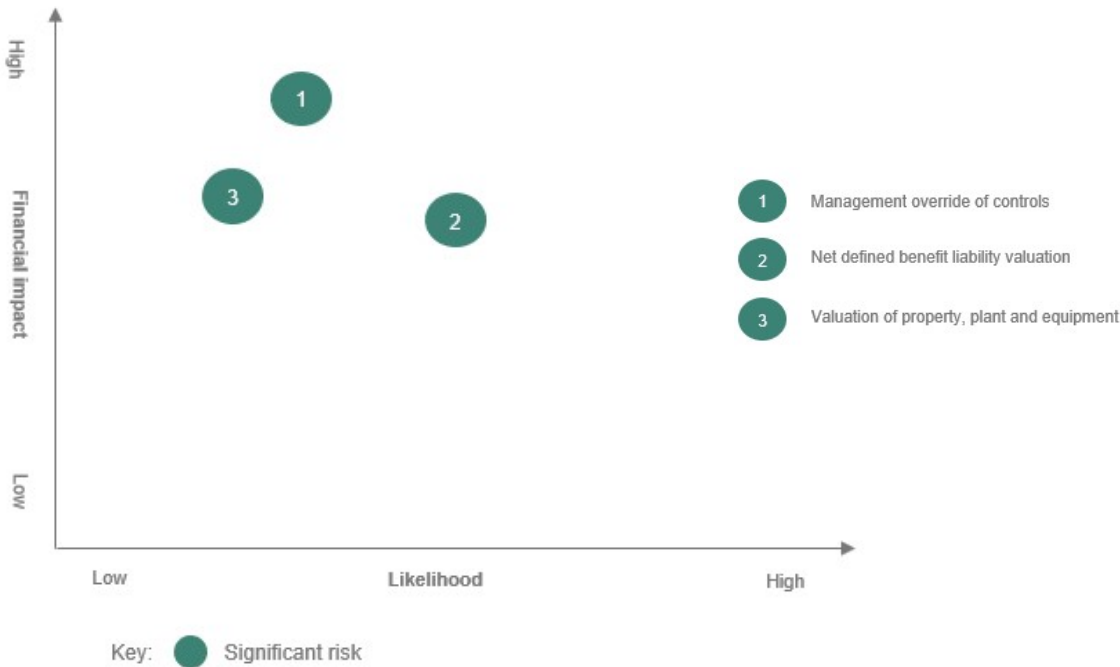
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



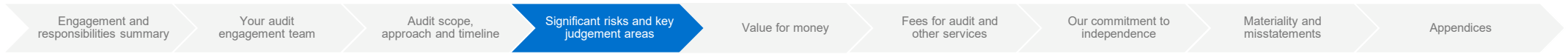
4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1 Page 40	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.



4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	<p>Defined benefit liability valuation</p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	●	○	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary; liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by PWC and consulting actuary engaged by the National Audit Office; and agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

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4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
<div>Page 42</div> <div>3</div>	<p>Valuation of property, plant and equipment</p> <p>Land and buildings are a significant balance on the Council's balance sheet.</p> <p>The valuation of land and buildings is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>This risk covers:</p> <ul style="list-style-type: none"> - HRA Council Dwellings - Investment Properties - Other PPE related assets 	○	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> • critically assess the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • consider whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • assess whether valuation movements are in line with market expectations by using third party information provided by Gerald Eve to provide information on regional valuation trends; • critically assess the treatment of the upward and downward revaluation movements in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • critically assess the approach that the Council adopts to ensure that assets are not subject to revaluation in 2020/21 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and • test a sample of items of capital expenditure, disposals and reclassifications (where balances are material) to confirm that the amounts used and accounting treatment applied is appropriate in line with the CIPFA Code of Practice.

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Section 05: **Value for Money**

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5. Value for money conclusion

Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1 April 2020, a new Code came in to force and applies to our work from 2020/21 onwards. The Audit Code has not introduced any changes to the scope of our audit of the financial statements. There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements.

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

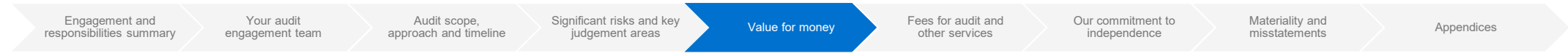
Our Approach

Our work will focus on three criteria specified in the revised Audit Code:

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

Our work will follow the structure as shown in the following table and will be kept under continuous review.

Phase	Steps
Planning	<p>We will perform a detailed risk assessment, drawing from a variety of sources, including, but not limited to:</p> <ul style="list-style-type: none">• Meetings with management and self-assessments• Views of the Audit Committee• Supporting guidance from the National Audit Office, including indicators of significant weaknesses• Sector developments and any local issues• Board & Committee reports• The Annual Governance Statement and Annual Report• The work of internal audit• Risk registers and risk management reporting• The work of regulators and inspectorates.
Additional risk-based procedures	<p>Where our initial assessment identifies a risk that there may be a significant weakness in arrangements, we will apply our professional judgement in determining what additional procedures are required.</p>
Reporting	<ul style="list-style-type: none">• We will report the results of our risk assessment to the Audit, Risk & Governance Committee.• If we conclude that there is a significant weakness in the Council's arrangements, we will report this promptly along with a recommendation for improvement.• We will provide written commentary on the Council's arrangements for securing the economy, efficiency and effectiveness in its use of resources (details on the following page).



5. Value for money conclusion

Under the 2020 Code, we are required to structure our commentary on the Council’s ‘proper arrangements’ under three specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office:

Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

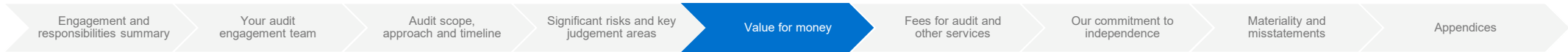
- how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



06

Section 06:

Fees for audit and other services

Page 46

6. Fees for audit and other services

Fees for work as the Council’s appointed auditor

Details of the 2019/20 Actual and 2020/21 Audit fees in line with PSAA and other reporting mechanisms are set out below:

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Scale audit fee	£43,148	£43,148
Fee variations:		
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£7,952 ¹	£7,952
Additional testing as a result of the implementation of new auditing standards: ISA570 Going Concern & ISA540 Estimates	£2,000 ²	-
Other additional costs	TBC	£5,032 ³
Sub-total	£53,100	£56,132
Additional work arising from the change in the Code of Audit Practice	Expected to be at least 20% of the revised fee ⁴	-
Total	£53,100 ⁵	£56,132

¹ As previously reported to you, the scale fee has been adjusted to take into account the additional work required as a result of increased regulatory expectations over these areas.

² For 2020/21, two new auditing standards have been introduced incurring additional time and audit work not reflected in the scale fee. Additional testing as a result of the implementation of IFRS 16 Leases is deferred to the financial year 2021/22.

³ The additional audit costs in 2019/20 has been disclosed within our Annual Audit Letter, presented at the January 2021 Committee. This mainly relates to additional testing and reporting of uncertainties in key estimates as a result of Covid-19.

⁴ As explained in section 5, the revised Code of Audit Practice results in a substantial amount of additional audit work to support the value for money conclusion and the changes in reporting requirements, requiring additional time and input from the senior members of the team. Our review of the Code and supporting guidance notes shows that the additional fee impact at all public sector entities is expected to be at least 20% of the proposed fee. The final fee will take into account the extent, and complexity of, any significant weaknesses in arrangements to review and report upon.

⁵ This is a proposed fee for 2020/21 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management, for example material valuation uncertainty on asset valuations as a result of Covid-19.

6. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Capital Pooling Receipts Return	**	£3,250

** The fee was for one year only and the Council will need to re-engage us, should it wish, for 2020/21.

07

Section 07: **Our commitment to independence**

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7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

The Ethical Standard 2019 is applicable for any non-audit services commencing on or after 15 March 2020.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars' member firm. In section 3 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report for the Audit Committee.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP and, when applicable, Mazars' member firms are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or

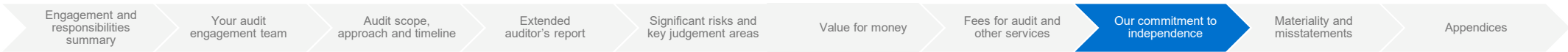
independence please discuss these with David Hoose in the first instance.

If there are any inconsistencies between FRC's Ethical Standard and the client's policy for the supply of non-audit services by ourselves and any apparent breach of that policy then these should be detailed here and then drawn to the attention of those charged with governance.

Prior to the provision of any non-audit services David Hoose will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



08

Section 08: **Materiality and other misstatements**

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8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	1,715
Performance materiality	1,286
Trivial threshold for errors to be reported to Audit Committee	51
<u>Specific materiality:</u>	
Director remuneration	5*
Termination payments	29
Members allowances	90
Audit fees	9

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

8. Materiality and misstatements

Materiality (continued)

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that the gross revenue expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure. For Public Interest Entities, ISA (UK) 260.16-2(h) requires that we also disclose qualitative factors which were considered when setting the level of materiality.

Based on 2019/20 audited financial statements, we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £1,715k.

For Public Interest Entities, disclose also any separate specific materiality levels for particular classes of transactions, account balances or disclosures in compliance with ISA (UK) 260.16-2(h). Additionally, teams are expected to disclose the level of performance materiality applied given this is already disclosed in the auditor's report.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £51k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with David Hoose.

Reporting to the Audit Committee

The following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

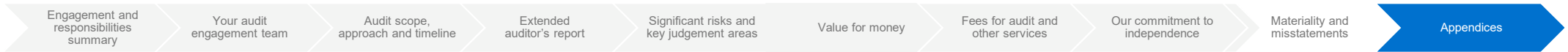
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks/ key audit matters.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none">Uncorrected misstatements and their effect on our audit opinion;The effect of uncorrected misstatements related to prior periods;A request that any uncorrected misstatement is corrected; andIn writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none">Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;Any fraud that we have identified or information we have obtained that indicates that fraud may exist; andA discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit Committee Audit Planning and Clearance meetings

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: <ul style="list-style-type: none">• Non-disclosure by management;• Inappropriate authorisation and approval of transactions;• Disagreement over disclosures;• Non-compliance with laws and regulations; and• Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: <ul style="list-style-type: none">• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;• Significant difficulties, if any, encountered during the audit;• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;• Written representations that we are seeking;• Expected modifications to the audit report; and• Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty; Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and The adequacy of related disclosures in the financial statements. 	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Identification of each key audit partner involved in the audit	Audit Strategy Memorandum
[Communication in respect of any arrangements for any of our activities as auditor to be conducted by another firm	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Description of nature, frequency and extent of communication with the Audit Committee and other relevant bodies including dates of meetings	Audit Strategy Memorandum
Description of distribution of tasks among the auditors where more than one auditor has been appointed	Audit Strategy Memorandum
Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Explanation of judgements about events or conditions identified during the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Reporting on significant deficiencies including whether or not the deficiency in question has been resolved by management	Audit Completion Report

Engagement and responsibilities summary	Your audit engagement team	Audit scope, approach and timeline	Extended auditor's report	Significant risks and key judgement areas	Value for money	Fees for audit and other services	Our commitment to independence	Materiality and misstatements	Appendices
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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.

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Report To:	AUDIT COMMITTEE	Date:	1st FEBRUARY 2021
Heading:	CAPITAL STRATEGY		
Portfolio Holder:	COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE		
Ward/s:	ALL		
Key Decision:	YES		
Subject to Call-In:	YES		

Purpose of Report

The Council's Proposed Capital Strategy has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code in respect to the Capital Strategy are:

1. To ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.
2. A requirement to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the authority.
3. To ensure that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
4. The Capital Strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

In accordance with the MHCLG revised Statutory Guidance on Local Government Investments (2018), each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council. The investment strategy must include non-treasury management investments.

The Commercial Property Investment Strategy, included at Annex 1 to the capital strategy is this Council's non-treasury management investment strategy.

The MHCLG Guidance and CIPFA's Prudential Property Investment guidance requires the Commercial Property Investment Strategy to include quantitative indicators to allow risk exposure

as a result of its non-treasury management investments to be assessed. The indicators are included as Annex 2.

Recommendation(s)

- 1) For Audit Committee to review and note the contents of the Capital Strategy (CS) for 2021/22 including the Annexes 1-3;
- 2) For Audit Committee to recommend that Cabinet and Council approves the:
 - Capital Strategy
 - Commercial Property Investment Strategy;
 - Commercial Property Indicators.

Reasons for Recommendation(s)

It is a requirement of the CIPFA Prudential Code for all Local Authorities to have a Capital Strategy approved by Full Council.

MHCLG Statutory Guidance on Local Government Investments require that the Council has an Investment Strategy that covers non-treasury management investments and includes quantitative indicators approved by Full Council.

Alternative Options Considered

None. It is a requirement of the CIPFA Prudential Code for all Local Authorities to have a Capital Strategy and a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy covering non-treasury management investments.

Detailed Information

The proposed Capital Strategy is contained in Appendix 1. There are three Annexes to Appendix 1 of the report which are:

1. Annex 1 describes the Commercial Property Investment Strategy.
2. Annex 2 details the Commercial Investment Property indicators which are required by MHCLG guidance and CIPFA .
3. Annex 3 shows the process for acquiring Commercial Investment Properties.

The strategy has been refreshed and updated for 2021/22. The main changes are to reflect that the current capital programme (to be approved February 2021) does not include any plans for further Commercial Property Investment, the last acquisition was made on 2nd April 2020. This is to ensure the Council maintains access to PWLB as a borrowing source for its capital plans. Annex 3 - the acquisition process for Commercial Investment Properties remains included to demonstrate the process the Council used for acquiring its current Investment Property portfolio.

Implications

Corporate Plan:

This Capital Strategy will allow delivery of the priorities in the Capital Programme, which is aligned to the Corporate Plan.

Legal:

It is a statutory requirement to produce a Capital Strategy. Relevant statutory powers and requirements are described in the Appendix to this report.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No implications
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The detailed Capital Strategy is not fit for purpose	The Capital Strategy is reviewed and updated annually for changes in direction and changes to guidance and legislation.

Human Resources:

Not applicable.

Environmental/Sustainability

Not applicable.

Equalities:

Not applicable.

Other Implications:

Not applicable.

Reason(s) for Urgency

Not applicable.

Reason(s) for Exemption

Not applicable.

Background Papers

- CIPFA Prudential Code 2017 Edition
- CIPFA Treasury Management Code 2017 Edition
- CIPFA Prudent Property Investment
- MHCLG Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003.
- MHCLG Statutory Guidance on Minimum Revenue Provision Issued under Section 21(1A) of the Local Government Act 2003.

Report Author and Contact Officer

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Chief Accountant

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**ASHFIELD DISTRICT COUNCIL
CAPITAL STRATEGY 2020/21 – 2024/25**

1 Introduction

- 1.1 Ashfield District Council's Corporate Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities contained within the Council's 5 year Capital Programme.
- 1.2 Capital investment is technically described as "Expenditure on the acquisition, creation, or enhancement of 'long term assets'". Capital investment seeks to provide long-term solutions to the Council's priorities and operational requirements. Expenditure for capital purposes therefore gives rise to new assets, increases the value and/or useful life of existing assets or, generates an income stream to the Council via non-treasury investments. Expenditure outside this definition will be, by definition, 'revenue' expenditure.
- 1.3 Most of the Council's long term assets are properties that are used in service delivery. The Council's land, buildings and infrastructure asset base of some 7,600 properties has a current use Balance Sheet value of £353m as at 31 March 2020 (£317m as at 31 March 2019.)
- 1.4 The Capital Strategy is presented to Council as a Policy Framework document, and links with the Treasury Management Strategy, Medium Term Financial Strategy (MTFS) and the approved Capital Programme. Although this Strategy focuses on the Council's management of its own investment in assets, a wider view of capital investment throughout the area by both the public and private sectors will have a major influence on meeting Council aims and objectives.
- 1.5 The Capital Strategy (and specifically the historic Commercial Investment Strategy element of the Capital Strategy) are/have been key drivers to secure the future financial sustainability of the Council.
- 1.6 The legal background to funding Capital Expenditure is contained in the Local Government Act 2003, particularly the following sections:
 - S1 – power to borrow
 - S3 – affordable borrowing limit
 - S15 – regard to Guidance issued
- 1.7 Guidance is also issued by Government, the latest guidance issued by the Ministry of Housing Communities and Local Government - MHCLG (formerly the Department of Local Government (DCLG)) being Investment Guidance (2018) and Minimum Revenue Provision (MRP) Guidance (2018).

- 1.8 Council's should also comply with professional codes that are issued, the key ones being:
- CIPFA Prudential Property Investment (November 2018).
 - CIPFA Prudential Code (2017)
 - CIPFA Treasury Management Code of Practice (2017).
- 1.9 The Capital Strategy sets out a number of guiding principles. In considering the principles, the Council needs a balance between guidance and prescription to allow a flexible approach to be taken but reflective of times of uncertainty. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Council priorities and statutory responsibilities. The management of the Council's operational Capital Programme which 'sits' under this Capital Strategy is also supported by the Council's approved Financial Regulations.
- 1.10 CIPFA Treasury Management Code 2017 states:
- 'Where a capital strategy is produced by a local authority this may include the setting of detailed treasury management policies, while being clear that overall responsibility remains with full Council.'
 - 'This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, (*that is this strategy for Ashfield District Council and contains both*) and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.'

2 Identifying Need

- 2.1 There are a number of internal and external influences that will affect the Council's Capital Strategy in the short, medium and long term.
- 2.2 External influences will include, but are not limited to potential partners such as central government, priorities of the Local Enterprise Partnership (LEP), County Council, Discover Ashfield Board and the private sector.
- 2.3 Internal influences will be driven by the Council's Corporate Plan which sets out the Council's vision and priorities for the District and is available on the Council's website:
<https://democracy.ashfieldc.gov.uk/documents/s16365/Corporate%20plan%20-%20Appendix%20Latest.pdf>
 A new Corporate Plan is developed every four years, the current corporate plan was approved by Council on the 26th September 2019 and a refresh of the plan was approved by Cabinet on 30th June 2020.
- 2.4 The Council's Corporate Plan 2019-2023 sets out the following six priorities;
- Health & Happiness
 - Homes & Housing

- Economic Growth & Place
- Cleaner & Greener
- Safer & Stronger
- Innovate & Improve

2.5 Aligned to the Corporate Plan are a number of subsidiary and complementary plans and strategies. Examples include;

- Medium Term Financial Strategy
- Treasury Management Strategy
- 30 Year HRA Business Plan
- Housing Strategy
- Digital Transformation Strategy
- Commercial Investment Strategy
- Service Plans

Capital investment will therefore be made in a range of areas to support the Council's core activities and priorities including asset investment to support its existing asset base and service plans, ICT and business improvement investment to support its Transformation programme. Investment in other delivery vehicles such as a Housing Company continue to be considered to deliver priorities regarding housing units.

3 Capital Scheme Prioritisation

3.1 Due to competing demands for limited resources, the Council prioritises capital investment based on a number of different factors such as:

- Its contribution to corporate priorities
- Whether it facilitates delivery of statutory or non-statutory and essential/non-essential services.
- The ability of the project to leverage additional funding, or secure a future income stream – therefore preference will be given to those projects with:
 - A payback of 10 years or less
 - A positive net present value over the life of the asset based on a discount rate reflecting use of capital resources (Treasury Green book figure 3.5 %)
- The affordability of the revenue implications of the project
- The risk of not undertaking the capital expenditure, eg Health and Safety implications or legislative requirements.

3.2 Non financial indicators can also be used, for example, there are many benefits to including sustainability or environmental and social value criteria in the decision-making process when it comes to allocating capital resources. Outcomes (for example jobs created or safeguarded) and outputs (for example, number of new homes built) should also be considered.

4 Prudential Approach

4.1 The Prudential Code requires Councils to consider six things when it agrees its Capital Programme:

- Service objectives – are spending plans consistent with our aims and plans?
 - Stewardship of assets – is capital investment being made on new assets at the cost of maintaining existing assets?
 - Value for money – do benefits outweigh the cost?
 - Prudence and sustainability – can the Council afford the borrowing now and in the future?
 - Affordability – what are the implications for council tax? (revenue implications)
 - Practicality – can the Council deliver the programme?
- 4.2 Prudence is a difficult concept to define. In deciding whether an investment decision is prudent there should, as a minimum, be an initial consideration of the relationship between:
- the capital cost and
 - the business cost (being the revenue costs associated with the use of the asset).
- 4.3 The authority needs to consider whether this choice represents the best use of resources having looked at all available options. Above all, the authority should be confident that the preferred option is the best value for money, and the quality is sufficient to meet the Council's needs.
- 4.4 Investments in property are seen as medium to long term investments therefore the value for money is assessed on this basis to ensure that over a longer period of time the investment is value for money and provides a return to the Council which, as a minimum exceeds what could be earned through investing in Money Markets.
- 4.5 The question of affordability in relation to capital projects is easier to address as the list of cost components is easier to define. Whilst the list is not exhaustive, it will typically include:
- Capital Costs
 - Feasibility costs
 - Initial build/purchase
 - Disposal/demolitions/decommissioning costs
 - Project management costs - internal and external
 - Fees: Surveyors, Clerk of works
 - Revenue costs
 - Ongoing rental charges
 - Ongoing facilities management charges
 - Utilities costs
 - Maintenance (planned and reactive)
 - Financing costs (where appropriate, Minimum Revenue Provision (MRP) and Interest costs)
 - staffing implications
 - Business Rates

- 4.6 Feasibility costs may be capitalised provided the scheme leads to the eventual construction of an asset, if not, any such costs incurred must be charged to revenue.
- 4.7 In assessing whether an investment is sustainable, the authority should consider:
- how it fits into any future policy or environmental framework
 - the future availability of resources to implement and continue to maintain any capital asset arising
 - the potential for changes in the need for the asset, e.g. demographic developments
 - the potential for changes in the nature of the driver, problem, or policy the capital expenditure is seeking to address.
 - The security on loans made
 - The liquidity of investments
- 4.8 In terms of practicality, the Council must ensure it has the right skills and resources available at the right time to be able to fully resource and deliver its Capital Programme ambitions. Some of the projects may be specialist in nature and, as such, will require external expertise and support in order to deliver the schemes, including good project management skills.

5 Capital Funding

5.1 Capital Funding Sources:

- 5.1.1 The Council's Capital Programme is currently funded from the following sources;
- Capital Receipts
 - Prudential Borrowing
 - Developers Contributions e.g. s106 receipts
 - Partner contributions
 - Revenue Contributions/Reserves
 - Capital Grants e.g. Disabled Facilities Grant, Future High Streets Fund, etc
 - Proportion of Housing Right to Buy receipts
 - Major Repairs Reserve (for Council Housing investments)
- 5.1.2 The Council can recycle capital receipts generated from the disposal of assets back to fund both General Fund and HRA capital projects. The Council also has in place a Flexible Use of Capital Receipts Strategy (Originally approved October 2018) which may be used to support delivery of the Council's Transformation Programme. This flexibility is currently due to expire at the end of March 2022.
- 5.1.3 However with limited property available for sale, capital receipts are gradually being eroded. And with continuing budgetary pressures being placed on the

Council's General Fund the ability to use Direct Revenue Financing (use of reserves) is reducing and consequently the Council need to either find alternative sources through grants and contributions, pursue schemes that are self-financing (i.e. generate an income scheme to cover prudential borrowing and other on-going revenue costs) or curtail its ambitions for capital spend in future years.

5.1.4 The Council owns a number of assets including investment properties and through ongoing monitoring of assets and stock condition information, the continuation of holding such assets is reviewed in the light of suitability and sufficiency and decisions are taken on whether to:

- Hold and continue to maintain and refurbish them, or
- Dispose of and generate a capital receipt for funding the Capital Programme.

5.1.5 The Council has entered into an agreement with the MHCLG in which the authority will recycle within a rolling 3 year period Right to Buy (RTB) receipts arising from retaining "additional" receipts from RTB disposals into new social housing dwellings within the District. The RTB receipts retained, must be applied to fund up to 30% of the capital costs of new build and acquisitions of affordable housing. If the retained receipts are not spent within 3 years, they have to be returned to Government with interest. The current levels of spend approved for eligible expenditure needs to be increased by 2022/23 to enable the use of all retained receipts within the three year timeframe. However increasing the approvals for eligible expenditure needs to be considered in terms of the affordability of the match funding from the HRA and deliverability of an increase in schemes. This is to be considered further in 2021/22, and any changes will be reported as a capital programme refresh.

5.2 Prudential Borrowing

5.2.1 Under the Prudential Framework local authorities are free to make their own judgements as to whether new borrowing is affordable and prudent, subject to a duty to follow agreed professional principles, which are contained within the Prudential Code.

5.2.2 Prudential borrowing to fund capital projects may, depending on the nature of the capital investment, bring with it the need to make a charge to revenue to reflect the cost of borrowing. This includes Minimum Revenue Provision (MRP) and interest. The MRP policy that applies to capital decisions funded by prudential borrowing is set out within the Council's Treasury Management Strategy.

5.3 S106 Developer Contributions

5.3.1 Developer contributions are sought, as part of the planning application process to mitigate the impact of development and overcome what would otherwise be a potential reason to potentially refuse a planning application. These S106 Developer Contributions are a means of supporting infrastructure costs such as play areas, transport networks, schools, etc.

5.4 Housing Revenue Account

- 5.4.1 Capital commitments are funded via surpluses from within the Council's Housing Revenue Account (HRA). The production of a 30 year HRA Business Plan, which is regularly reviewed, enables the funding needs of the Council's housing stock to be planned for and accommodated.
- 5.4.2 The HRA originally had a debt cap which was set at £80.081m in 2012. However, the Government has removed the cap allowing Councils to once again borrow against the value of its housing stock for improving the existing stock as well as delivering new stock.
- 5.4.3 The HRA Capital Programme is to a large extent driven by the amount of surplus generated which in turn is influenced by:
- The amount of income raised from rents, which for four years from 1/4/2016 was limited by Government policy, to a year on year decrease of 1%. Maximum increases of CPI plus 1% are permissible from 2020/21.
 - The number of Right to Buy sales that take place and impact on the HRA stock and therefore the amount of future rent income receivable.
- 5.4.4 The resulting HRA Capital Programme provides for renovation and improvement of existing housing stock, refurbishment and limited estate regeneration.

6 New Delivery Models

- 6.1 In response to reducing capital resources the Council has looked to new delivery models to continue its capital investment in the District, which levers in other partners and innovative financing. These include consideration of developing a Housing Company, which the Council may establish to deliver new affordable rented properties in the District.
- 6.2 In the context of the Capital Strategy, the Council has invested in property to produce an on-going revenue stream to contribute to the funding of the Council's revenue budget to sustain the delivery of key services to the District's residents. This capital expenditure has been funded through prudential borrowing. The prudential borrowing costs result in revenue costs of MRP and potentially interest. Prudential borrowing can be internal borrowing, against cash-backed reserves and working capital or external borrowing, loans from a third party. Interest costs are incurred where external borrowing is undertaken. The MRP and interest costs are funded from the on-going revenue stream from the property.
- 6.3 At the time of writing the Council currently has a portfolio of 'investment properties' of £61.770m (this is based on acquisition cost including associated costs) and comprises of 15 properties. The portfolio is forecast to generate gross investment income of £4.321m in 20/21. The prudential borrowing costs are estimated to be £1.425m in 20/21, which includes interest on

£22.3m, which is the additional external debt taken as a consequent of the investments made, with the remainder being funded with internal borrowing.

- 6.4 The Council's strategy in respect of 'investment properties' is detailed in the Commercial Investment Strategy (Non- Treasury Management Investment Strategy) included at Annex 1. Following the Public Works Loan Board (PWLb) Consultation outcome which was announced in November 2020 the Council has taken the decision to not acquire any further Investment Properties in order that it has continued access to the PWLB as a funding source for its Capital Programme.
- 6.5 In September 2019 both Kirkby-in-Ashfield and Sutton-in-Ashfield were named in the list of 100 towns invited to develop proposals to receive funding through a Town Deal, with up to £25m available for each town. The Council is developing proposals in accordance with the timeframes set by Central Government. The Council has already received accelerated funding of £1.5m (£750k each for Sutton and Kirkby) in 2020/21.
- 6.6 Since the launch of the Future High Streets Fund (FHSF) by MHCLG in December 2018, the Council has been pursuing funding through a competitive bidding process for Sutton town centre. In December 2020 the Council received notification it has been awarded funding of £6.27m, with a requirement to up-date the business case to reflect the level of funding awarded by February 2021.

7 The Current Capital Programme 2020/21 – 2024/25

- 7.1 A copy of the current 5 year Capital Programme can be found on the Council's website and the latest update to the Capital Programme is to be reported to Cabinet in February 2021. The current programme covers the following key areas and major schemes:
- Area schemes & General Fund Schemes
 - Investment Properties (removed from programme, last acquisition made was April 2020)
 - Towns Fund Accelerated Projects
 - Kirkby Leisure Centre
 - Purchase of Vehicles
 - Housing Revenue Schemes
 - Decent Homes schemes
 - New Build and acquisitions of affordable housing
 - Affordable Housing developments
- 7.2 In assessing what schemes are included in the Capital Programme, the Council will ensure all schemes are properly appraised and prioritised through a scoring matrix as agreed by Council. This appraisal process will take account of the key criteria set out in this Strategy.

8 Service Enhancements & Building Asset Maintenance

- 8.1 The Council has a property land and buildings portfolio utilised for service delivery (eg leisure centres) and for operational delivery (offices and depots). It is important that these are maintained on a regular basis and receive upgrades and replacement if required when resources allow. This programme will be informed by the stock condition surveys alongside any service developments that may be proposed. It may also be required that some surplus assets are either disposed of (including demolition) if no longer fit for purpose or required.
- 8.2 As part of the agile working initiative which has significantly expanded due to the Coronavirus pandemic, opportunities for rationalisation of operational land and buildings may be identified. Equally, the retained operational land and buildings may require enhancement.
- 8.3 Included in the land and buildings portfolio are a number of Commercial Properties, which are providing an income stream to the Council. They are not deemed to be investment properties as they are held to support the economic development of Ashfield and are not held solely for returns or capital appreciation. The Council's risk exposure to be managed, in relation to these Commercial Properties include loss of income stream due to void periods and maintenance costs.

9. Grants & Contributions

- 9.1 The Council will make contributions to 3rd party schemes (including Disabled Facility Grants) as partner funding contributions to schemes not being directly delivered by the Council, to meet statutory grant requirements or to support particular initiatives.
- 9.2 The Council will also, where appropriate, seek grant funding and contributions to support the delivery of capital schemes.

10 Vehicles and Fleet

- 10.1 The Council has a significant fleet in order to deliver its operational services. The Council has traditionally purchased outright all of its fleet including refuse collection vehicles, which require a significant up-front investment. Whilst the current capital programme continues with this approach, other funding methods will be evaluated and may also be utilised (e.g. lease, Contract Hire with Maintenance, etc) in order to achieve the most cost effective approach to vehicle provision.

11 Service Transformation & Invest to Save

- 11.1 The Council still faces significant shortfalls in its revenue budget in the Medium term. Therefore, it will continue to invest in technologies and programmes which deliver ongoing savings to the Councils finances. These schemes will require initial Capital investment but must demonstrate a payback and ongoing savings as part of the evaluation process. A business

case will need to be made for all proposals, which must include a financial appraisal.

- 11.2 These schemes can range from enhancements to buildings to make them more energy efficient, to ICT investment, to service transformation programmes. Where available, capital receipts will be used to fund one-off revenue costs associated with the Transformation Programme, in accordance with the Flexible Use of Capital Receipts Strategy up to 31 March 2022.

12 Economic and Regeneration Projects

- 12.1 The Council is seeking to secure additional external funding to support economic and regeneration schemes to maximise Ashfield's assets to support business growth and investment and to make Ashfield a destination of choice to work and to live.
- 12.2 In some cases the funding of the schemes may also have a commercial aspect where it generates income which may be used to fund on-going revenue costs including borrowing.
- 12.3 A detailed business case will need to be made for all proposals, which must include a financial appraisal.

13 Loans to third parties

- 13.1 A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth. The Council's current capital plans to not include making any loans to third parties.

14 Capital Project Delivery and Investment Risk Management

- 14.1 The Council, like all Council's is exposed to a broad range of risks:
- **Financial risks** related to the investment of the Council's assets and cash flow, market volatility, currency etc.
 - **Macroeconomic risks** related to the growth or decline of the local economy, interest rates, inflation and to a lesser degree, the wider national and global economy amongst others.
 - **Credit and counterparty risks** related to investments, loans to institutions and individuals and counterparties in business transactions.
 - **Operational risks** related to operational exposures within its organisation, its counterparties, partners and commercial interests.
 - **Strategic risks** related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its goals.

- **Reputational risks** related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
 - **Environmental and social risks** related to the environmental and social impact of the Council's strategy and interests.
 - **Governance risks** related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that balance oversight and efficiency.
- 14.2 The Council must manage and mitigate these risks where possible but there is inherent risk in undertaking major Capital Projects and this needs to be recognised. Therefore, for each scheme, risk assessments and risk registers need to be prepared and monitored to ensure, as far as possible, risks are managed.

15 Governance & Monitoring

- 15.1 The Prudential Code sets out a clear governance procedure for the setting and revising of a Capital Strategy and Prudential Indicators i.e. this should be done by the same body that takes the decisions for the local authority's budget – i.e. Full Council.
- 15.2 The Prudential Code also states that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget. The Financial Procedure Rules (FPR) set out clear procedures for the approval of capital expenditure, including:
- approval of the capital programme – Full Council (FPRs para B.1)
 - additions/changes to the capital programme – Cabinet/Council (FPRs para B.8)
- 15.3 The Audit Committee has delegated powers responsible for Governance and Treasury Management within the Council. They scrutinise and recommend an annual Treasury Management Strategy (incorporating an Investment Strategy and Borrowing Strategy) to Council for approval as part of the annual approval of budget. They also receive monitoring reports on Treasury activity and a year-end Annual Report.
- 15.4 The S151 Officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration. They also have to declare that they consider the strategy to be prudent and affordable, are integrated into the Treasury Management Strategy and other Strategic Plans, and that all the revenue implications are included in the MTFS.

16 Knowledge and Skills

- 16.1 In order to deliver this Capital Strategy it is important that the Council employs and /or has access to competently skilled people in order to manage the delivery of the Capital Programme. The Council's S151 Officer has the overall responsibility for the Capital and Treasury Management activities so needs to be professionally qualified and undertake ongoing CPD in these areas. This should be underpinned by experienced staff who can support the S151 Officer in meeting these requirements. Additionally, professional advice can be bought in from external providers. The Council's current Treasury Management Advisors are Link Asset Services. The contract for Treasury Management Advisors is currently out to tender for a new contract from the 1st April 2021.
- 16.2 Training should also be provided to those Members and Officers that are involved in the monitoring and delivery of the Capital Strategy and Programme and this should be regularly updated. Appropriate project management training should also be provided to project leads, Officers and Members responsible for each of the Capital schemes.

**ASHFIELD DISTRICT COUNCIL
COMMERCIAL PROPERTY INVESTMENT STRATEGY**

This Commercial Property Investment Strategy document outlines the rationale, process and risk management in relation to previous Commercial Property Investment acquisitions and the on-going management of the Commercial Property Investment portfolio.

The current capital programme (to be approved February 2021) does not include any plans for further Commercial Property Investment, the last acquisition was made on 2nd April 2020.

1. Key Principles

- 1.1 The core function of the Council is to deliver statutory and other services to local residents. Reductions in government funding has required local authorities to look at the options for balancing the budget. Investing in property helps the Council to generate an additional on-going revenue income stream that it can then use to reduce its net costs of providing services.
- 1.2 This is achieved by buying property that has a tenant who pays rent to the owner of the property – the landlord. The tenant needs to be of good financial standing and the property and lease must meet certain standards such as being in a commercially popular location and have a number of years left on the lease providing a certain and contractually secure rental income stream into the future.
- 1.3 The Council funds the purchase of the property by prudential borrowing and/or use of Capital Receipts where these are available. The rental income paid by the tenant must exceed the cost of capital (MRP and interest). The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for local people.
- 1.4 Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns the property for 20 years plus, and the property is managed and maintained appropriately, the Council can expect to see an increase in the value of the property as well as a net annual surplus of revenue.
- 1.5 The increase in value is realised when the property is sold. The sales proceeds from the sale of property result in a capital receipt for the Council. The capital receipt will be used to extinguish the debt outstanding in the Capital Financing Requirement in relation to the property sold, and the remaining capital receipt can be used to fund further capital investments or applied to revenue transformation costs under the Flexible Use of Capital Receipts Policy, although this flexibility is currently due to expire at the end of March 2022. In both cases, the additional capital receipt will support the delivery of services for local people.

Purpose

- 2.1 The Commercial Property Investment Strategy:
- Clarifies the legal powers used to operate the Strategy and ensure continued compliance.
 - Sets out what the Council wants to achieve when acquiring property assets for investment purposes – primarily to provide an income stream with a margin over the cost of capital.
 - Identifies criteria for acquiring and owning property assets for investment purposes to ensure risks are minimised.
 - Includes an outline of the process involved in acquiring property assets for investment purposes.
 - Is part of a wider policy framework supporting what the Council does and why.
- 2.2 Each acquisition is evaluated on its merits to consider the relevant purpose(s), legal powers, financial powers and any other implications. The evaluation addresses the potential within the market place for future uplift or loss in value of the asset being considered for acquisition, as well as the security of income from the tenant in occupation.

3. Legal Powers

- 3.1 Local authorities have very wide powers to acquire, sell, appropriate and develop land, such that it is rare to need to use the powers in the Localism Act 2011. Specific property related powers are very wide and include the following:
- Sections 120 to 123 of the Local Government Act 1972
 - Section 227, Town and Country Planning Act 1990
 - Section 233, Town and Country Planning Act 1990
 - Local Authorities (Land) Act 1963 (development)
 - Housing Act 1985
 - Sections 24-26 Local Government Act 1988
- 3.2 There are various powers that would usually be sufficient for the Council to undertake any property acquisition, sale or related project in its area where at least part of the motivation is connected with the broad benefit or improvement of its area, as it is in the case of this strategy.
- 3.3 Section 120 of the Local Government Act 1972 to acquire land (inside or outside of their area) for the purposes of any of their functions, and then this gives us the power to borrow as contained in Section 1 of the Local Government Act 2003 - A local authority is empowered to borrow money for any purpose relevant to its functions under any enactment.

4. **Objectives of the investment activity**

- 4.1 Acquisition to generate an income stream is a natural progression from acquisition for regeneration purposes. The two can also be combined – an example of this is if an acquisition is made which offers a secure income stream and the option for future regeneration of a site. Therefore, the reasons for buying and owning property investments are primarily in this order:
1. Financial gain to fund our services to local people
 2. Market and economic opportunity – the time is right
 3. Economic development and regeneration activity in Ashfield
- 4.2 The UK commercial property investment market is very well established, attracts global investors and is defined as a ‘mature asset class’. It has a wide range of new and established investors including institutions, pension funds, specialist property companies, charities, family trusts and individuals.
- 4.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as “...used solely to earn rentals or for capital appreciation or both...”.
- 4.4 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.
- 4.5 Property prices and returns are a function of the property type, condition, use and location, together with the lease structure and covenant strength of the tenant (in the case of a let property). Lease contracts will reflect all liability and outgoings being the responsibility of the tenant.
- 4.6 The Council has pursued property investments which produce the best returns possible, whilst carrying an acceptable level of risk. The main mitigation measure in managing risk is to target investments which are let to ‘blue chip’ tenants, on relatively long leases with little or no landlord management involvement – typically the tenant is responsible for all property costs such as repair, maintenance and outgoings. In this way, the Council will be primarily buying a secure income stream and the buildings themselves become almost secondary considerations.
- 4.7 Any property asset coming onto the market could be for a number of reasons. Investors seek to buy and sell in many different circumstances - rebalancing their portfolio, seeking cash to influence balance sheet or share price, requirement for a more “liquid” asset, short-term investment taking advantage of small capital growth, moving into different property classes, etc.

5. **Priorities & Risk in Property Investment**

- 5.1 The priorities the Council had considered when acquiring property interests for investment purposes are (in order of importance):
- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The

Council's primary reason and objective for this strategy is financial gain to sustain delivery of key services to residents. The underlying principles of a Property Investment Strategy imply, assume and default to nothing taking higher priority than financial gain. It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.

- **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacement tenants at acceptable rental levels. Generally, occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.
- **Rate of return** - the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better than the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of capital (Interest and MRP).
- **Risk** – rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time.
- **Lease Terms** – The terms of leases vary and even those held on an “Institutionally acceptable basis” can be very different in nature particularly as such leases have developed over time. The Council has sought to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees where applicable. This ensures a certain income/return to the Council.
- **Growth** - property has the potential for both revenue and capital growth. The Council has taken into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally, the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income.
- **Location** - should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. When appropriate opportunities surface in

Ashfield, they will be evaluated against the same criteria as those opportunities located outside of the District. In this way, this investment activity does not discriminate against location. Any investment decision is subject to the appropriate justification, business case and governance. As from the end of November 2020 the Council will no longer acquire out of District Investment Properties.

- **Sector** - information as to the sector of use of the property (e.g. office, retail, industrial, leisure) has assisted in deciding on the risks associated with specific properties and the mix of sectors within the portfolio.
- **Building Age and Specification** - in the case of a let property, whilst the Council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the Council to let or sell the property in the future. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant.

5.2 In summary, the strategy for previously acquiring investment property assets was therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease.
- Minimise risk.
- Maximise rental income and minimise management costs to ensure the best return is generated.
- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.
- Prioritise the Ashfield area.
- Pursue opportunities to increase returns and improve the investment value of commercial assets

6. Reporting Requirements and Governance

6.1 Commercial Property Investment Strategy

- 6.1.1 In accordance with the MHCLG revised Statutory Guidance on Local Government Investments (2018), each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council. The investment strategy must include non-treasury management investments.
- 6.1.2 This Commercial Property Investment Strategy, which is incorporated into the Capital Strategy is this Council's non-treasury management investment strategy.
- 6.1.3 The MHCLG revised Statutory Guidance on Local Government Investments (2018) requires the Commercial Property Investment Strategy to include

quantitative indicators to allow risk exposure as a result of its non-treasury management investments to be assessed. The indicators are included as Annex 2.

6.2 Acquisition Decision Making and Reporting

6.2.1 The acquisition process has been defined, and implemented to ensure roles and responsibilities are clearly defined, outcomes are understood, and unnecessary risk has been avoided. This process is included in Annex 3 of this Strategy.

6.2.2 Where time constraints allowed, which is more often not the case, a collective Cabinet decision has been sought; however a faster, robust decision-making process must be available to ensure Ashfield's competitiveness is maintained. In most, if not all, circumstances where the Council has negotiated an acquisition by Private Treaty, the Vendor has wanted to proceed swiftly with the transaction for financial reasons. Furthermore, where the Council may purchase at auction, the contract is signed at the end of the auction; therefore, authorisations/delegations must be in place in advance. As such, the Officers have used existing provisions within the Scheme of Delegation and Access to Information Procedure Rules to ensure a decision can be taken expediently. In all cases, a full written report and decision record has been prepared and required notices published in accordance with Governance requirements. Specifically:

1. Where timeframes have not allowed a collective Cabinet decision, the Leader of the Council has taken a delegated Executive Decision.
2. Previously, where a potential purchase is a key decision and/or will contain exempt information but the full 28 days' notice cannot be given due to the urgency of the matter, a General Exception has been applied (Rule 15). This gives five clear days' notice of the decision being made. The Monitoring Officer informs the Chairman of the Overview and Scrutiny Committee and has published the required notices.
3. Where there is a greater urgency and 5 clear days' notice could not be given, the Special Urgency provisions have been used (Rule 16). In this case, the permission of the Chairman of the Overview and Scrutiny Committee (or if they are unable to act, the Chairman of the Council or, in their absence, the Vice Chairman of the Council) has been obtained before making the decision. The Rule 16 notice has then been published.
4. In such cases it is expected that the decision has been implemented without delay and therefore not been subject to call in.
5. The report has explained the reasons in each case as to why a decision is not to be called in.
6. The Leader has reported to the next available Council meeting any decisions, which are made pursuant to Rule 16.

6.3 Post Acquisition Monitoring Arrangements

6.3.1 A Commercial Investment Working Group operates within the Council and is attended by:

- Chief Executive/Deputy Chief Executive
- Director of Resources and Business Transformation
- Monitoring Officer/Deputy Monitoring Officer
- Section 151 Officer/Deputy Section 151 Officer
- Commercial Development Service Manager

6.3.2 The Group meets quarterly and discusses:

- Progress of commercial investments being pursued (will not be applicable in line with current capital plans)
- New opportunities for commercial investments (will not be applicable in line with current capital plans)
- Factors impacting or influencing opportunities for commercial investments (will not be applicable in line with current capital plans)
- Performance of and factors impacting or influencing existing commercial investments

6.3.3 A quarterly Commercial Property Performance Report is presented to the group which details:

- the rentals payment performance of the Commercial Property Investment tenants;
- financial performance of Commercial Property (as defined in 8.3 of the Capital Strategy) and Commercial Property Investments;
- the state of the market which covers how each sector e.g. industrial, office, retail, leisure is performing;
- Tenant Covenant, which covers default risk (payments not being made), failure risk (business failure) and delinquency risk (payments being late).

6.3.4 A mid-year report and outturn report on Commercial Property Investment Performance detailing the information in 6.3.3 is reported to Audit Committee.

6.3.5 A Council representative, primarily the Council's Property Agent and/or the Commercial Development Service Manager will periodically visit and inspect Commercial Property Investments. A visit to all existing the Commercial Property Investments was undertaken in January 2020. Due to the current global pandemic, site visits have not been able to be completed during 20/21. However regular contact has been maintained between the Council's Property Agent and the tenants, this informs the quarterly report to the Council.

7. Risk Management

7.1 Risk Mitigation on acquisition

7.1.1 In order to mitigate the risks of investing in commercial property, the considerations outlined 5.1 have always been evaluated and the processes in 6.2. undertaken. The acquisition process has been defined, and implemented to ensure roles and responsibilities are clearly defined, outcomes are understood, and unnecessary risk has been avoided. This process is included in Annex 3 of this Strategy.

7.1.2 A fair value assessment has been conducted on purchase and provides sufficient security for the underlying capital invested.

External Advice

7.1.3 The Council's Commercial Property team has the relevant investment and management knowledge/experience to manage the investment property portfolios. Nevertheless, officers have taken external advice on a number of occasions such as:

- Appointing a representing agent in line with Contract Procedure Rules to represent and advise Ashfield on potential acquisitions.
- Seeking external legal advice, via the Legal Shared Service, on various matters during conveyancing and indeed, to represent Ashfield directly, in complex transactions or in jurisdictions where English Law does not apply.
- Commissioning external Chartered Surveyors to carry out surveys on properties prior to purchase, with their reports forming a key part of the decision-making process and to carry out valuations of investment properties.

7.2 Risk Mitigation post acquisition

Annual Review of Fair Value

7.2.1 An annual review will be undertaken of the Commercial Property Investment portfolio fair value as per the Council's revaluation programme as outlined in the accounting policies and agreed with the external auditors. The fair value will be compared to the debt outstanding and appropriate provision will be made if there is a fall in the value of the assets.

Commercial Property Investment Earmarked Reserve

7.2.2 The Council has established a Commercial Property Investment Earmarked Reserve, which is to mitigate against the risk of business failure and lease events.

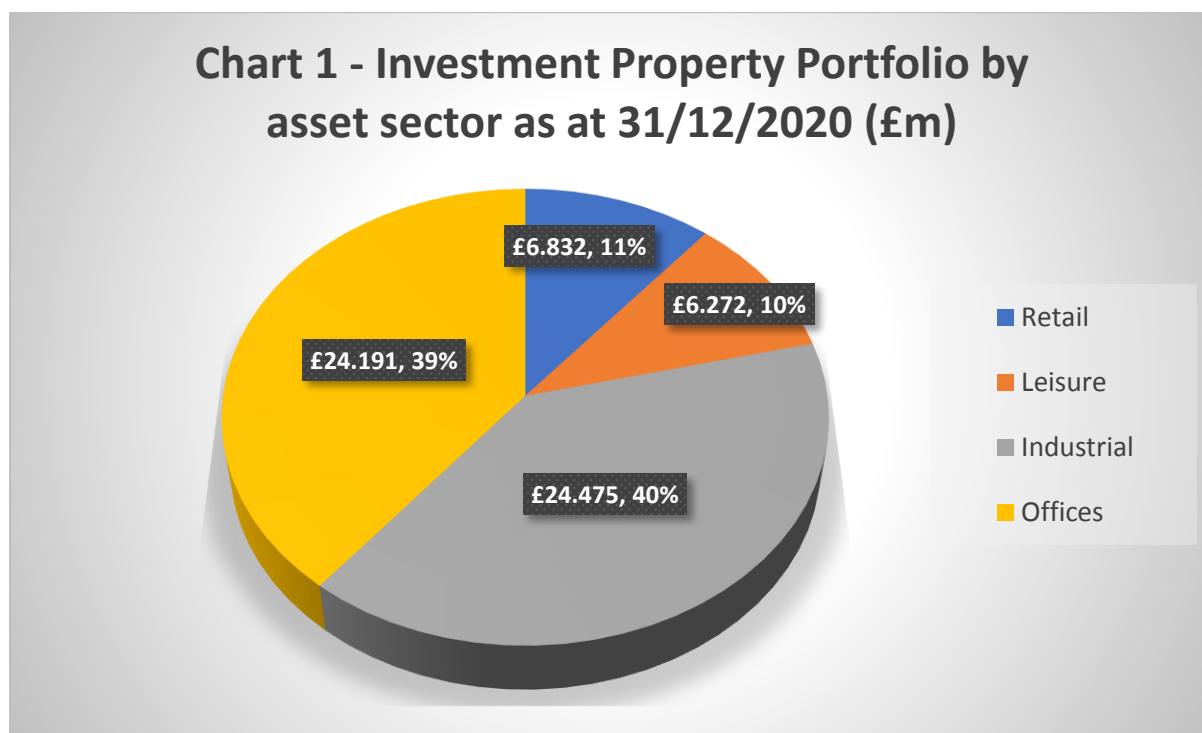
7.2.3 The reserve will be used to cover:

- Loss of investment return
- Capital financing costs (MRP and interest costs are still incurred, if the income stream is lost)
- Business Rates (the Council will be liable to pay the Business Rates, if the property is vacant)

- Capital Expenditure (may be necessary to fund dilapidation works to get the property to a standard to enable re-let.
- 7.2.4 It will also be used to fund any debt outstanding following the sale of a Commercial Property Investment where the capital receipt does not extinguish the debt outstanding for the property.
- 7.2.5 An annual review of the Commercial Property Investment Earmarked Reserve will be carried out as part of the Medium Term Financial Strategy to assess whether there are sufficient resources held in the Reserve. Where it is deemed there are insufficient resources, provision will be made to top up the reserve over a period of time as part of the budget setting process (through the Medium Term Financial Strategy).

Commercial Property Investment Portfolio and Indicators**Commercial Property Investments Portfolio**

The total investment property portfolio of £61.770m (this is based on acquisition cost including associated costs) and comprises of 15 properties. Chart 1 shows the investment portfolio by asset sectors.



The current capital programme (to be considered by Cabinet February 2021 and approved by Council March 2021) does not include any plans for further Commercial Property Investments.

The Ministry of Housing, Communities and Local Government (MHCLG) recommend the following indicators for non-treasury investments e.g. Commercial Property Investments.

a) Debt to Net Service Expenditure

Table 1 shows the gross external debt on Commercial Property Investments at the end of each financial year divided by the Net Service Expenditure for each financial year. It assumes all future planned Commercial Property Investments are funded from external borrowing and therefore increases the debt in the indicator.

Table 1 demonstrates how many times greater the Commercial Property Investments debt is to the estimated Net Service Expenditure.

Table 1 Debt to Net Service Expenditure

	2019/20 (Actual)	2020/21	2021/22	2022/23	2023/24
Debt to Net Service Expenditure	5.24	4.70	4.49	4.08	tbc

The Debt to Net Service Expenditure is decreasing as there are no plans to purchase further investment properties, therefore the level of debt outstanding reduces as MRP is charged to the General Fund.

b) Commercial Income to Net Service Expenditure

Table 2 shows the expected income from Investment Properties divided by the Net Service Expenditure. The Commercial Income to Net Service Expenditure is increased due to the full year impact of the Commercial Income from the properties purchased in 19/20. As there are no plans to purchase further investment properties this ratio is forecast to maintain reasonably constant, with changes due to annual rent increases and changes to the Net Service Expenditure.

Table 2 Commercial Income to Net Service Expenditure

	2019/20 (Actual)	2020/21	2021/22	2022/23	2023/24
Commercial Income to Net Service Expenditure	23.8%	33.1%	33.1%	32.5%	tbc

This highlights the reliance on Commercial Property Investment income in delivering Council services. The strategy for risk mitigation to manage and maintain the income stream is set out in Section 7 of the Commercial Property Investment Strategy.

c) Investment Cover Ratio

Table 3 shows the expected net income from Commercial Property Investments divided by the Interest Expense. It has been calculated on the basis that all the Commercial Property Investments have been funded by external borrowing, and interest is being incurred

The actual for 2019/20 is substantially higher than future years as MRP is charged on investment properties in the year following purchase, reducing the net income in future years. In 2019/20 the purchase of investment properties was £39.

The increases in the ratio year on year in the table is due to forecast increases in the net income based on the lease agreements in place for the existing portfolio. The

significant increase in 2022/23 is due to the forecast increase in income from the hotel in line with the terms of the new lease.

The Council uses the annuity method to calculate its MRP for Investment Properties. The annuity method charges less MRP in the early years following purchase and more MRP in the later years. The total amount of MRP charged over the life of the asset will equal the amount of prudential borrowing. Therefore the increasing MRP will reduce the investment income cover, if the ratio is maintained or increases it demonstrates the income increases are matching or exceeding the increasing MRP charges.

Table 3 Investment Cover Ratio

	2019/20 (Actual)	2020/21	2021/22	2022/23	2023/24
Investment Cover	1.83	1.22	1.26	1.42	1.48

d) Loan to Value Ratio

Table 4 shows the Capital Financing Requirement (debt to be funded) for the Investment Properties divided by their estimated valuations.

Table 4 Loan to Value Ratio

	2019/20 (Actual)	2020/21)	2021/22	2022/23	2023/24
Loan to Value Ratio	105.35%	103.85%	102.21%	100.54%	98.93%

In the early years, the loan value is expected to exceed the asset value. The main reason for this is due to acquisition costs e.g. stamp duty, agent fees etc. being included in the cost of the Commercial Property Investments that have been funded by borrowing, these costs are not included in the property valuation.

The loan to value is expected to continue to reduce as the capital financing requirement (unfunded debt) reduces as MRP payments are made. The investment properties will be valued regularly. Any increase in Investment Property values will reduce the loan to value ratio and consequently any decrease in value is likely to increase the loan to value ratio.

e) Target Net Income Returns

Table 5 compares the Target Net Income Return with the Actual Net Income Return. The Actual Net Income Return is calculated by dividing the Estimated Investment Property Income less MRP and Interest Costs by the Investment Property Purchases. Similar to c) above the estimated net income return is increasing due forecast increases in income based on the existing lease agreements, being in excess of the increasing MRP charges.

Table 5 Target Net Income Returns

	2019/20 (Actual)	2020/21	2021/22	2022/23	2023/24
Target Net Income Return	2.50%	2.50%	2.50%	2.50%	2.50%
Estimated Net Income Return	2.60%	3.02%	3.11%	3.50%	3.66%

f) Gross and Net Income

Table 6 compares the estimated gross income with the estimated net income. The net income is the estimated gross income net of interest and MRP charges. As per e) above the net income assumes that interest on external borrowing will be paid for all investments.

Table 6 Gross and Net Income

	2019/20 Actual	2020/21	2021/22	2022/23	2023/24
	£000s	£000s	£000s	£000s	£000s
Gross Income	£2,643	£4,274	£4,402	£4,677	£4,787
Net Income	£1,520	£1,864	£1,922	£2,164	£2,259

Note: In all of the above indicators where net income returns are included, the estimate assumes that interest on external borrowing will be incurred. The Council, depending on its cash reserve position, may choose to use internal borrowing to finance part or all of its investment property purchases. If internal borrowing is used the net income will increase as interest payable costs are saved.

To date actual external debt of £22.3m has been taken as a consequence of the property investments made, with the remainder being funded with internal borrowing. Table 7 below shows the net income after the actual external interest costs on the additional debt and the MRP charges. This is the actual impact on the MTFS.

Table 7 Gross and Net Income – impact on MTFS

	2019/20 Actual	2020/21	2021/22	2022/23	2023/24
	£000s	£000s	£000s	£000s	£000s
Gross Income	£2,643	£4,274	£4,402	£4,677	£4,787
Net Income	£2,237	£2,848	£2,906	£3,148	£3,243

g) Break Clauses or Lease Expiries

All of the investment property leases have either i) a break clause which gives the lessee the option to either continue leasing the property or to end the property lease

or ii) an expiry date where the tenant vacates the property unless a new lease contract is signed.

There is a risk for the Council with both break clauses and lease expiries, if the existing tenant chooses to leave the property. The risks this exposes the Council to and risk mitigation are, detailed in the Commercial Investment Property Strategy. Risk mitigation includes spreading the dates when break clauses and lease expiries occur across the Council's Commercial Property Investment portfolio.

Table 8 below shows the years when the Council has a break clause or expiry on its current Commercial Property Investment portfolio.

Table 8 Break Clauses or Expiries

Financial Year	Number of Breaks or Expiries
2019/20	0
2020/21	0
2021/22	1
2022/23	1
2023/24	1
2024/25	2
2025/26	1
2026/27	0
2027/28	0
2028/29	4
2029/30	0
2030/31	0
2031/32	0
2032/33	3
2033/34	0
2034/35	1
2035/36	0
2036/37	0
2037/38	0
2038/39	0
2039/40	0
2040/41	0
2041/42	0
2042/43	0
2043/44	0
2044/45	0
2045/46	1

This information is used when negotiating with tenants to re-gear leases at the appropriate time, the negotiations can include changing the options for break clauses and lease expiry.

Investment Property Acquisition Process

This Annex is retained for information purposes only to demonstrate the process the Council used for acquiring its current Investment Property portfolio.

Reviewed: January 2020

Process and Responsibilities for Commercial Property Investment

As a process, the investment portfolio will require work from various services within Ashfield District Council due to the complex nature of property selection, evaluation and acquisition. Adhering to this process will minimise risk and ensure adherence to Statute and the Prudential Code.

This document should be read alongside the Investment Property Acquisition process map found at the end of this document.

Stage 1 – Identification Stage

Stage 1 may be repeated several times in identifying suitable properties for purchase. The steps required help to ensure that only suitable properties are brought forward as potential investments. The due diligence undertaken here includes, and is not limited to, the tenant covenant, location, the overall market, assessment of risks and the details within the lease.

Step	Element	Document(s) Involved	Responsibility
1	Opportunity identified - This can be either by way of direct research by ADC employees or by outside approach from agents. Once a property is identified, an initial financial investment model is produced to determine if the minimum income target can be met.	<ul style="list-style-type: none"> Property Brochure 	Service Manager – Commercial Development
2	Min NIY possible? - The initial financial appraisal outlines the yield that would be obtained with the target of achieving at least 2.5% net initial yield (NIY). All evaluation is done on the basis of external borrowing from the PWLB at the rates current on the given day.	<ul style="list-style-type: none"> Financial appraisal 	Service Manager – Commercial Development
3	Collate available documents and send to finance and legal – Title(s) and Lease(s) may not be available in the first instance for every opportunity.	<ul style="list-style-type: none"> Brochure Financial appraisal Dunn and Bradstreet reports Titles and Leases 	Service Manager – Commercial Development
4a	Preliminary Finance due diligence – Finance will examine the appraisal and credit reports to determine if there is any reason not to proceed; these reasons will be documented and circulated.	<ul style="list-style-type: none"> Record of issues (email or otherwise) 	Corporate Finance Manager
4b	Preliminary Legal due diligence – Legal will examine the available documents (and undertake their own research) to determine if there is any reason not to proceed; these reasons will be documented and circulated.	<ul style="list-style-type: none"> Record of issues (email or otherwise) 	Director of Legal and Governance
5	Inspect Property – Officers will undertake a visual inspection of the property and surrounding area. This inspection informs the	N/A	Service Manager –

	creation of the Briefing note and the Evaluation Matrix.		Commercial Development
6	Appraise property against matrix and write briefing note – Taking feedback received from Legal and Finance in conjunction with other sources, the Briefing note and risk assessment are completed and the Evaluation matrix is completed. These documents encapsulate the meaningful aspects of the work thus far and are prepared in order to submit the property for consideration by the Leader / Deputy Leader.	<ul style="list-style-type: none"> • Briefing note • Evaluation Matrix 	Service Manager – Commercial Development
7	Meet with leadership to present and obtain authority to make and offer – a meeting will held to table the property as an option and discuss the findings of work to date. Normal attendees (at a minimum) are The Chief Executive Officer, the Service Manager – Commercial Development, the Corporate Finance Manager, and Director of Legal and Governance. After the meeting, and if agreed, the Leader will formally cascade approval to offer on the property. A maximum offer is approved after discussion; although opening offers are always placed below.	<ul style="list-style-type: none"> • Authority to bid 	Service Manager – Commercial Development
8	Place offer – After receiving approval, offer letters are drafted, approved and submitted to the vendor's agent. The offer letter contains ADC's offer and terms, such as: <ul style="list-style-type: none"> • The proposed time for signed Executive Decision Records, surveys, completion • Conditions to be included in the Heads of Terms (HoT), such as receipt of a full legal pack before the process starts. • Exclusivity from agreed HoT. An accepted offer is notified normally by telephone and is followed by receipt of an email with Draft HoT attached.	<ul style="list-style-type: none"> • Offer letter 	Service Manager – Commercial Development

Stage 2- Conveyancing Stage

This stage begins once a bid has been accepted for an investment property. The ongoing due diligence in the first stage would also be brought forward to mitigate risks. Further analysis of the tenant, the building, the lease etc, are evaluated to ensure risk is mitigated.

Step	Action	Document(s) Involved	Responsibility
9	Agree the Heads of Terms – After reviewing the received Draft Heads of Terms and making any required amendments, the revised Heads of Terms are returned to the vendor's agent. This process will repeat until both parties are satisfied that the Heads of Terms reflect the agreed position, at which point they are formally approved by both sides. These will then be sent to the Service Manager – Commercial Development and the Director of Legal and Governance.		Service Manager – Commercial Development
10	Make contact with Vendor's solicitors; receive and verify Legal pack – Once received by Legal, the appointed solicitor will make contact with the Vendor's solicitor via email or phone to indicate that they are representing ADC in the transaction. ADC Legal will provide the necessary details for receipt of the legal pack; upon receiving the Legal pack, the ADC's solicitor will verify its contents and raise any queries with the other side's solicitor whilst awaiting instructions from the Commercial Property team following a signed Executive Decision Record from the Leader.		Director of Legal and Governance
11a	Instruct surveys (external) – After agreeing Heads of Terms, quotes will be sought for conducting building surveys of the property in question. Generally, the property brochure provided at the beginning of the process is provided to at least three Survey firms, with the deadline by which inspections and reports must be completed and received by ADC (this element of the process has a 10 working day time limit from the date of Agreed Heads of Terms being received). Quotes are generally received within 24 hrs and the quote that represents best value for money (taking price, quality and time into account) is selected.		Service Manager – Commercial Development
11b	Write Urgency Notice/ Report for the Executive Decision Record – An urgency notice is required for these transactions which must be signed by the Chair of the Scrutiny Committee. The Leader, or delegated person, is obligated to contact the Chair to explain the details of the transaction prior to gaining a		Service Manager – Commercial Development

	<p>signature. An urgency notice is required due to the Decision being Key and the constrained timeframe for the process to be completed. The Report for the Executive Decision Record is the briefing note written earlier with the addition of Recommendations, Implications, Reasons for Urgency, and Exemptions, as per the standard ADC report format. Once a draft is produced by the Service Manager, it is circulated to Legal and Finance for review/amends until it is finally complete and approved by all parties.</p> <p>Then the Leader, Chief Exec and the Service Manager will meet to review the report and answer any remaining questions. Once the Leader is satisfied, the EDR is signed by the Leader and forwarded to Democratic Services, along with the report. A copy of both should also be supplied to Legal for the case file.</p>		
12a	<p>Notify other side of the EDR – Once the EDR is signed, an email should be sent to the other side's solicitor noting that the EDR has been signed, meaning that the purchase is officially approved.</p>		Director of Legal and Governance
12b	<p>Instruct legal – The Estates Manager will complete the official instructions for Legal to undertake the conveyancing process.</p>		Service Manager – Commercial Development
13	<p>Conveyancing process – The conveyancing process is distinctly different for every property purchase, given the unique circumstances that each purchase presents, though each has common activities, i.e. examining titles, searches and queries, contract/Lease examination and amendment, etc.</p>		Director of Legal and Governance
14	<p>Determine level of borrowing and source / Option to tax (if applicable) – Finance will determine the level of borrowing need for the purchase as well as whether this should be internal or external borrowing. Finance work closely with their Treasury Management Advisers. They will seek advice to determine whether it is preferable to externally borrow now and risk the cost of carry i.e. interest payable being greater than the interest payable or whether it is best to borrow internally of temporarily if affordable.</p> <p>If the property is being sold as a Transfer of a Going Concern (TOGC), finance will complete a</p>		Corporate Finance Manager

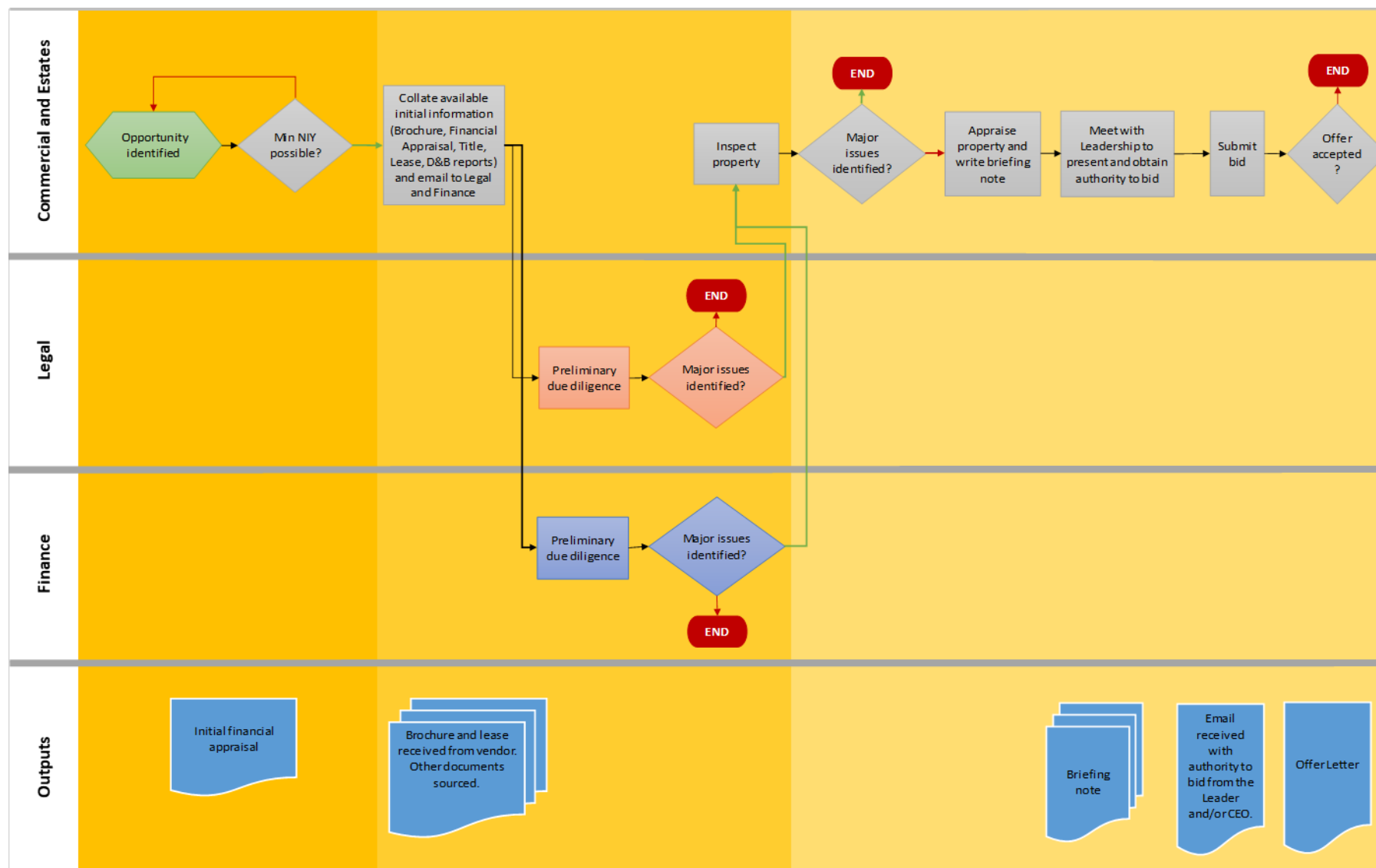
	form to Opt to Tax the property (VAT 1614A). When granted by HMRC, VAT must be paid and passed to HMRC on rents, but VAT will not apply on the purchase of the property. If for whatever reason the purchase does not complete then this can be rescinded by simply informing the HMRC.		
15	Arrange Insurance – Once the Surveys have been returned, the values provided therein by the Surveyor will be passed to Finance to arrange appropriate insurance cover for the property, with the date of commencement to be the completion date.		Corporate Finance Manager
16	Secure funds – Having previously determined the source of funding, Finance will take steps to secure the funds in anticipation of making payment.		Corporate Finance Manager
17	Transfer payment – Once Legal is satisfied that completion can occur, the solicitor will notify Finance that the money can be transferred. Funds will be transferred <u>no later than 1700hrs on the day prior to completion.</u> Failure to meet this deadline risks incurring additional costs in penalties as noted in the sale contract.		Corporate Finance Manager
18	Complete – At the agreed date/time, ADC's solicitor and the Vendor's Solicitor will carry out the completion process.		Director of Legal and Governance

Stage 3- Post-completion Stage

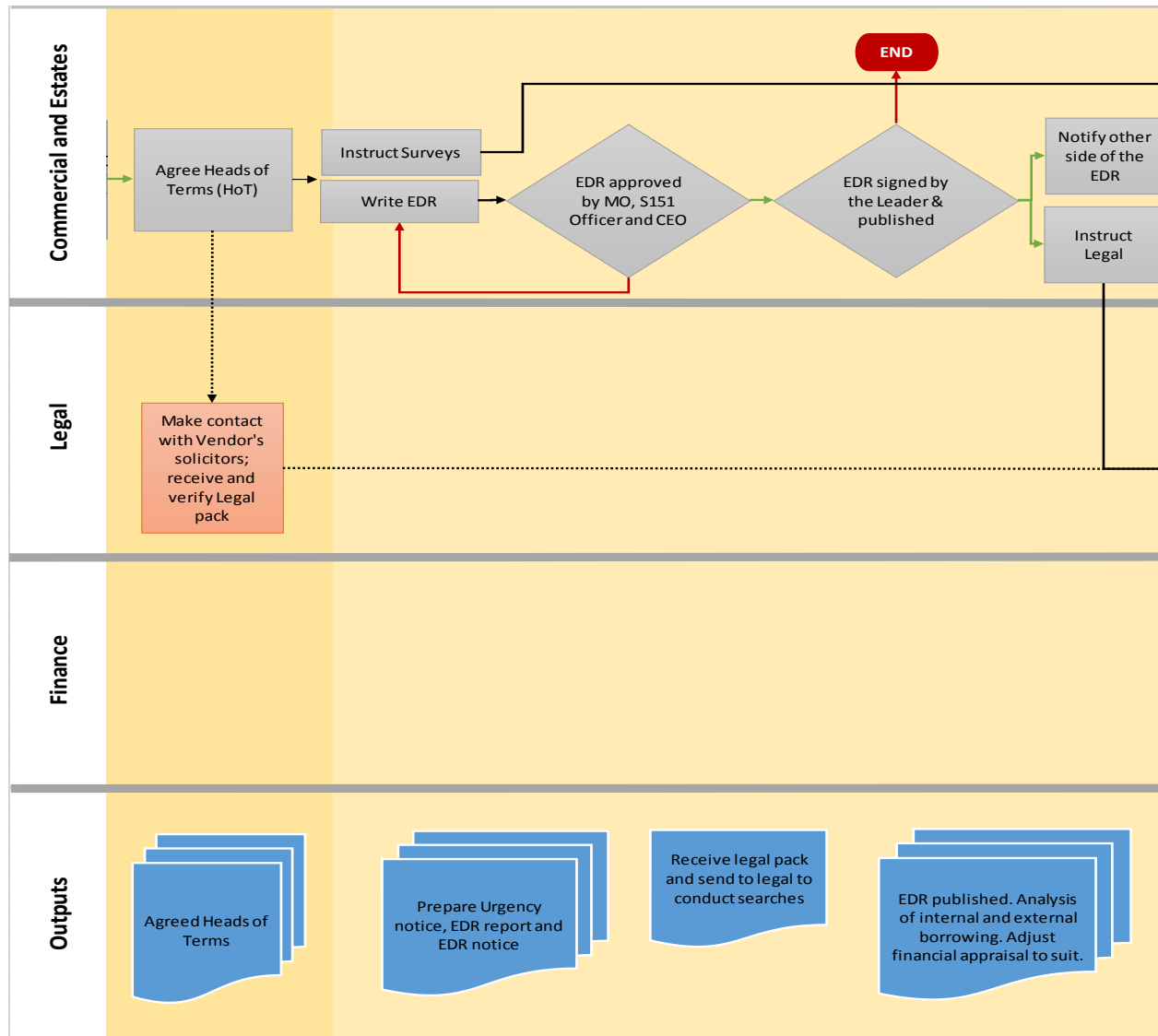
After completion, work remains to complete the entire process before day-to-day management begins.

Stage	Action	Document(s) Involved	Responsibility
19	Post completion		Director of Legal and Governance
20	Authorise Stamp Duty payment to HMRC		Service Manager – Commercial Development
21	Update Budget – The budget will be updated at the next available opportunity to include the expected Rental Income, Minimum Revenue Provision and Interest Payable, if applicable.		Corporate Finance Manager

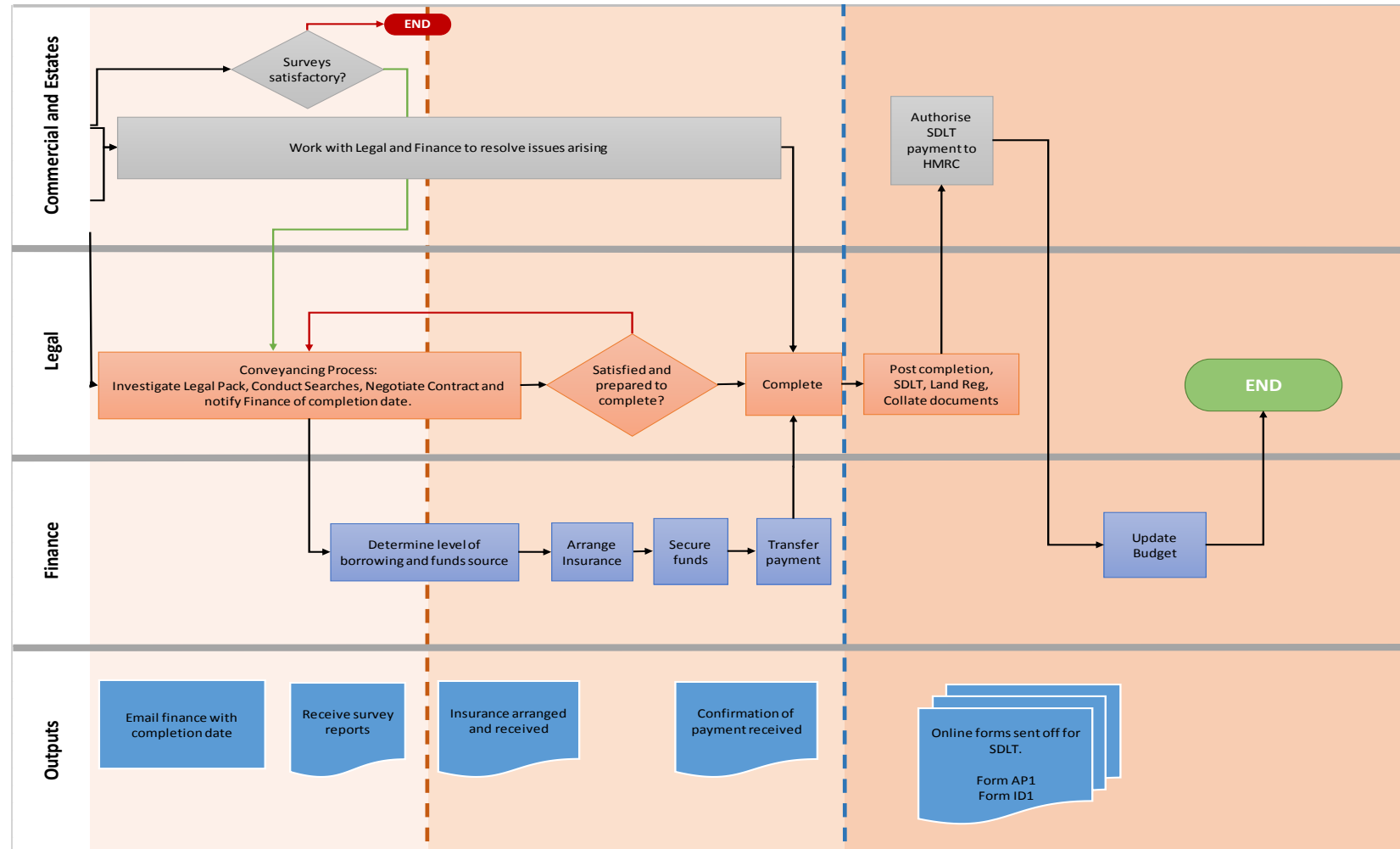
Investment Property Acquisition Process Map - Stage 1: Identification & Bid



Investment Property Acquisition Process Map - Stage 2:EDR and Instructions (Time Limited – 5 working days)



Investment Property Acquisition Process Map - Stage 3: Due Diligence, Completion and Post-completion (Time limited – 15 working days)



Agenda Item 7



Report To:	AUDIT COMMITTEE	Date:	1st FEBRUARY 2021
Heading:	TREASURY MANAGEMENT STRATEGY (TMS)		
Portfolio Holder:	COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE		
Ward/s:	ALL		
Key Decision:	YES		
Subject to Call-In:	YES		

Purpose of Report

This report outlines the Council's Treasury Management Strategy for the financial year 2021/22.

The report includes:

- Treasury Management Policy;
- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision Policy;
- Prudential Indicators and Treasury Management Indicators
- Treasury Management Practices: Risk Management.

It has been prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and Ministry for Housing, Communities and Local Government (MHCLG) Local Government Investment Guidance.

Recommendation(s)

- 1) For Audit Committee to review and note the contents of the Treasury Management Strategy (TMS) for 2021/22
- 2) For Audit Committee to recommend to Cabinet that they approve the Treasury Management Policy Statement incorporating:
 - Treasury Management Strategy Statement (TMSS)
 - Borrowing Strategy
 - Annual Investment Strategy
 - Minimum Revenue Provision (MRP) Policy;
 - Prudential Indicators and Treasury Management Indicators
 - Treasury Management Practices: Risk Management.

Reasons for Recommendation(s)

In accordance with Financial Regulation C.31. The Audit Committee is responsible for providing effective scrutiny of the Treasury Management Strategy and policies.

Alternative Options Considered

None. It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy (TMS) and a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy.

Detailed Information

The TMS contains:

- Treasury Management Strategy Statement (TMSS), which outlines what treasury management is and how it is managed by its borrowing and investment activities
- Annual Borrowing Strategy, which outlines sources of borrowing
- Annual Investment Strategy for Treasury Management investments, which sets the limits for the maximum amounts to be invested and the types of investments the Council may consider.
- MRP Policy which states how the Council will apply MRP charges
- Annex A of Appendix 1 contains the proposed Prudential Indicators and Treasury Management Indicators for the Authority,
- Annex B shows the borrowing and investment position of the Council as at 31st December 2020
- Annex C shows the projections for future interest rates
- Annex D shows the Treasury Management Practice (TMP) for risk management of the Authority.

1. Operational Boundary and Authorised Limits

The Authority is looking to fund the borrowing requirements associated with the new Kirkby Leisure Centre and other leisure centre improvements through external borrowing. The additional borrowing is added to the Capital Financing Requirement (CFR). The CFR represents capital expenditure which is still to be financed. The Council should under normal circumstances not borrow any more than its CFR. The Operational Boundary sets a warning level for which total external debt should not exceed. The proposed Operational Boundary has been set at a level which is slightly above the CFR to allow for working capital

requirements. The Authorised Limit is the absolute maximum level for external debt. The proposed Authorised Limit has been set at a level which is greater than the proposed Operational Boundary by a level which matches the financed part of the Capital Programme. The rationale for doing this is to ensure the capital programme can still be financed, should the expected non borrowing funding not be available.

2. Minimum Revenue Provision (MRP) Policy

The Minimum Revenue Provision charge is the means by which capital expenditure which is financed by borrowing or credit arrangements, is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as provision for this debt.

The Council is proposing the following minor change to its MRP policy:

- Where loans are made to third parties for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

3. Prudential Indicators

Prudential Indicators are designed to show the Council's capital expenditure plans are affordable, prudent and sustainable. They include the estimated effect that future capital expenditure will have on individual council tax payers and on individual rent payers.

The estimate of the ratio of financing costs to net revenue stream for the Housing Revenue Account (HRA) remains relatively static over the three years. (See paragraph a) Annex A). The reason for this is that there is not expected to be any new borrowing costs; the ratios will fall slightly as HRA historic debt costs are expected to remain static in future years and HRA revenues are expected to increase slightly.

The estimate of the ratio of financing costs to net revenue stream for the General Fund is expected to increase as a result of additional borrowing for new Kirkby Leisure Centre.

Estimates of the incremental impact of capital investment decisions on Council Tax Band D equivalents is £25.33 in 2021/22, £25.45 in 2022/23 and £7.88 in 2023/24. This represents the estimated amount of Council Tax within the District's annual Council Tax charge from each Band D equivalent that will be used to fund future capital investment. These levels reflect the use of borrowing to purchase the new Kirkby Leisure Centre. There is no incremental impact to Council Dwelling Rent payers as there is no borrowing proposed for the HRA.

It is important to note that although the estimate of the ratio of financing costs to net revenue stream and the estimates of the incremental impact of capital investment decisions on Council Tax Band D are increasing as a result of the borrowing costs associated with the new Kirkby Leisure Centre and the other leisure centre improvements, these costs are being financed through savings achieved on the new Leisure Operator Contract and will not create a further pressure on the revenue budget or Council Tax Payers.

4. Treasury Management Practices (TMPs) The Treasury Management Practices were last revised as part of the TMS for 2020/21. No further changes are required for 2021/22.

Implications

Corporate Plan:

The Treasury Management Strategy will support delivery of the priorities in the Corporate Plan

Legal:

It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy. It is a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	The financial implications of this Strategy are factored into the Medium Term Financial Strategy. No implications
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The Minimum Revenue Provision (MRP) policy is no longer suitable.	Careful monthly monitoring of Capital Expenditure should ensure an appropriate and prudent MRP provision is made annually. Revisions to the Policy in line with Code of Practice updates.
The Annual Investment Strategy is no longer suitable for the Authority.	Information received from our Treasury Management Advisors should allow the Council to take necessary action to mitigate against any risks.

Human Resources:

Not applicable.

Environmental/Sustainability

Not applicable.

Equalities:

Not applicable.

Other Implications:

Not applicable.

Reason(s) for Urgency

Not applicable.

Reason(s) for Exemption

Not applicable.

Background Papers

- CIPFA Prudential Code 2017 Edition
- CIPFA Treasury Management Code 2017 Edition
- Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.
- Statutory Guidance on Minimum Revenue Provision Issued under Section 21(1A) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2019.

Report Author and Contact Officer

Bev Bull

CHIEF ACCOUNTANT

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01623 457424

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Appendix 1

Ashfield District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2021/22

1 INTRODUCTION

1.1 Background

- 1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasions, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.1.4 CIPFA defines treasury management as:

"The management of the organisation'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."

1.2 External Context

- 1.2.1 The information relating to the overall global position of the UK financial markets is currently provided by the Council's Treasury Management Advisers, Link Asset Services. They continue to update the Council with information including on-going market activity surrounding inflation, interest rates and the banking sector.
- 1.2.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. The vaccine rollout offers hope for economic recovery in 2021.
- 1.2.3 **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31st December, the final agreement on December 24th, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis.

- 1.2.4 Consumer Price Inflation has been below the Bank of England's target of 2% during 2020, it forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise from very low levels currently to getting above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.
- 1.2.5 The Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting on 5th November, although some forecasters had suggested that a move to negative interest rates may happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.
- 1.2.6 New lending terms for the Public Works Loans Board (PWLb) were released on 25th November 2020. The new terms states that Authorities will no longer be able to use PWLB borrowing if there capital plans include schemes where the primary aim is assets for yield i.e. purchases of investment properties. PWLB rates were cut by 1.00% for Authorities who do not have plans for assets for yield in their capital plans and therefore still have access to the PWLB.

1.3 Key Principles

- 1.3.1 The Council will follow three key principles with regards to its treasury activity:

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

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

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

1.4 Reporting requirements

- 1.4.1 The Cabinet are required to receive and approve, as a minimum, three main treasury management reports each year, which incorporate a variety of policies, estimates and actuals. Council are required to approve the Treasury Management Strategy including the Annual Investment Strategy.
- 1.4.2 **Treasury Management Strategy including Annual Investment Strategy, prudential and treasury indicators (this report)** - The first, and most important report covers:
- the capital plans (including prudential indicators);

- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

1.4.3 **A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. This report is presented to the Audit Committee.

1.4.4 **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the annual estimates within the strategy.

1.5 Scrutiny

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

Table 1 below shows the reporting timetable for Treasury Management reports

Table 1 – Reporting timetable

Report to Council and Cabinet	Frequency
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually before the start of the year (1st April)
Reports to Cabinet	Frequency
Mid-Year Treasury Management Report	Annually mid-year (November/December)
Treasury Outturn Report	Annually after the year end and by the 30 September
Reports to Audit Committee	Frequency
Receives each of the above reports in advance of Council/Cabinet (where applicable) and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September

1.6 Capital Strategy

1.6.1 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. The revised Prudential Code requires all local authorities to produce a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability

1.6.2 The aim of this report is to ensure that all elected Members of the Council fully understand the overall strategy, governance procedures and risk appetite entailed in this Strategy.

- 1.6.3 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
- 1.6.4 The Capital Strategy is required to be approved by Council before the start of the new financial year in accordance with the Prudential Code 2017. The capital strategy will be received by Audit Committee in advance of Council for scrutiny and recommendations.

1.7 Non-Treasury Management Investments

- 1.7.1 The MHCLG issued revised Statutory Guidance on Local Government Investments (2018). The statutory guidance extended the definition of investment and states that the:

“The definition of an **investment** covers all of the financial assets of a local authority 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.

The Guidance requires that for each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council.

- 1.7.2 This Council will ensure that all the organisations non-treasury management investments are included in a non-treasury management investment strategy, which will be incorporated into the Capital Strategy. This will set out, where relevant, the organisations risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
- 1.7.3 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investment in subsidiaries, and investment property portfolios.
- 1.7.4 The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.

1.8 Treasury Management Strategy

- 1.8.1 The Treasury Management Strategy covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;

- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- Apportioning interest to the Housing Revenue Account and
- the policy on use of external service providers.

1.8.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.9 **Cash and Cash Flow Management**

1.9.1 It is important that the Council maintains regular cash flow projections to ensure that the Council has enough cash to meet its liabilities in a timely manner, minimises borrowing costs and, where practical to do so, invest surplus cash balances.

1.10 **Training**

1.10.1 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.

1.10.2 Those charged with governance have a personal responsibility to ensure they have the appropriate skills and training for their role.

1.10.3 A training session delivered by Link Asset Services, the Council's treasury management advisors was held for the Audit Committee and extended to all members on the 16 December 2019. There has been no training in 2020/21 as we are currently out to tender for Treasury Management Advisers. Audit Committee training needs will be considered as part of the tender evaluation and arranged in accordance with the new contract.

1.11 **Treasury management consultants**

1.11.1 The Council currently uses Link Asset Services, Treasury solutions as its external treasury management advisors. The Council has issued an invitation to tender for its Treasury Management Advisers. The new contract for this service will commence on 1st April 2021.

1.11.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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

1.11.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers.

2 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS

- 2.1.1 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.
- 2.1.2 The Council will ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP) and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum 3 year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term. There should also be separate indicators for the Housing revenue Account (HRA).

2.2 Capital expenditure

Table 2 below summarises the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Capital Programme for 2020/21 to 2024/25 is to be presented to cabinet as a separate agenda item at the February 2021 Cabinet meeting, with final approval being sought by Council in March 2021. Members will be asked to approve the capital expenditure forecasts at least annually.

Table 2 - Capital Expenditure

Capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	4.861	8.297	22.624	2.592	3.263	2.768
HRA	6.452	5.677	15.358	18.629	13.360	15.546
Commercial activities / non financial investments	39.091	3.305	0.000	0.000	0.000	0.000
Total	50.404	17.279	37.982	21.221	16.623	18.314

Table 3 below summarises how the capital expenditure plans will be financed by capital or revenue resources. Any shortfall of resources results in a borrowing need. The Direct Revenue Financing is mainly use of Housing Revenue Account reserves to support the Decent Homes work and Affordable Housing Development Schemes.

Table 3 - Financing of the Capital Expenditure

Financing of Capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Receipts	1.384	0.536	2.197	1.180	1.180	1.180
Capital Grants	2.180	4.001	5.484	1.452	0.848	0.848
Capital Reserves	0.070	0.205	0.000	0.000	0.000	0.000
Direct Revenue Financing	5.068	5.304	11.931	16.845	12.180	14.366
Borrowing Requirement	41.702	7.233	18.370	1.744	2.415	1.920

Table 4 identifies the capital expenditure and borrowing requirement within table 3, which specifically relates to the planned level of investment in Commercial Investment Property.

It shows the forecast Commercial Investment Property borrowing requirement as a percentage of the overall borrowing requirement and the financing costs i.e. Minimum Revenue Provision (MRP) costs associated with the borrowing requirement for Commercial Investment Property.

Table 4 Commercial Investment Property

Commercial Activities / non financial	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure	39.091	3.305	0.000	0.000	0.000	0.000
Borrowing Requirement	39.091	3.305	0.000	0.000	0.000	0.000
Percentage of net financing need %	93.7%	45.7%	0.0%	0.0%	0.0%	0.0%
Financing Costs	0.290	0.883	0.954	0.977	1.001	1.026

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

2.4

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (it is the historic unfunded capital expenditure). It is essentially a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which is financed by borrowing will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life,

and so charges the economic consumption of capital assets to revenue as they are used. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no PFI schemes or other long-term liabilities.

- 2.4 IFRS 16 Lease accounting becomes effective on 1st April 2022. This accounting standard requires that both finance leases and operating leases are included on the Balance Sheet. Previously the requirement was only for finance leases to be shown on the Balance Sheet. This in effect means that any existing operating leases and any new leases the Council enters into will need to be treated as capital expenditure and increase the CFR. The Council is currently assessing the impact of the introduction of this new standard, although it is not expected to be material. The capital prudential indicators reflect lease asset costs from year 2022/23 which is the year the standard becomes effective from.

2.5 Core funds and expected investment balances

As outlined above the underlying borrowing 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 Council's current strategy is to maintain actual borrowing and investments below their underlying levels, sometimes known as internal borrowing.

- 2.6 Table 5 below outlines the Balance Sheet Summary and Forecast excluding the Planned Commercial Investment Property. It shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting the Council's level of under/over borrowing. It also includes a forecast for the year-end balances for usable reserves and working capital (the resources available to internally borrow against), and shows the forecast level of investment or new external debt.

Table 5 - Balance Sheet Summary and Forecast

- 2.7 The Council has an increasing CFR until the end of 2021/22 due to the future planned unfunded capital expenditure, mainly the Leisure Centre Projects. After which the CFR reduces as *MRP charges exceed unfunded capital expenditure*. This position is continually reviewed due to the level of reserves and working capital having many variables and due to slippage in delivery of the capital programme making forecasting with certainty difficult. The associated costs for this level of borrowing have been provided for in the Medium Term Financial Strategy.

31st March:	2020	2021	2022	2023	2024	2025
Loans Capital Financing Requirement	160.9	165.8	182.5	181.0	180.1	178.4
Less: External Borrowing	-102.0	-97.0	-97.0	-90.5	-86.3	-85.1
Internal (Over) Borrowing	58.8	68.8	85.5	90.5	93.8	93.3
Less: Usable Reserves	-60.8	-65.5	-59.9	-52.2	-51.2	-50.8
Less: Working Capital Surplus	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3
Investments / (New Borrowing)	8.3	3.1	-19.2	-32.0	-36.2	-36.3
Net Borrowing Requirement	93.7	94.0	116.3	122.5	122.5	121.3
Preferred Year -end Position	0.0	0.0	0.0	0.0	0.0	0.0
Liability Benchmark	93.7	94.0	116.3	122.5	122.5	121.3

2.8 Affordability prudential indicators

The strategy details the overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.9 Ratio of financing costs to net revenue stream (See Appendix A Table 1)

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the budget report.

2.10 Treasury indicators for debt (See Appendix A Table 8 and 9)

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

2.11 Treasury Indicators: limits to borrowing activity

2.11.1 The operational boundary (See Appendix A Table 6). This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

2.11.2 The authorised limit for external debt (See Appendix A Table 5). A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The latest Affordability Prudential Indicators and Treasury Indicators are attached at Appendix 'A'.

TREASURY MANAGEMENT STRATEGY STATEMENT

- 2.12 The capital expenditure plans set out details of the service activity of the Council. 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 and the annual investment strategy.

- 2.13 This Council defines its treasury management activities as:

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

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

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

- 2.14 The investment policy objective of this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA code and MHCLG guidance require the Authority 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 generation of investment income to support the provision of local authority services is important, but secondary, objective.
- 2.15 The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.
- 2.16 **Current portfolio position**
The Council's current treasury portfolio position is set out in **Appendix 'B'**.
- 2.17 **Prospects for interest rates**
The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The details of their latest view is shown in **Appendix 'C'** to this report.

2.18 **Borrowing strategy**

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

2.18.2 Against this background and the risks within the economic forecast, caution will be adopted within the treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

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

- 2.18.3.1 Public Works Loans Board (PWLB) and any successor body.
- 2.18.3.2 Any institution approved for investments (see Annual Investment Strategy below)
- 2.18.3.3 Any bank or building society authorised to operate in the UK.
- 2.18.3.4 UK public bodies including pension funds (excluding Nottinghamshire County Council Pension Fund)
- 2.18.3.5 Capital Market bond investors.

2.18.4 In addition, capital finance may be raised by the following methods that are not classed as borrowing, but may be classed as other debt liabilities:

- 2.18.4.1 Operating and Finance leases
- 2.18.4.2 Hire Purchase
- 2.18.4.3 Sale and leaseback

2.18.5 **LOBOs:** The Council holds £25.5m 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 either to accept the new rate or to repay the loan at no additional cost. No LOBOs have options during 2021/22. The next option will be in 2023/24. 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. It is unlikely that the Council will take out any new LOBO loans in the future.

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

2.19.1 Within the range of 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 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

- 2.19.2 The Corporate Finance Manager reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the 2021/22 annual budget report.

2.20 Debt rescheduling

- 2.20.1 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

- 2.20.2 The reasons for any debt rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

- 2.20.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

2.21 Apportioning interest to the Housing Revenue Account

- 2.21.1 The Council currently operates a one pool approach. The interest charges are initially charged to the General Fund and recharged to the Housing Revenue Account (HRA) through the Item 8 (item 8 of Part I and item 8 of Part II of Schedule 4 to, the Local Government and Housing Act 1989) adjustment. The Council has fixed an interest rate of 4.43% by which it will charge the Capital Financing Requirement (CFR) of the HRA. The HRA CFR currently is £80.131m. If this does not change the annual interest amount charged to the HRA will be £3.550m.

- 2.21.2 The Council will credit the HRA each year with its share of interest receivable. This will be calculated by multiplying the average HRA reserve balance by the average interest receivable percentage.

3 ANNUAL INVESTMENT STRATEGY

3.1.1 Investment policy

- 3.1.2 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, and then return.
- 3.1.3 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 3.1.4 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 3.1.5 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

3.2 Creditworthiness policy

- 3.2.1 The primary principle governing the Council's investment criteria is the security of its investments, followed by liquidity, 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. This is set out in the specified and non-specified investment sections below; 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.
- 3.2.2 The S151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 3.2.3 Credit rating information is supplied by Link Asset Services, 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.

- 3.2.4 The intention of the strategy is to provide security of investment and the minimisation of risk. The aim is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

highest priority - security of the invested capital;
followed by - liquidity of the invested capital (this enables the Council to react to changing circumstances);
finally - an optimum yield which is proportionate with security and liquidity.

Investments made by the Council's Officers are restricted to the following organisations:-

- (a) Banks or Building Societies who currently meet the Link Asset Services suggested investment duration
- (b) Nationalised Industries and Statutory Corporations
- (c) Other Government Institutions
- (d) Other Local Authorities
- (e) Money Market Funds
- (f) Bills of Exchange which have been accepted by authorised institutions
- (g) United Kingdom Gilt-edged Securities
- (h) Negotiable instruments such as Certificates of Deposit, Treasury Bills and Corporate Bonds
- (i) Approved counterparties from countries with a minimum sovereign credit rating of AAA with reference to the lowest rating from Fitch, Moody's or Standard & Poor's, with the exception of UK.

Total investments with any one institution shall not exceed £5m.

Total investments of over 365 days shall not exceed £5m in total.

The Council's operational bank account is currently provided by Barclays Bank.

3.2.5 Use of additional information other than credit ratings.

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above 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 specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

3.3 Specified investments/unspecified investments

- 3.3.1 Investments are categorised as specified and non-specified investments.

Specified investments defined by MHCLG guidance as those:

- Denominated in pound sterling,
- Due to be repaid within 12 months of arrangements,
- Not defined as capital expenditure by legislation,
- Invested with one of:
 - The UK Government
 - A UK local authority, parish council, or community council, or
- A body or investment scheme of "high credit quality"

The Council now defines “high credit quality” organisations as those having a minimum sovereign credit rating of AAA.

Non-specified investments - those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity.

3.3.2 The Council does not currently hold any non-specified investments. The Council is setting a limit of £5m for non-specified investments to allow for use of non-specified investments, should it be considered appropriate to use these in the future and so the Council it is not restricted by the strategy. Non-specified investments will be limited to long-term investments, i.e. those that are due to mature 365 days or longer from the date of arrangements, and instruments that are more complex such as diversified or property funds.

3.4 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 AAA from rating agencies.

Total investments with any one group shall not exceed £5m.

Sector limits will be monitored regularly for appropriateness.

3.5 Investment strategy

3.5.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations. Bank Rate is expected to remain at 0.1% from now until 2023/24. Table 7 below shows the forecast Bank Rates for financial year ends (31 March):

Table 7 - Forecast Bank Rates for financial year ends (31 March):

Year	Base Rate
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%

- 3.5.2 Table 8 below shows the forecast investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Table 8 – Forecast Investment Rates

Year	Average Return
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%

- 3.5.3 The overall balance of risks to these forecasts is currently towards the downside and are dependent on how strong GDP growth turns out and how quickly inflation pressures rise.

- 3.5.4 **Investment treasury indicator and limit - Total principal funds invested for greater than 365 days.** This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. It is based on the availability of funds beyond each year-end. The Council's investment treasury indicator and limit for 2021/22 is to be £5m.

3.6 Investment Liquidity

In consultation with the external treasury advisors, the Council will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

3.7 External Fund Manager

External fund managers can be appointed to manage a portfolio of investments. The Council currently has no funds externally managed and is unlikely to do so in the short to medium term.

3.8 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4 MINIMUM REVENUE PROVISION (MRP) STATEMENT

- 4.1 An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue. The amount charged to the revenue budget for the capital expenditure is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

- 4.2 The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing Communities and Local Government (MHCLG) 'Guidance on Minimum Revenue Provision'. The latest guidance was issued in February 2018.
- 4.3 The broad aim of the MHCLG Guidance is to ensure a prudent provision is made from revenue over time to cover the total amount of capital expenditure needed to be met from revenue. A prudent provision is considered to be, where the period over which MRP is charged is aligned to the period over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 50 years can be used, unless in the opinion of an appropriately qualified professional advisor the life of the asset is expected to exceed 50 year.
- 4.4 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. However, the guidance gives flexibility in how MRP is calculated, providing the calculation is 'prudent'. The following policy included in the statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- 4.5 In accordance with the latest MHCLG Guidance, for capital expenditure financed by borrowing, the Council has four broad options:
- The 4% reducing balance method.
 - The straight line asset life method
 - The annuity asset life method
 - The Depreciation method.
- 4.6 Minimum Revenue Provision Policy**
- 4.7 Regulation 28 of the 2003 Regulations requires the Council to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over the capital expenditure provides benefits (asset life).
- 4.8 For pre 2008 supported borrowing, the Council will move to a 50 year Annuity method, charging MRP based on a corresponding 50 year PWLB borrowing rate. This is more prudent than the current 4% reducing balance as this calculation extends to over 300 years.
- 4.9 For post 2008 it is proposed that unsupported borrowing, and any new borrowing, MRP will be calculated as follows:
- For assets with a life of 10 years or less, the straight line asset life method (as is currently the case).
 - For assets with a life in excess of 10 years, the annuity asset life method will be used.
- 4.10 The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Chief Financial Officer (S151), with regard to the statutory guidance and advice from professional valuers if required.
- 4.11 The annuity rate used for the MRP charge will be the Public Works Loans Board (PWLB) certainty rate on the date the capital expenditure is incurred, where a one-off

capital payments is made i.e. for investment properties. For all other capital expenditure funded from borrowing, where the expenditure is incurred over a period of time, the average annual PWLB certainty rate for the financial year will be used.

- 4.12 The Chief Financial Officer (S151) may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.
- 4.12.1 MRP will be not be charged until the later of: the year after capital expenditure is incurred or the year after the asset becomes operational.
- 4.13 Capital Receipts from the sale of investment properties funded as prudential borrowing will be used to reduce the Capital Financing Requirement by the outstanding prudential borrowing for the asset sold.
- 4.14 No MRP will be charged for assets in the Housing Revenue Account.
- 4.15 Voluntary Revenue Provision (VRP) may be made at the discretion of the S151 Officer.
- 4.16 For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.
- 4.17 Where loans are made to third parties for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

Annex A Prudential Indicators

Prudential Indicators of Affordability

The Council is required to consider all of its available resources in the medium term (usually defined as three years) together with total plans for expenditure. Any known significant variations beyond this timeframe also need to be taken into account.

The Prudential indicators for affordability are as follows:

- a) Estimate of the ratio of financing costs to the net revenue stream for the next three years split between the Housing Revenue Account and the General Fund

For the next three years the Council is required to calculate an estimated ratio of its financing costs to net revenue stream for both the General Fund and the Housing Revenue Account (HRA). For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants. The General Fund indicator is shown both including and excluding the capital financing costs for the Investment Properties still to be acquired.

The suggested indicators for the next three years are displayed in Table 1 below.

Table 1 – Ratio of financing costs to net revenue stream for the Housing Revenue Account and General Fund.

	2021/2022	2022/2023	2023/2024
	%	%	%
Housing Revenue Account	14.60	14.28	14.04
General Fund	TBC	TBC	TBC

- b) Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels

Authorities are required to estimate for the next three years the impact on the Council Tax (General Fund) and Rent levels (HRA) of the capital programme including running costs and financing costs. These indicators have been prepared using the revised Capital Programme, approved by Cabinet on the 26th January 2021. The capital financing costs for the Investment Properties have been included in the indicators in table 2 below. It is expected that the rental income for the Investment Properties will exceed their capital financing costs.

The suggested indicators for the incremental impact for the next three years are shown in Table 2 below.

Table 2 - Incremental Impact of capital investment decisions on Council Tax and Rent Levels

	2021/2022	2022/2023	2023/2024
	£	£	£
General Fund (Band D)	25.33	25.45	7.88
HRA (52 weeks)	0	0	0

Table 2 includes Minimum Revenue Provision (MRP) and interest payable as the incremental charges for capital investment funded by borrowing. MRP is not charged until the later of i) the year following purchase or ii) the year the asset becomes operational. Therefore, the MRP charges are included in the calculations in the year it is estimated the MRP charges will be made. The ratio for the General Fund is calculated by estimating the interest payable on the average capital borrowing requirement plus the MRP charges and dividing this by the estimated number of band D equivalents.

There is not anticipated to be any new borrowing for the HRA between 2021/22 – 2023/24.

c) Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account

In order to ensure that in the medium term borrowing is only undertaken for capital purposes, local authorities are required to ensure that external borrowing does not exceed, except in the short term, the total of their capital financing requirement over the planning period. In broad terms the capital financing requirement reflects an authority's need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some indebtedness outstanding.

It is necessary to estimate the capital financing requirement at the end of the forthcoming year and the subsequent two years for both the Housing Revenue Account and General Fund activities these are presented in Table 3 below.

Table 3 – Estimates of Capital Financing Requirement.

	31st March 2022	31st March 2023	31st March 2024
	£m	£m	£m
Housing Revenue Account	80.131	80.131	80.131
General Fund	102.418	100.911	99.957
Total	182.549	181.042	180.088

d) Capital Expenditure

Estimates of capital expenditure for the next three years split between the General Fund and the Housing Revenue Account

The estimated total capital expenditure per year for 2021/22 to 2023/24, as detailed in the Capital Programme Report approved by Cabinet on the 26th January 2021, is shown below in Table 4:

Table 4 – Housing Revenue Account and General Fund Capital Expenditure estimates.

	2021/2022	2022/2023	2023/2024
	£m	£m	£m
Housing Revenue Account	15.358	18.629	13.360
General Fund	22.624	2.592	3.263
Total	37.982	21.221	16.623

External Debt

e) Authorised Limit

For the next three years the authority is required to set an authorised limit for its total external debt, gross of investments. This is calculated by taking into account current external debt, new borrowing for loans which mature or for capital purposes and the need to borrow on a short term basis to cover for temporary shortfalls in revenue income and expenditure.

The future authorised limits for the next three years are contained in Table 5 below.

Table 5 – Authorised Limits for External Debt

	2021/2022	2022/2023	2024/2025
	£m	£m	£m
Borrowing	205	204	198
Other Financial Instruments	0	0	0

f) Operational Boundary

As well as an authorised limit the local authority must also set an operational boundary for its external debt for the next three years. The operational boundary is based on the most likely or prudent but not worst case scenario in relation to cash flow.

The future Operational Boundary for the next three years are shown in Table 6.

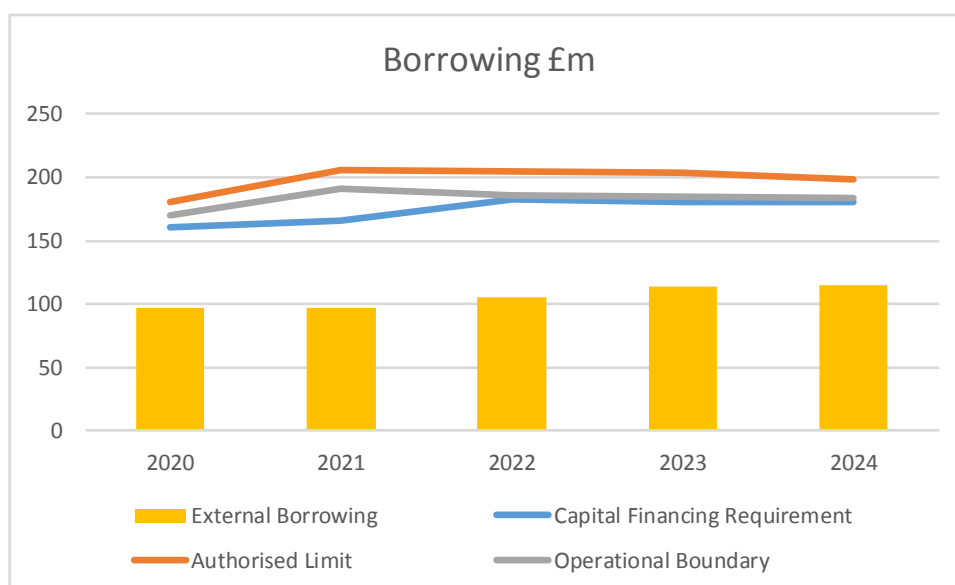
Table 6 – Operational Boundary for External Debt

	2021/2022	2022/2023	2023/2024
	£m	£m	£m
Borrowing	186	185	184
Other Financial Instruments	0	0	0

g) Comparison of External Debt to Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 7 below shows the gap between the existing external debt to the Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 7 – Borrowing



Prudential Indicators for Treasury Management

The prudential indicators for prudence have to be set taking into account those relating to affordability as outlined above and are as follows:

Treasury Management

a) Interest rate exposure

Local authorities are required to set limits for the next three years for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest, and are net of any investments.

Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures Table 8 give the following maximum levels, when compared to the authorised limit, of exposure to fixed and variable interest rates, which are prudent limits for the forthcoming years:

Table 8 - Interest Rate Exposure

Principal Outstanding	2021/2022	2022/2023	2023/2024
	£m	£m	£m
Fixed Rates	205.0	204.0	198.0
Variable Rates (No more than 40% of the operational boundary).	82.0	81.6	79.2

b) Maturity Structure of borrowing

For the next three years' the authority is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

Table 9 shows the proposed lower and upper limits for all three years, given the current structure of the Council's debt portfolio:

Table 9 - Maturity Structure of Debt

Maturity Structure of Fixed Rate Borrowing	Forecast Position for 31/03/2021	Lower Limit %	Upper Limit %
Under 12 Months	0.00%	0%	5%
Under 24 Months	6.70%	0%	10%
Under 5 years	12.32%	0%	20%
Under 10 Years	24.46%	0%	25%
Under 20 Years	37.86%	0%	40%
Under 30 Years	43.01%	0%	50%
Under 40 Years	73.93%	0%	80%
Under 50 Years	100.00%	0%	100%
50 Years and Above	0.00%	0%	0%

c) Principal sums invested for more than 364 days

Where a local authority invests, or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

It is suggested, that the use of longer-term investments be limited to a maximum of £5m in each of the next three years to tie in with the Council's already approved policy of not investing more than £5m with any one bank or building society at the same time.

Annex B Council's current treasury portfolio position

Table 1 - Current Debt and Investment Portfolio Position 31st December 2020

External Borrowing:	£m
Fixed Rate PWLB	62.536
Fixed Rate Other Loans (Banks)	15.000
LOBO Loans	19.500
Total Gross External Debt	97.036
Treasury Investments:	
Money Market Funds	(20.000)
Call Accounts	(8.605)
Total Treasury Investments	(28.605)
Total Net External Debt	68.431

Table 2 – Council Loans at the 31st December 2020

<u>Market Loans</u>	£m
Fixed Rate Loans (Banks)	
Barclays Bank	5.000
Barclays Bank	5.000
Hampshire County Council	5.000
Sub Total	15.000
<u>Lender Option Borrower Option (LOBO)</u>	
Commerzbank AG Frankfurt am Main	1.000
FMS Wertmanagement AöR	1.500
Dexia Credit Local	5.000
Lancashire County Council	2.000
Danske Bank	5.000
Dexia Municipal Agency	5.000
Sub Total	19.500
<u>Public Works Loans Board (PWLB)</u>	62.536
Grand Total	97.036

Table 3 – Council Money Market Fund investments as at the 31st December 2020

Money Market Fund	£m
Aberdeen GBP Liquidity Fund	5.000
Insight Sterling Liquidity Fund	5.000
Federated Short Term	5.000
Aviva GBP Liquidity Fund	5.000
Total	20.000

N.B. for both of these investment the Authority is classed as professional investor under MIFID II regulation.

Table 4 – Council Call Account Investments as at 31st December 2020

Call Accounts	£m
Barclays Bank	£3.655
Handelsbanken	£4.950
Total	£8.605

Annex C - Prospects for interest rates

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

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

Link Group Interest Rate View		9.11.20				(The Capital Economics forecasts were done 11.11.20)								
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-	
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate														
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate														
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

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

However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

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

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

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

Annex D Treasury Management Practices

TMP1 RISK MANAGEMENT

a) GENERAL STATEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

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 on 04/03/2019 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Finance Manager has produced its treasury management practices (TMPs). This part, TMP 1(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, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by at least two of the three main rating agencies i.e. Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum Short Term rating of Standard and Poor's P-2 or the Moody's and Fitch equivalent).

Within these bodies, 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 these bodies. These criteria are a maximum investment of £5m in any one institution and a maximum duration of up to 1 year or duration as advised by our treasury management advisers.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£)
a.	<p>Supranational bonds greater than 1 year to maturity</p> <p>(a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.).</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail)</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>AAA long term ratings</p> <p>£5m</p> <p>£5m</p>
b.	<p>Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	£5m
c.	<p>The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	£250k

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within category c, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in this body. The intention will be to keep overnight balances to a minimum. Any balance on this account will be when the Authority has not had the opportunity to transfer balances to an approved counterparty.

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 Asset Services 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 Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

b) APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AAA. The Authority will continue to invest with counterparties in the UK despite the UK only currently having an AA rating.

Based on lowest available rating

AAA

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

AA-

- U.K.

THIS LIST IS AS AT 05.01.21

c) TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

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

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

d) THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer *(see TM Code page 38 (iv))*

- 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.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). Further responsibilities also include:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *(TM Code p54):* -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Report To:	AUDIT COMMITTEE	Date:	1ST FEBRUARY 2021
Heading:	CORPORATE RISK UPDATE		
Portfolio Holder:	COUNCILLOR SAMANTHA DEAKIN, PORTFOLIO HOLDER FOR CUSTOMER SERVICES AND IT		
Ward/s:	ALL		
Key Decision:	NO		
Subject to Call-In:	NO		

Purpose of Report

For Audit Committee to review the Corporate Risk Register and the analysis of movement in risk and mitigating actions in respect of those risks. For Audit Committee to also to consider and endorse the updated Corporate Risk Strategy and new Risk Appetite Framework.

Recommendation(s)

- **To note the current significant items on the Register and to consider whether any further immediate actions are necessary to mitigate those risks.**
- **To endorse the updated Corporate Risk Strategy and new Risk Appetite Framework prior to Cabinet approval.**

Reasons for Recommendation(s)

To prioritise and manage the mitigation of Risk in order that the Council can achieve its objectives.

Updates have been made to the Corporate Risk Strategy in order to facilitate greater understanding of risk maturity and improved organisational performance against the ALARM national performance model for risk management in public services, as suggested by Internal Audit. This is also highlighted as an improvement action in the Annual Governance Statement.

Updates have also been made to the Corporate Risk Strategy to incorporate new approaches to understanding risk appetite, as defined in the new Corporate Risk Appetite Framework.

The Corporate Risk Strategy has recently been reviewed following the outcome of audit recommendations summarised within this report.

Alternative Options Considered

none

Detailed Information

All strategic risk at corporate and service level is incorporated into the Pentana performance system to enable quarterly updates at the same time as updating performance, therefore enhancing the consideration of risk in the delivery of services.

Significant corporate and service level risks are also discussed bi-annually in detail with each service manager as a standing agenda item for Performance Boards, led by the Chief Executive and Assistant Director – Corporate Services and Transformation.

1. Audits of Risk Management

An audit review of the Council's approach to Risk Management was undertaken in 2019 by the Central Midlands Audit Partnership (CMAP). All recommendations have been implemented to date apart from one outstanding recommendation relating to the Council formally assessing and documenting its risk appetite, as per the strategy.

The recommendations were (responsive action in italics):-

- Corporate Leadership Team and Audit Committee review the Council's corporate risks in accordance with the quarterly time frequency stipulated within the Corporate Risk Management Strategy and Process document. Regular review and monitoring of risks is fundamental to embedding a risk management framework and culture along with a commitment to ensuring the risk process is continuous and high-profile.

Corporate risk is now scheduled as a quarterly tracker item for CLT consideration and for bi-annual reporting to Audit Committee. The Corporate Risk Strategy has been amended accordingly

- Senior Council Officers and Elected Members should actively scrutinise and challenge the identified risks on the Council's Corporate Risk Register. The discussions that take place as part of that process should be minuted accordingly with sufficient detail provided which evidences that corporate risks are subject to the appropriate degree of scrutiny afforded to identify risks which could impact on the delivery of the Council's strategic objectives.

More detailed minutes of discussion and action at CLT are now minuted and identified risks are also scrutinised at Audit Committee.

- A formal procedure is established and documented within the Corporate Risk Management Strategy and Process, which ensures that those risks identified outside of the typical process for identifying and escalating potential risks are captured for discussion and decision by CLT, i.e. Council committees.

The Performance Boards specifically discuss all levels of risk on a bi-annual basis. This procedure has now been incorporated into the Corporate Risk Strategy.

- In accordance with the ALARM best practice guidance, all Council Members should receive training on risk management. Given that all Elected Members, Council, Cabinet and Audit Committee have specific responsibilities in respect of the Council's risk management framework, it is important that Members are appropriately trained such that they are able to

actively support the Council in its management of risks and also challenge and scrutinise the Council's risk position. Evidence of the training given to Members should be retained.

Risk Management training is currently being reviewed by the Democratic Services Manager.

- The Council formally assesses and documents its risk appetite as soon as practically possible. As a core consideration of the Council's risk management approach, formally documenting its risk appetite could help the Council to make informed decisions, achieve its goals and support sustainability.

This report details specifically our proposed response and implementation of a new Risk Appetite Framework.

CMAF have also recently completed an advisory audit to help the Council understand how to best accommodate the Regulator of Social Housing's view of health and safety risk mitigation and reporting alongside that of the general activities of the Council. The audit focused on providing a consultancy review of the management and reporting of Housing health and safety risks arising from Council's role as social landlord. The audit also compared the reporting of risks with other local authority approaches and best practice to ensure that the Council complies with Housing Regulations. The audit has indicated:-

- a) The lack of definition within the Council's Risk Management Framework as to what constitutes a corporate risk is allowing for multiple interpretations and risk appetites.

It was noted that the Council's approach to risk management is set out in the Corporate Risk Strategy & Process document. The risk management process records risks at 2 levels; service risks and the more serious corporate risks. However, beyond a reference to risks above the tolerance line (which was not previously defined) there was no definition as to what constituted a corporate risk. Although the Corporate Risk Strategy did not previously clearly define the threshold which changed a risk from service level to corporate level, it did advocate that the more serious risks should be on the Corporate Risk Register.

The audit also commented that it would not be practical or proportionate to list every risk that may arise from non-compliance with the social landlord duties on the Corporate Risk Register. However, when looking at a recent copy of the Corporate Risk Register, risk CR003 regarding Members' ethical framework, it does not list every individual way the ethics code could be breached but encapsulates them all into a higher-level risk which is recorded on the Corporate Risk Register. CMAF therefore recommended it would be appropriate to consider recording the social landlord risks in a similar way.

Potential Risk	Mitigating Actions
<p>The lack of definition within the Council's Risk Management framework as to what constitutes a corporate risk is allowing for multiple interpretations and risk appetites. This is highlighted in the Corporate Risk Register for September 2020 with risks that appeared to be at all levels; corporate, service and project level with risk scores from the very low to very high.</p> <p>That could lead to the potential issue of the Boards time being wasted on risks that would be better managed elsewhere, such as departmentally or at project level. It could also lead to key risks being overlooked.</p>	<p>We suggest that definitions of what constitute an operational risk, corporate risk and the threshold between them is clearly defined within the Corporate Risk Management Strategy & Process to ensure a consistent and proportionate corporate response.</p> <p>The social landlord risks should then be considered in light of these definitions. It is anticipated they would be included and encapsulated where necessary.</p>

Definition of what constitutes a Corporate Risk and associated thresholds is now incorporated into 2.3 of the Corporate Risk Strategy. Social Landlord risk is currently being assessed in light of these definitions.

- b) The removal of risks from the active Corporate Risk register whilst they still could impact on the Council's objectives, impairs the reviewing phase of the risk management cycle and could result in the risk manifesting and resources being wasted.

It was noticed that there was nothing in the Corporate Risk Management Strategy & Process setting out an approach. It was also noted that:-

- Corporate Leadership Team consider all corporate risks on a quarterly basis and decide if any risk is to be removed from the Corporate Risk Register based on; whether the reason for the risk has now diminished; or whether the risk assessment has been reduced to such a low level that it is now deemed to be manageable at service level; or the risk no longer exists.
- Risks removed from the Corporate Risk Register therefore may be passed down to the relevant service area or project manager, in some cases it may mean the risk description is revised.
- All risks are retained on the performance management system, being deactivated where relevant, but can be referenced if required.

Audit recommendation is that the review phase of the risk management process should also consider the risk controls in regards to; are they working? Will they work as intended? Are they worth the resources allocated or could something different be done and that any subsequent changes to the risk or the controls, good or bad, be considered when removing any risk from the Corporate Risk Register.

It has been agreed that, whilst a risk has the potential to impact on a Corporate Objective it should remain on the Corporate Risk Register for monitoring. This would additionally ensure that Cabinet and Audit Committee Members would be able to review the risk response.

Potential Risk	Mitigating Actions
The removal (or deactivation) of risks from the active Corporate Risk Register whilst they still could impact on the Council's objectives, impairs the reviewing phase of the risk management cycle and could result in the risk manifesting and resources being wasted.	We suggest that identified risks that could impact on the objective should remain on the risk register until they no longer have that potential.

Relevant updates have been made to Section 2.3 of the Corporate Risk Strategy

2. Corporate Risk Strategy and Risk Appetite

- The Corporate Risk Strategy has been reviewed in order to ensure that it continues to meet the needs of the organisation and aligns with the Public Risk Management Association model known as "The ALARM national performance model for risk management in public services" . This model is comprehensive and focuses on seven strands of risk management activity, by which the organisation can measure current performance against recognised achievement levels for each of the seven strands. The model provides the basis for clear performance indicators and acts as a catalyst for improved risk management performance within the

organisation. It will also inform assurance in corporate governance terms and the further embedding of risk management across the organisation. Four membership subscriptions to ALARM have been purchased and this will allow for the access to training and development resources which will be used in a rolling programme to continue to embed risk management across the organisation.

- A Risk Appetite Framework has now been developed which defines risk appetite together with a statement relating to the Council's position on its openness to risk. The framework also incorporates a risk rating score matrix which will identify the level at which the risk will need to be monitored. Previously there was no methodology in deciding what was referred to the Corporate Risk Register. The Risk Appetite Framework is now referenced at 1.8. of the Corporate Risk Strategy.
- As no defined methodology for placing risks on the Corporate Risk Register existed, the matrix will now determine at what score the risk will need to be elevated to the Corporate Risk Register in line with limits on acceptable risk appetite. Aligned with the Risk Appetite Framework, the table below describes the type of action required in accordance with our risk appetite.

Risk rating Score	Risk rating action required
18-24 (A)	Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks. The Council is not willing to take risks at this level and action should be taken immediately to manage the risk. Corporate Risks, monitored by CLT
15-16 (B)	These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible. Corporate Risks, monitored by CLT
5-12	These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase. Corporate Risk only if deemed a threat to delivery of Corporate Objectives
3-4	These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk.
1-2	Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.
Impact 4, Likelihood 1	Rare events that have a catastrophic impact form part of the Council's Business Continuity Planning response.

In addressing Audit's recommendation, the Risk Appetite Framework together with the revised Corporate Risk Strategy will meet the needs of the Council in effectively managing risks as well as risk appetite.

The risk rating matrix will ensure that risks are being managed at the right level and will help to drive organisational excellence, allowing all staff to be empowered as responsible for risk management.

Risk definitions

A set of risk definitions has been included in 2.3 of the revised strategy. The risk definitions included are now also reflected in the Corporate Risk Register is as follows;

1. Strategic Risk

The consequences of strategic decisions, or the failure to achieve our strategic vision.

2. Financial Risk

Risk to the Council's balance sheet, assets and liabilities, funding, income and spending levels

3. Service Delivery Risk

Risks to the effective and efficient delivery of Council services and business continuity.

4. Legal & Regulatory Risk

Risks of breaching the law, legal action, losses, fines and other sanctions arising from non-compliance with laws and regulations.

5. Reputational Risk

Risks of adverse or damaging perception of the Council by the general public and Ashfield residents.

Removal of risks from the register.

The removal of risks from the Corporate Risk Register will be at the discretion of CLT. A risk can be removed once it is considered that it will have no impact on the Council's objectives in line with audit recommendations,.

3. Corporate Risk Register

The Corporate Risk Register (most up to date position) is appended to this report.

There has been a substantial review of our corporate risk to reflect the organisational impact of the COVID pandemic. As a result, the following risks have seen a significant increase due to the impact of COVID:-

- Introduction of Universal Credit - At the end of December 2020, Universal Credit claiming tenants accounted for 48% (14% increase since March 2020) of the total arrears cases and 67% of the total arrears value. The total arrears value attributed to Universal Credit at the end of December was £341,204.29 (47% increase from March 2020) with 696 cases (27% increase from March 2020).

The COVID-19 pandemic has seen a 40% increase in the number of tenants claiming Universal Credit. This is expected to increase further once the Furlough scheme ends, as this is likely to result in unemployment levels increasing, due to the current pressures on retail and hospitality sectors. This will impact on the support required for tenants/residents and the

ability to collect rent. Recent discussions with the DWP have confirmed that they are anticipating an increase in unemployment levels/UC claimants once the Furlough scheme ends.

The pandemic has also impacted on our ability to take enforcement action for rent arrears. As a result of this no tenants have been evicted for rent arrears (eviction and ban in place by the Government) yet this financial year. There have also been delays in new referrals to court, resulting in an increase in the percentage of tenants with arrears in excess of 7 weeks. It is anticipated that this will result in an increase in enforcement action and bad debt in future years, once the back logs/suspensions have been cleared.

- Sustainability of HRA business plan - The HRA 30 year business plan continues to be monitored on a regular basis. Short-term pressures include rent arrears, bad debt and void rent loss as a result of the pandemic and general economic situation of our tenant base. This is somewhat offset due to lower expenditure on repairs and capital works in the lockdown period. Longer term pressures include the new legislative requirements to attain thermal efficiency EPC level 'C' by 2030 across the stock (est. £10m) and then a further forthcoming legislation to install carbon monoxide detectors in all properties (circa £480k) and achieve net carbon zero across the stock by 2050 (a definition of what this entails is still to be published but the cost will be many tens of millions)
- Commercial property investment - All current Investment Property tenants are paying their rents in accordance with their contracts. A Political Leadership decision has been taken that no further out of District acquisitions will take place so as not to affect the Council's access to the PWLB as a source of borrowing.

8 new risks have been added to the register, mostly in relation to the impacts of COVID:-

- Reduced resource levels and capacity due to COVID
- Absence related to COVID
- Governance and decision making - During the COVID19 pandemic, increased risk of decisions being made outside "normal" governance structures due to the need to react quickly to a constantly changing situation
- Loss / delays in receipt of key income sources (Business Rates, Council Tax, Housing and Investment Property Rents)
- Data Protection-spike in remote working and risks of data loss (physical and digital)
- Statutory obligation process delays (eg gas servicing)
- Effective strategic leadership of a robust coronavirus recovery plan
- Town centre funding – inability to deliver

Risk Rating Summary

	2013/14 Qu 4	2014/15 Qu4	2015/16 Qu4	2016/17 Qu4	2017/18 Qu4	2018/19 Qu4	2019/20 Qu4	2020/21 Qu 2/3
Significant	15	10	10	9	7	4	12	12
Medium	11	9	7	6	10	10	12	9
Low	8	7	5	2	3	6	4	7
Total	34	26	22	17	20	20	28	28

The total number of Corporate Risks has increased significantly since pre Covid, however this has stabilised during this financial year. There has also been a corresponding increase in significant rated risks.

Those significant risks which have remained significant over last 12 months are:-

- Introduction of Universal Credit
- Failure to have adopted Local Plan
- Government Waste Strategy targets unattainable
- Workforce Planning

Implications

Corporate Plan:

Effective risk management will enable the delivery of corporate and service level priorities, particularly ensuring our people, structures, systems, processes and practices are 'fit for purpose' and remove barriers to improvement and growth.

Legal:

No direct legal implications in respect of the recommendations in the report. Legal and Governance risks are outlined in the report and in the Corporate Risk Register.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	There may be resource implications to the improvement or mitigation of risk. Financial risks are incorporated into the Corporate Risk Register.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
Lack of an effective risk management framework could result in the organisation having a poor understanding of the major obstacles or blockages that could potentially impact upon its ability to maximise the delivery of its objectives and provision of services to customers	<ul style="list-style-type: none"> • Make risk management part of normal business and therefore incorporate within all decision making processes, including key project delivery. • Integrate risk management into the culture of the Council and cascade awareness through all levels of leadership and beyond. • Ensure the organisation has a clear understanding of its risk maturity level and is taking steps towards improving this to a desired level.

Human Resources:

There is a need to ensure that service managers are clear with regards to the Corporate Risk Strategy and the requirement to follow the consistent processes contained therein. Risk Management training is a priority and refresher training is currently being scheduled for Members and Officers.

Environmental/Sustainability

No direct implications

Equalities:

No direct implications

Other Implications:

Reason(s) for Urgency

Reason(s) for Exemption

Background Papers

Corporate Risk Strategy – updated January 2021

Detailed Corporate Risk Register – Quarter 2 2020/21

New Risk Appetite Framework

Report Author and Contact Officer

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Corporate Risk Register

Date 8th January 2021



Summary

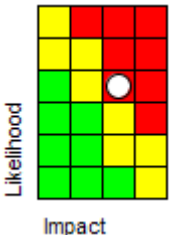
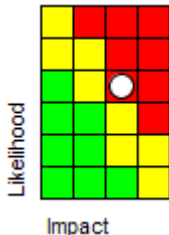
Risks High/Medium/Low

High - 12
Medium – 9
Low – 7

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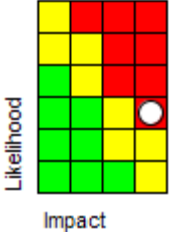
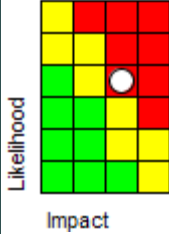
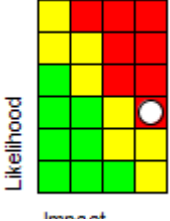
Cleaner and Greener

Title	Current Risk Matrix Q2/Q3	Previous Matrix Q2/Q3	Trend	Consequences	Mitigating Actions	Officer Responsible	Comments	Risk type	Last updated
CRO72–Risk of Government’s Waste strategy setting unattainable targets around recycling and service provision. Including the requirement to provide free garden waste service and separate food waste collections			Same	<ul style="list-style-type: none"> • potential fines from EU • reputational damage 	Discussions with County regarding innovative options is ongoing	Service Manager Neighbourhoods and environment	No update from Central Government, this risk remains unchanged.	Legal & Regulatory Risk	21-Sep-2020
					Development of Scrutiny review in September 2016				

Economic Growth and Place

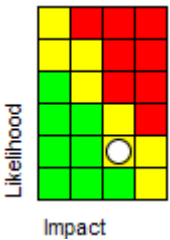
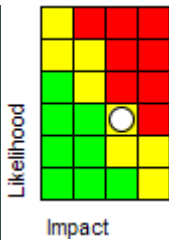
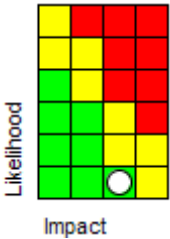
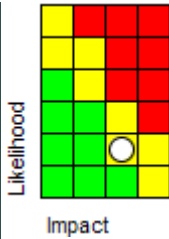
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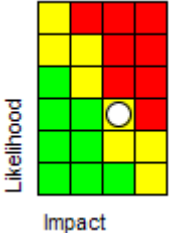
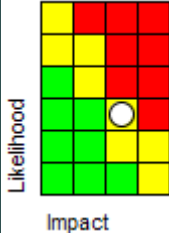
Title	Current Risk Matrix Q2/Q3	Previous Matrix Q2/Q3	Trend	Consequences	Mitigating Actions	Officer Responsible	Comments	Risk type	Last updated
CR)-40 Failure to have adopted LDF / Local Plan	<div><div>Likelihood</div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div><div>Impact</div></div>	<div><div>Likelihood</div><div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div><div>Impact</div></div>	Impact increased, remains significant	<div><div>• Diminish ability to stimulate economic growth</div><div>• Increase likelihood of a developer lead approach to devt.</div><div>• Maximises potential for a significant award of costs against the authority</div><div>• New approach to plan. High risk. Members Aware.</div><div>• Local Plan now at preferred approach. Need to publish next stage. Failure to achieve will set</div></div>	Need alternative approach to development with Members through adoption of Local Plan	Christine Sarris	This is the correct risk rating in my view. There is increasing concern around the uncertainty created by potential changes to the standard housing methodology which increases the housing requirement by over 300 houses per year on top of the 500 per year under the previous methodology. This is an unacceptable level and representations have been made back to Govt. This figure would completely change strategic direction if it is rolled out and will cause delay to the programme until resolved. There has also been uncertainty created by the proposed White Paper. Both authorities and developers alike have	Legal & Regulatory Risk	16-Oct-2020
					Regular engagement with Members to bring them on board				
					Keeping abreast of latest challenges; work with Planning Advisory Service for proof-reading				
					Keeping a clear audit trail of engagements with developers and consultees				
					work with Elected Members to address concerns				
					Provide professional guidance				

				back timetable. • If plan requires subsequent revision, will add delays.			concerns around proposals for differing reasons. The Government has also placed HS2 Eastern leg on hold which may alter future strategic approach and again creates uncertainty. Officers have continued to progress to milestones. Uncertainty was also created by unitary status proposals.		
CRO86- Loss of planning appeals			Impact increased, likelihood reduced, remains significant		Councillor training	Christine Sarris	There are a number of major applications yet to be determined which could very much alter the current position. ADC is currently doing well with no increase in the loss of major appeals. Officers are working to mitigate this potential but do need support from Planning Committee.	Legal & Regulatory Risk	16-Oct-2020
					Officer training				
					Monitoring				
CRO91 -Town Centre Funding – inability to deliver		New risk May 2020		Failure to secure up to £50m of funding for Kirkby and Sutton.	Programme being developed to ensure milestones are met. Monitored through Pentana, Regen, Board and Discover Ashfield	Sarah Daniel	On track with development of programme for delivery. Cross reference to project plan risks.	Financial	07-Jan-2021

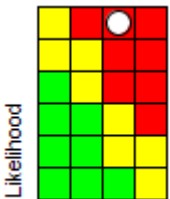

				Opportunity lost to regenerate and re-purpose town centres and local centres	Board		Also consider risk that scheme might be withdrawn by govt due to COVID and redirection of funds		
				Reputational damage	Internal resource requirements under review, to ensure sufficient capacity.		Pete to raise with Finance Cell for reference to govt for further clarity		
					Specialists will be appointed to support business case development.				

Health and Happiness

Title	Current Risk Matrix Q2/Q3	Previous Matrix Q2/Q3	Trend	Consequences	Mitigating Actions	Officer Responsible	Comments	Risk type	Last updated
CR200- Leisure Centre - Failure to complete the project on time			Likelihood decreased, remains moderate	Reputational damage Delay on delivery benefits		Daroween Jones	The procurement phase has been completed and the successful contractor (Kier) have now commenced onsite. Contractual Completion date is as per original programmes of April 2022.	Reputational	21-Jan-2021
CR201- Leisure Centre - Overspend impacts the finances of the Council			Likelihood decreased, now low	Impact on budget and reduction in financial benefits		Daroween Jones	The conclusion of the tender process confirmed a contract award price within the original project budget. The balance has seen the Project Contingency increase significantly for	Financial	21-Jan-2021

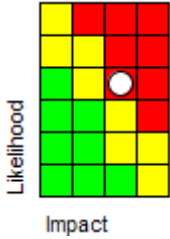
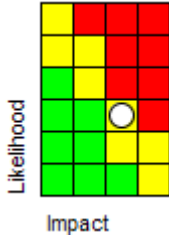
							the Construction Phase.		
CR202– Leisure Centre – Failure to secure match funding for Leisure Centre			Same	Financial impact on the Council		Daroween Jones	<p>Following completion of the tender process the LEP funding application has been submitted and is due to be considered and decided upon during W/C 25th January 2021.</p> <p>The Sport England bid will be uploaded to their portal during W/C 25th January 2021. Sport England has given permission to the Council for works to commence onsite.</p>	Financial	21–Jan– 2021

Homes and Housing

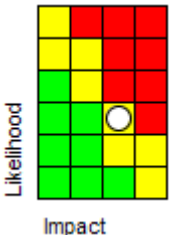
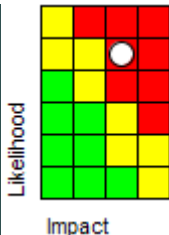
Title	Current Risk Matrix Q2/Q3	Previous Matrix Q2/Q3	Trend	Consequences	Mitigating Actions	Officer Responsible	Comments	Risk type	Last updated
CR046– Introduction of Universal Credit			Same	Potential loss of HRA rented income if tenants receiving UC choose not to pay rent (Profiling of current tenants as at 20/2/17 show that there is a risk to the rent roll (circa £11 million) as there will be around 3200 tenants affected. (2380 – high risk and 820 medium risk). This does not include those tenants who have working age partners.	<p>The Council operates an agency agreement with DWP to assist residents who wish to claim UC</p> <p>The Welfare Reform Group brings together a series of different disciplines and partners to ensure the Council's response to UC remains pro-active and robust</p> <p>The resources available to Housing have been increased to assist affected tenants</p> <p>There is a dedicated officer for Welfare Reform in the Tenancy Service Section. This Officer has close links with the DWP.</p> <p>There is a formalised internal process for</p>	Martin Guest; Nicky Moss; Paul Parkinson	The controls remain the same.	Financial	23-Dec-2020

					managing UC cases				
					There is a UC action plan in place. This needs reviewing regularly especially around resource requirements to manage the process				
CR062– Inability to deliver affordable housing			same	<ul style="list-style-type: none"> • Targets not met • lack of new affordable housing going forward 	Use of S106 funding	Stuart Murray	<p>Affordable Housing is still coming forward, although the vast majority is/will be on 100% affordable sites.</p> <p>ADC are still picking up s106 properties and existing privately owned properties but the pandemic is having an effect on the latter.</p> <p>ADC now have a pipeline of developments – starting with the proposed purchase of dwellings at Davies Avenue, to start this year, followed by proposed infill schemes in Sutton, Kirkby and Hucknall. The infill schemes are</p>	Strategic	14-Oct-2020
					Tackling empty homes				
					Close working with Planning Services				
					Work with private landlords via the Landlords Forum				
					Enforcement to tackle poor standard housing				

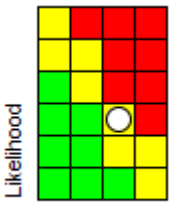
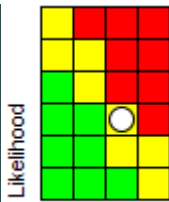
							due to start in the new year.		
CR088– Sustainability of HRA business plan and ability to invest in current and new stock			Impact and likelihood increased, now significant	Reduction in stock numbers Reduced rental income Potential implications for the long term sustainability of the housing service	HRA health check April 2019 Monthly HRA Finance meeting Quarterly/Annual sector benchmarking	Phil Warrington	Likelihood remains high due to issues in collecting rent income, linked to pandemic and additional financial burden associating with meeting property H&S requirements of Housing White Paper.	Financial	06–Jan–2021
CR098– Statutory obligation process delays (reg gas servicing)		New risk May 2020		Loss of life through explosion or carbon monoxide Reportable breach to Housing Regulator Govt intervention and/or corporate manslaughter	Following current Govt guidelines in terms of evidencing all 'refusals' Tenants provided with safety leaflet relating to CO Weekly report to Housing Regulator	Chris Clipstone; Richard Davis	Due to the Coronavirus Pandemic a number of changes have been made to the Property Health and Safety Check / Service processes to adapt to the current situation. As a consequence of the Government's guidelines on social distancing / shielding etc. there is a number of gas services which are either currently past the anniversary date for completion or have been completed after the anniversary	Legal & Regulatory	06–Jan–2021

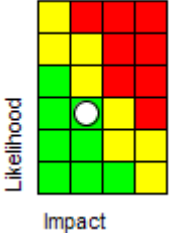
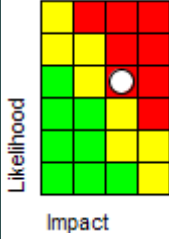
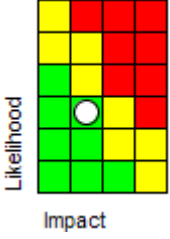
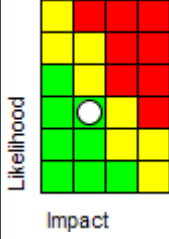
						<p>date.</p> <p>This is following the decision not to follow our usual processes to gain entry into a property whereby a Tenant does not wish to allow access due to them either shielding or their interpretation of the Government's guidelines in relation to social distancing etc.</p> <p>The decision associated with this revised gas servicing process is detailed in the following ODR:</p> <ul style="list-style-type: none"> • HAA-TEC/RD-ODR183 		
CR081- Temporary Accommodation – insufficient units to meet demand	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	Increased likelihood, now significant	<p>Finance – higher bed and breakfast costs</p> <p>Statute – failure to meet statutory duty</p>	<p>Filter in more properties as they become available through tenancy voids.</p> <p>Find additional resources to manage properties.</p>	<p>Impact and likelihood high due to the challenges posed by high number of households seeking assistance through the pandemic. Additional units of TA sourced, winter provision in place and better move on arrangements minimise risk</p>	Strategic	06-Jan-2021

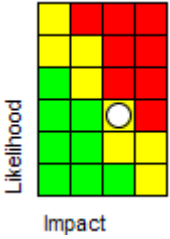
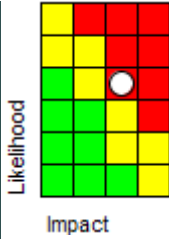
Innovate and Improve

Title	Current Risk Matrix Q2/Q3	Previous Matrix Q2/Q3	Trend	Consequences	Mitigating Actions	Officer Responsible	Comments	Risk type	Last update
CR003– Ethical Governance – failure/delay to implement changes to the Members' Code of Conduct and recommendations of the Committee on Standards in Public Life (CSPL) and Peer Challenge			Decreasing likelihood, now moderate	• Significant resource to deal with implications of proposed Code of Conduct changes.	Ongoing work by the Standards and Personnel Appeals Committee in relation to the the Committee on Standards in Public Life – report on Local Government Ethical Standards	Ruth Dennis; Mike Joy	Standards and Personnel Appeals Committee approves an annual work programme which includes an annual review. The next review will be taken to the March 2021 Committee.	Legal & Regulatory	20-Jan-2021
				• Significant resource to deal with implications of implementing the recommendation of the CSPL	Members received training regarding the Code of Conduct, their behaviours and roles and responsibilities as part of the induction in May 2019. In line with the Corporate Peer Challenge recommendation further training will be organised.		Present Quarterly Complaint Monitoring reports to Standards and Personnel (Appeals) Committee		
				• Potential for negative perception of the Council which impacts upon the Council's reputation	Present Quarterly Complaint Monitoring reports to Standards and Personnel (Appeals) Committee		Reports relating to the Committee on Standards in Public Life – report on Local Government Ethical Standards were presented to Committee in March 2019, July 2019 and October 2019 to update members on potential changes to the current system and to consider what action the Council		
				• Potential for	Responding to the LGA's				

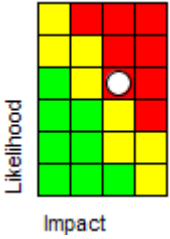
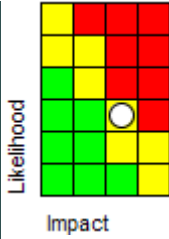
			<p>adverse impact upon the workings of the Council</p> <ul style="list-style-type: none"> • Without new legislation does not provide holistic response to the recommendation of the CSPL 	consultation on its draft Model Code of Conduct.		<p>may be able to take to implement best practice proposals prior to any future legislative changes taking place. A further update report had been prepared for the cancelled meeting in March 2020.</p> <p>The Committee in July 2020 considered a further update report including the LGA's consultation relating to their proposed new model code of conduct which had been delayed due to Coronavirus. The Consultation was launched on 8 June. A Council response was submitted by the Committee. The final version was launched in December 2020 – to avoid abortive, the Council had decided not to consider adopting a new Code until after the LGA's Model is finalised. The same was true of other related CSPL recommendations which</p>		
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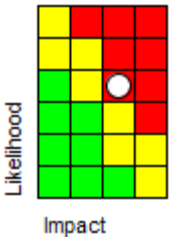
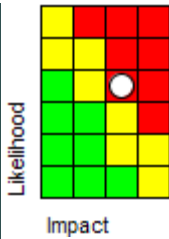
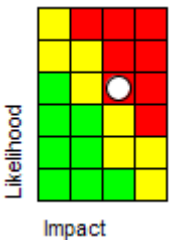
							rely upon the terms of the new Code. The finalised LGA Code was reported to Committee in December 2020 and a Working Group is being held to consider the Code and the CSPL recommendation further for reporting to Committee in March 2021.		
CR005–High levels of sickness absence	 <p>Likelihood</p> <p>Impact</p>	 <p>Likelihood</p> <p>Impact</p>	Same	<ul style="list-style-type: none"> • Productivity • Financial • Employee morale • Service delivery • Remaining staff placed under increased pressure • Reputational damage 	<p>Robust management of sickness absence procedures by managers and robust procedures – Revised Absence Mgt Policy implemented</p> <p>Effective monitoring – monthly monitoring reports highlighting service area absence to assist CMG and managers in absence management</p> <p>Employee support mechanisms – Employee assistance programme implemented</p> <p>Appropriate occupational health</p>	Kate Hill	<p>Sickness Absence is closely monitored and HR Advisers work closely with Line Managers in supporting both managers and employees, in order for intervention to be as early as possible. Occupational Health advice is sought to assist where applicable. Management reports are sent to managers monthly as well as quarterly meetings with Directors. Currently we are still under target</p>	Service delivery	18-Jan-2021

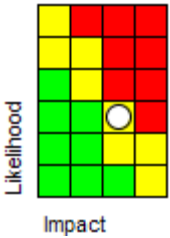
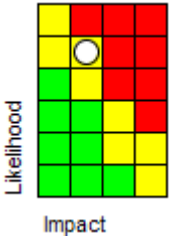
					support – Occupational Health provision reviewed				
CR029–Failure to identify savings required by MTFS			Reduced impact and likelihood, now low	<ul style="list-style-type: none"> • Council cannot fund full range of services in future • Pressure on General Fund reserves 	CLT and Cabinet work together to identify savings and income generation opportunities	Pete Hudson	Options to address the funding gap for 2021/22 have been identified which includes a combination of savings and use of reserves. Work will continue with CLT/Cabinet to identify further savings to address the forecast funding gaps for the future years of the MTFS. It is anticipated that there will be a significant contribution from efficiencies derived from the DST programme.	Financial	06–Jan–2021
					For 2017/18, £1m of savings have been identified, and these workshops will continue throughout 2017, with the aim of identifying a further £1m of savings/addition income for 2018/19.				
					Generate additional income				
CR032b–a Business Rates appeals are higher than forecast			Same	Negative impact a MTFS ; further savings required	A prudent approach is taken to estimating likely successful appeals.	Diane Mitchell; Craig Scott	The VOA are currently processing all ATM assessments and removing them from the rating list, in accordance with a recent Supreme Court ruling that confirmed that ATM's should not be rated as separate assessments. As	Financial	07–Jan–2021

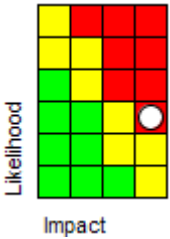
							<p>this was expected ADC was able to increase it's Appeals provision to cover these once the schedules were issued by the VOA. In addition to the ATM's we have also received some additional adjustments for Doctors Surgeries which have resulted in further reductions in the RV assessments of purpose built Doctor's Surgeries. We considered that this matter had been closed during 2019–20 as we had received a large number of adjustments (these were anticipated and covered by additional Appeals Provision). It seems the VOA hadn't completed this task.</p>		
CR032b–c Level of central government funding 2020 onwards			Reduced likelihood, now moderate	Negative impact a MTFS ; further savings required	The Council will contribute to any consultation when proposals are announced, emphasising the need for resources	Pete Hudson	Due to the pandemic the Government has delayed implementing the Fair Funding Review, the Business Rates Reset and level of retention and any	Financial	06–Jan–2021

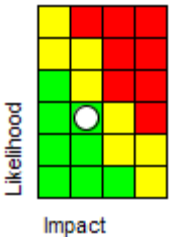
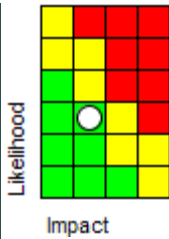
					to be allocated to deprived areas.		changes to the distribution of NHB. It is now expected that this will be implemented with effect from 2022/23. The MTFS does however assume reductions to the level of central government funding as it is expected that Districts will see a reduction, recognising the need to address national social care pressures. It is also expected that there will be financial implications as a consequence of the Government's funding response for the pandemic. These are as yet unknown.		
CR033–Ability to achieve efficiencies and compliance from procurement reviews / improvement			Same	<ul style="list-style-type: none"> • Penalties for non-compliance with legislation • Inability to meet MTFS savings targets if procurement savings not achieved 	<p>Agreement of a new Procurement Strategy setting out clear guidance for spending managers</p> <p>Particular emphasis on small value procurement (under £25k) to ensure that the Council has</p>	Chris Clarke	A procurement review is scheduled for 2021 and a PID has been prepared for the sign off of the sponsor (AD Corporate Services and Transformation). This will cover all facets of the procurement cycle in order to identify wastage	Legal & Regulatory	04-Jan-2021

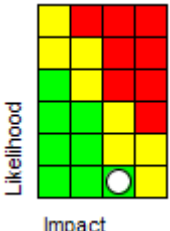
					legally compliant processes in place		and potential efficiencies.		
					Review of Procurement Arrangements (Shared Procurement Unit) to ensure objectives are being met				
CR082 – Commercial property investment			Increasing likelihood, now significant	<ul style="list-style-type: none"> • In alignment with Savings Strategy – expected reduced trading service costs/ increase income not realised • Reputational impact of trading services performing inconsistently with Council values • Alienation of customer base 	Robust monitoring arrangements for portfolio – stability of tenant, stability of market and macro economics	Justin Henry; Pete Hudson	All current Investment Property tenants are paying their rents in accordance with their contracts.	Financial	06-Jan-2021
					Ensure adequate lease length (greater than 7 years)				
					Ensure property investment in most advantageous asset class				
					Ensure tenant has good financial standing and passes regular credit analysis (D+B)				
					Property reserve to offset short term voids				
							A Leadership decision has been taken that no further out of District acquisitions will take place so as not to affect the Council's access to the PWLB as a source of borrowing.		

CR090– Workforce planning – inability to recruit and/or retain filled position to critical posts			Same	Inability to provide critical service functions including statutory services whilst vacant Negative impact on delivery of critical functions that directly affect Corporate Plan priorities,, productivity, MTFS	Implementation of Workforce Plan	Craig Bonar	Continual assessment of Impacts of Covid pandemic on delivery against essential/critical services. Targeted focus on covid information/enforcement/ compliance and digital services through mix of direct employed, agency and secondments	Service delivery	21–Jan– 2021
					Identify Critical Posts and implement strategic plan to mitigate against risks of failure to recruit/retain quality staff to these positions				
CR093– Reduced resource levels and capacity due to COVID 19		New risk May 2020		Ability to maintain service delivery both Essential Services and others Reduction in sufficient skills Reduced ability to Reduced ability to recruit	Needs details	Karen Barke	Current level to maintained with new Government Restrictions and the more contagious strain of COVID–19 this is continuing to put pressure on a number of service areas	Service delivery	18–Jan– 2021

CR094– Absence related to COVID 19		New risk May 2020		Need details	Need details	Karen Barke	Whilst the risk has remained the same there has been some impact in service areas especially in relation to employees self-isolating. The current strain of COVID-19 is more contagious which is having an impact, although services are continuing	Service delivery	18-Jan-2021
CR096–Loss / delays in receipt of key income sources (Business Rates, Council Tax, Housing and Investment Property Rents)		New risk May 2020		Loss of income – increased write offs. Delays in receiving income leading to potential cashflow issues. Increased debt management and recovery costs. Potential impact on payment of preceptors and having sufficient income to	Government deferral of paying Central Business Rates contribution until end of June 2020. Reserve to cushion delays in payment of Investment Property income. Arrangements in place with some Investment Property tenants re agreed delays in rent income. (Exceptions basis only). Currently expected that all accounts will be up to date by 31/03/21. Healthy HRA balances to manage short term cashflow issues from reductions/delays in	Pete Hudson	The impact of the pandemic will undoubtedly result in the permanent loss of some income and a delay in recovering some income also. Some, but not all of this loss is being mitigated by additional Government funding. Measures are in place to continuously monitor this and pressures will be reported through to Cabinet via the periodic Financial Monitoring Reports.	Financial	06-Jan-2021

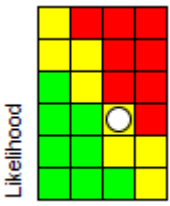
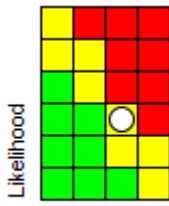
				meet cost obligations as they fall due.	housing rent				
					Option to scale back costs associated with non-critical functions.				
CR097-Data Protection-spike in remote working and risks of data loss (physical and digital)	 <p>Likelihood</p> <p>Impact</p>	New risk May 2020		Data Protection breaches could, if investigated by the ICO and the Council is found to be at fault could lead to significant fines. Reputational issues Potential harmful consequences for the individuals whose data has been lost – could be financial, could be	IT Security Policies	Ruth Dennis	Close monitoring of breach reports continues and has not identified an increase in the number of breaches during the pandemic and of those breaches reported none have been so serious as to require reporting to the ICO or to have been specifically caused by remote working arrangements. Close monitoring will continue	Legal & Regulatory Risk	20-Jan-2021
					IT Security				
					DPA/GDPR information and policies available on the intranet				
					Staff training as part of GDPR implementation				
					DP and Agile working Guidance and risk assessment information produced and circulated to managers during the COVID 19 response				

CR100-Brexit			Same		Internal officers working group monitoring impact and headline assessments of potential impact and risk levels	Craig Bonar	Internal Officers group focus now aligned to monitoring impacts of post EU Exit and negotiated trade deal especially on supply chains, fuel, materials, economic and business viability.	Strategic	21-Jan-2021
					Briefings to CLT				
					Input and participate in LRF contingency planning and measures including weekly Sit Rep Status Report and Monthly Tele-Conferences				
					Internal Action Plan with lead officer being implemented				
					Input and participate in LRF contingency planning and measures including weekly Sit Rep Status Report and Monthly Tele-Conferences				
							Currently, Council is declaring a Green Flag status as is Nottinghamshire LRF. This means that there are no significant impacts or issues currently being monitored.		
							Expected that impacts will start to flag once national contingency of stock piling supplies are utilised		

		New risk May 2020		<p>During the COVID19 pandemic, increased risk of decisions being made outside “normal” governance structure due to the need to react quickly to constantly changing situation</p>	<p>Decision making guidance issued to officers</p> <p>Amended Constitution to give greater flexibility during emergency approved at the AGM 23 April 2020</p> <p>A COVID-19 decision log is being maintained to cross reference to mod.gov and records.</p> <p>Constant dialogue and communications across CLT to ensure tracking of decisions being taken</p> <p>Appropriate use of decision urgency provisions</p> <p>Cabinet Report on 30 June updated Members</p>	Ruth Dennis	<p>During the initial phase of the pandemic response in March 2020 the risk of decisions being made outside of the normal governance processes was high due to the quick moving situation when the Council was required to react immediately to ever changing government guidance – decisions taken during this time were made by the Leader or CEO in direct response to a government requirement. The Cabinet report for 30 June identified these decisions and where detailed in a Decision Log.</p> <p>In light of the mitigating actions put in place and the return to a normal schedule of meetings (held virtually) the level of risk has now significantly reduced such that decision making continues to fit within the appropriate governance processes at present. Urgency provisions and delegated powers are utilised for urgent decisions, such as when new lockdown measures or restrictions are put in place at short notice.</p>	Legal & Regulatory Risk	20-Jan-2021
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CR099- Effective Strategic Leadership of Robust Coronavirus recovery plan		New risk May 2020		<p>Failure to have effective recovery plans in place</p> <p>Failure to maximise partnerships and work with third sector to mitigate against Covid impacts</p> <p>Failure to review and prioritise key actions and activities to support recovery</p> <p>Ineffective allocation of capacity and resources</p> <p>Failure to embed new ways of working and delivery</p>	<p>Failure to have effective recovery plans in place</p> <p>Failure to maximise partnerships and work with third sector to mitigate against Covid impacts</p> <p>Failure to review and prioritise key actions and activities to support recovery</p> <p>Ineffective allocation of capacity and resources</p> <p>Failure to embed new ways of working and delivery</p>	Craig Bonar	<p>Priority of LRF remains a key focus on Covid Response due to current spike in cases and Lockdown 3 restrictions.</p> <p>Recovery actions continue to be progressed in the background including embedding of remote working, developing digital services to enhance customer accessibility and on-line services, business support measures.</p>	Strategic	21-Jan-2021
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Safer and Stronger

Title	Current Risk Matrix Q2/Q3	Previous Matrix Q2/Q3	Trend	Consequences	Mitigating Actions	Officer Responsible	Comments	Risk type	Last update
CR083–Failure to Support and Safeguard Vulnerable people			Same		Corporate Vulnerability and Safeguarding Working Groups meets quarterly to discuss legislative changes to Safeguarding practice	Nicky Moss	<p>The controls remain the same.</p> <p>There is an action plan in place for Corporate Safeguarding 2021.</p>	Service delivery	23-Dec-2020
					Mandatory training provided to all employees on Safeguarding				
					Tri-X Safeguarding Policy available to employees.				
					Safeguarding information available on the intranet for all employees.				
					Named safeguarding lead contacts available within the Council				
					Formal mechanisms in place to record and monitor referrals to manage reported cases and support and safeguard vulnerable people.				



Corporate Risk Management Strategy & Process

Version	Date	Status (draft, approved, signed off)	Author	Change Description
V1.0	09/11/20	draft	C Clarke	Annual review of strategy
V1.1	17/11/20	draft	V.Green	Amendment to risk matrix
V1.2	04/01/21	Final	C Clarke	Added risk types
V1.3	11/01/21	Revised Final	C Clarke	Incorporate CLT amendments
V1.4	12/01/21	Final	C Clarke	Final comments added re risk removal as per advice from audit.
V1.5	20/1/21	Final version	J Froggatt	For Audit Committee
Approved for submission to Sponsor, given by				Date
Sponsor sign off to proceed with project				Date
identification, given by				

Distribution List

Name	Organisation	Job title / Dept.

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Appendix 3 – The Risk Register & Action Plan Template	27

1. Ashfield District Council Risk Management Strategy - Introduction

1.1 Philosophy and aims

Our philosophy:

Ashfield District Council will seek to embed risk management into its culture, processes and structure to ensure that opportunities are maximised. Ashfield District Council will ensure that the resources and support is available to assist managers to identify, understand and manage risks, and learn how to accept the right risks. Adoption and application of this strategy will deliver success in delivering services to the customers of Ashfield District Council.

1.2 Purpose

The purpose of this risk strategy document is to set out in clear simple terms how risk management will be managed within Ashfield District Council and become embedded in the culture.

It therefore aims to:

- Develop risk management and raise its profile across the Council, and ensure that risk management becomes a living tool.
- Make risk management part of normal business and therefore incorporated within all decision making processes.
- Integrate risk management into the culture of the Council.
- Ensure that all risks are managed in accordance with best practice.
- Create effective processes that will allow risk management assurance statements to be made annually.

1.3 What is risk management?

Risk definition: Risk is uncertainty of outcome. The delivery of an organisation's objectives is surrounded by uncertainty which both poses threats to success and offers opportunity for increasing success. Risk is defined as this uncertainty of outcome, whether positive opportunity or negative threat, of actions and events

Risk Management can be defined as:

“Risk management is the process of identifying risks, evaluating their probability and potential consequences and determining the most cost effective methods of controlling and /or responding to them. It is not an end in itself. Rather, risk management is a means of maximising opportunities and minimising the costs and disruption to an organisation caused by undesired events” ‘Risk Management – A Key to Success,’ published by ALARM

Risk management therefore is essentially about identifying all the obstacles and weaknesses that exist within the Council. A holistic approach is vital to ensuring that all elements of the organisation are challenged including our

decision making processes, work with partners, consultation processes, existing policies and procedures as well as the effective use of all assets – including our staff. Once the obstacles have been identified the next stage is to prioritise them to identify the key obstacles facing the Council and to help the organisation to effectively deliver services to our customers. Once risks have been identified and prioritised it is essential that steps are taken to then effectively manage those key obstacles / risks. This will ensure that major obstacles or blockages that exist within the organisation can be mitigated to provide the Council with a greater chance of being able to maximise the delivery of its objectives and provision of services to our customers.

Risk management will be used as a strategic tool and an essential part of effective and efficient management and planning within the organisation.

1.4 Risk Management policy statement

Risk is the chance of something happening that will have an impact on what we set out to achieve.

Risk management is the process for dealing with this effectively – identifying, evaluating, prioritising and mitigating the risks. It is not an end in itself. Effectively managing our risks means that we can maximise opportunities and minimise the costs and disruption to the Council caused by undesired events.

Risk appetite is the “amount and type of risk that an organisation is prepared to pursue, retain or take”. This is reviewed annually alongside this framework. The current risk appetite framework outlines the Council’s approach to risk appetite as well as how to determine and evaluate risk appetite.

As an organisation we have identified our strategic risks and have a process in place to control and monitor them. We regularly review them (at least quarterly) to ensure that the corporate risk register remains up-to-date. We also have a system in place to identify project and operational risks at an early stage and again to control and monitor them effectively.

The aim is to manage risk rather than to eliminate it. Too little attention to the control of risk will lead to unnecessary losses and poor performance. An overzealous approach to risk control can stifle creativity and service delivery and may mean that opportunities for improvement are missed. Successful risk management means getting the balance right, thereby making the best use of available resources. We identify actions to reduce negative risks to an agreed acceptable level and this is monitored via the risk register.

The management of risk should not be viewed in isolation; it forms an integral part of the Council’s business. The risk management process forms part of the service planning framework. In addition risk management techniques can be used when considering new service delivery methods or policy options. Much risk management already takes place intuitively.

There is clear ownership of risks at all levels within the authority and we expect partner organisations and contractors to have suitable risk management arrangements.

1.5 Why do we need a risk management strategy?

Risk management will, by aligning to the business planning and performance management processes, strengthen the ability of the Council to achieve our objectives and enhance the value of the services we provide.

Also, Risk Management will, by aligning to the Business Continuity processes, strengthen the ability of the Council to react to all situations and protect its own interests and those of the district, ensuring essential service delivery.

However it is also something we are required to do, for example:

- The CIPFA/SOLACE framework on Corporate Governance requires the Council to make a public assurance statement annually, on amongst other areas, the Council's risk management strategy, process and framework. The framework requires us to establish and maintain a systematic strategy, framework and processes for managing risk.
- Risk management was a key discipline identified in the Organisational Assessment, particularly looking at whether an authority has assessed the risks inherent in its corporate and service plans. This requirement has now been removed, however, is recognised as good practice.
- Risk management is now considered standard practice in both the public and private sectors.
- To meet our statutory obligations such as Civil Contingencies Act, providing emergency response and planning and providing for emergency assistance.

1.6 Benefits of risk management

Successful implementation of risk management will produce many benefits for the Council if it becomes a living tool. These include:

- Increased chance of achieving strategic objectives as key risks are identified and minimised.
- Achieves buy-in to risk (and action) for officers and members.
- An organisation can become less risk averse (because you understand risks).
- Improved performance, accountability and prioritisation - feeds into and aligns with the performance management framework.
- Better governance can be demonstrated to stakeholders.
- Control and mitigation of business continuity risk

1.7 Link to Corporate Objectives

Adequate risk management arrangements link to the authority's Innovate and Improve priority. However, the minimisation of risks also enables all of the

Council's priorities to be achieved. The identification of risk relating to the achievement of performance and improvement is a key aspect of the performance management framework

1.8 Risk appetite

The ISO 31000 risk management standard refers to risk appetite as the:

"Amount and type of risk that an organisation is prepared to pursue, retain or take".

This is reviewed quarterly by CLT alongside the review of this framework and the corporate risk register.

The appropriate level will depend on circumstances and must be appropriate given our corporate objectives. For example, where public safety is involved our appetite will tend to be low, while for an innovative project that is a key part of our transformation programme, it may be higher, recognising that there will be uncertainty and the potential for things to go wrong but the potential rewards will be higher too.

1.8.1 Risk appetite categories

A detailed framework has been written in relation to risk appetite and this should be read in conjunction with this strategy.

Averse: Avoidance of risk and uncertainty; minimal exposure to risk preferred; consequently likely to be low potential for reward / achieving a stretching objective; corresponding risk score = **low**

Cautious: Preference for safe options with a low to medium degree of risk only; again this is likely to consequently reduce the potential for reward / achieving a stretching objective; tight controls in place; corresponding risk score = **low to medium**

Open: Willing to consider all potential options and choose the one most likely to achieve the objective, while also providing an acceptable level of reward and value for money; balanced approach recognising that things may go wrong but we will learn from them; corresponding risk score = **medium**

Hungry: Eager to be innovative and to choose options offering potentially higher rewards, despite greater inherent risk; willing to tolerate uncertainty and accept possibility of significant loss; corresponding risk score = **high**

Risk Tolerance: This can be interpreted as an organisation's or stakeholder's readiness to bear the risk after risk treatment in order to achieve its objectives.

2. Implementing a risk management process

This section covers the implementation of the risk management process within the Council. In order to implement risk management within the Council managers and staff need to become familiar with, and have guidance on, the:

- risk management process,
- roles and responsibilities of officers and members,
- reporting and monitoring.

2.1 The Risk Management Cycle



Implementing the strategy involves adopting a systematic and robust process. The following risk management cycle describes the processes that should be followed.

Step 1 Identifying risks facing the Council.

The identification of risks is derived from both a 'top down' (corporate planning) and a 'bottom up' (operational/business continuity level) process of risk assessment resulting in coverage of the whole Council.

Step 2 Analysing the risks

The risks are analysed and reported in a corporate standard format. (See Appendix 3). All risks assessed in a 6x4 risk matrix should be dealt with according to the table below.

Probability Score	Impact Score			
	1 Negligible	2 Minor	3 Major	4 Critical
6 (Very High)	Monitor Quarterly	Monitor Monthly	Monitor Quarterly to CLT	Monitor Quarterly to CLT
5 (High)	Monitor Quarterly	Monitor Monthly	Monitor Quarterly to CLT	Monitor Quarterly to CLT
4 (Significant)	Monitor Quarterly	Monitor Monthly	Monitor Monthly	Monitor Quarterly to CLT
3 (Low)	Monitor Quarterly	Monitor Quarterly	Monitor Monthly	Monitor Monthly
2 (Very Low)	Monitor 6 Monthly	Monitor Quarterly	Monitor Quarterly	Monitor Quarterly
1 (Almost Impossible)	No action required	Monitor 6 Monthly	Monitor 6 Monthly	Business Continuity Plan

Aligned with the Risk Appetite Framework which describes the type of action required in accordance with our risk appetite

Risk rating Score	Risk rating action required
18-24	Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks. The Council is not willing to take risks at this level and action should be taken immediately to manage the risk. Corporate Risks, monitored by CLT
15-16	These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible. Corporate Risks, monitored by CLT
5-12	These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase. Corporate Risk only if deemed threat to delivery of Corporate Objectives
3-4	These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk.
1-2	Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.
Impact 4, Likelihood 1	Rare events that have a catastrophic impact form part of the Council's Business Continuity Planning response.

It will be up to the discretion of Service Directors as to whether risks that do not score in the highest bracket are included in the corporate risk register. It

might be that the risks may be considered to be key risks facing the Council or a particular service in the delivery of its plans or meeting the Corporate Objectives.

Step 3 Prioritising the risks

The process then prioritises the risks resulting in a focus on the key risks and priorities i.e. those risks most likely to happen and with the greatest impact

Step 4 Managing of the risks through action plans

The risks are then managed through the development of appropriate risk management action plans. The Corporate standard template incorporates risk identification and action planning. This is managed through the performance management software "Pentana".

Step 5 Monitoring of the action plans and the risks

Risks are managed through the performance management framework at least once every three months, whilst monitoring the delivery of the service and corporate action plans. The information is held in the performance management software "Pentana".

The cycle is continuous and should be followed on a regular basis.

The risk management process is described in detail in Appendix 1.

2.2 Roles and Responsibilities

The successful management of risk is a collective responsibility for all Members and employees. The Council has a duty to the community to manage its resources economically, efficiently and effectively.

It is the responsibility of **all Elected Members** to be aware of the risk management implications of their actions, decisions and public statements. All decision making reports include a section identifying any key risks. Elected Members can ask for these and any other risks which they have identified to be fed into the Council's risk process e.g. an operational risk may be passed to the service manager to lead on, a strategic risk may be passed to Audit & Governance Committee and/or Cabinet to debate.

It is the responsibility of **Cabinet Members**:

- To agree an effective strategy and framework to manage risks within the Council
- To set the Council's risk appetite in conjunction with senior managers and the Audit & Governance Committee
- To receive exception reports on risk management (focused at the strategic level) as part of the established quarterly monitoring and to recommend action where necessary

- To agree the Council's response to its highest risks i.e. doing what is practicable to reduce the risk, whilst not using a disproportionate amount of resource
- To formally consider risk management implications when making decisions
- To hold the Audit & Governance Committee and CLT accountable for the effective management of risk
- Monitoring the Council's risk management and internal control arrangements via annual reports to Cabinet, and regular Priority Theme Board Programme Highlight reports
- Approving the public disclosure of the annual outcome of this assessment (the assurance statement), and publishing it in the annual Statement of Accounts.

The **Leader of the Council** is the Cabinet lead on risk management issues. It is their responsibility to promote awareness of potential risk implications at Cabinet level. For example, to pay particular attention to the risk elements in decision making reports; to be available to colleagues to discuss risks; to be satisfied that the risk arrangements are in place and working well; to present the quarterly risk information to Scrutiny & Cabinet.

It is the responsibility of the **Audit & Governance Committee**:

- To have an overview of risk management in the Council
- To carry out an annual review of the risk management framework, including the risk appetite, and to recommend it to Cabinet for approval
- To carry out an annual review of the strategic risk register and to recommend it to Cabinet for approval

Corporate Leadership Team (CLT)

The Corporate Leadership Team is pivotal in leading the promotion and embedding of risk management within the Council. In addition they have an important role in identifying and managing risks.

Corporate Leadership Team's key tasks are:

- Recommending to Cabinet the Corporate Risk Management Strategy and its subsequent revision.
- actively being involved in the assessment and management of risks on a biannual basis, at Corporate strategic level
- being actively involved in the identification, assessment and management of risks within their directorates as part of the service planning process.
- supporting and promoting risk management throughout the Council,
- support the Risk Management Sponsor

Risk Management Sponsor – Strategic Planning Risk

The Risk Management Sponsor (Strategic Planning Risk) will lead the championing and embedding of strategic risk management and drive its implementation within the Council. This role is part of the duties of the Assistant Director – Corporate Services and Transformation.

Responsibilities include:

- compiling, and reporting quarterly (from Pentana), to CLT all corporate risks, including the risks escalated up from the Directorate level, and lead their identification, assessment and management of strategic risks on a biannual basis. The report will be shared with Leadership after CLT has reviewed the register on a quarterly basis.
- Production of an annual report to Cabinet on the progress of strategic risk management, the risks, and action in managing them,
- Production of a bi-annual report to Audit Committee
- supporting and advising CLT on strategic risk management issues
- communicating the benefits of effective strategic risk management to all members of Ashfield District Council
- ensuring the alignment of risk within strategic planning and performance and improvement processes
- ensuring all levels of risk are discussed and reviewed at Performance Boards, including the identification of new risks.

It is the responsibility of **Service Managers:**

- To have an overview of risk management in the Council at officer level
- To contribute to the annual review of the risk management framework, including risk appetite
- To ensure that the Council's risk management framework is applied in their service areas by identifying, assessing, reporting and monitoring risks and setting risk appetites
- To contribute to the management of strategic risks in support of CLT

It is the responsibility of **Project leads:**

- To ensure that the Council's risk management framework is applied to their project by identifying, assessing, reporting and monitoring risks and setting the risk appetite
- To exception report via reporting at intervals agreed with the Project Sponsor.

It is the responsibility of **All Employees:**

- To be aware of the Council's risk management framework
- To have an understanding of the risks that arise within their area of work
- To participate in risk management training as appropriate
- To challenge practices, identify new ways of doing things and be innovative
- To learn lessons from risk management rather than apportion blame and to concentrate at least as much on how risks have been managed in any given situation rather than just the outcome if something goes wrong

2.3 Reporting and monitoring

The responsibility for monitoring and reviewing the corporate risk is the responsibility of the Corporate Leadership Team who are required to do this biannually.

Service Risk Registers in Pentana should be reviewed as a minimum quarterly by the respective Service Manager.

Service Directors are responsible for escalating risks, those above the risk tolerance line to the Corporate Leadership Team who will determine if they should be included on the Corporate Risk Register. This should be done through the Risk Management Sponsor – Assistant Director – Corporate Services and Transformation.

The definition of a corporate risk is - any key risk facing the Council or a particular service in the delivery of its plans.

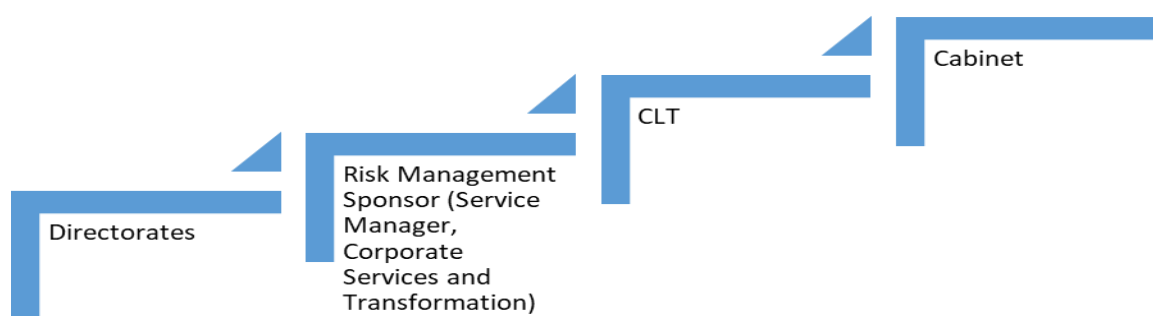
The Risk Management Sponsor – Assistant Director – Corporate Services and Transformation will report progress on the risk management process, and key risks, annually to Cabinet. They will also be responsible for reviewing the Corporate Risk Management Strategy and most effective risk management processes on an annual basis.

The action plans developed to manage the Strategic risks will be aligned to the Performance Management Framework and will be monitored through the Performance Management System Pentana. This will ensure the integration of risk management with other processes and ultimately ensure its profile and success is maintained.

Project risks should be documented and approved by the relevant project sponsors and reviewed at intervals set out in the project initiation document.

The framework for reporting risk is summarised below:

Risk assessments will be included in all policies and reports, as well as in our partnership working arrangements, so that risk is considered in everything the Council does.



Risk types

1. Strategic Risk

The consequences of strategic decisions, or the failure to achieve our strategic vision.

2. Financial Risk

Risk to the Council's balance sheet, assets and liabilities, funding, income and spending levels

3. Service Delivery Risk

Risks to the effective and efficient delivery of Council services and business continuity.

4. Legal & Regulatory Risk

Risks of breaching the law, legal action, losses, fines and other sanctions arising from non-compliance with laws and regulations.

5. Reputational Risk

Risks of adverse or damaging perception of the Council by the general public and Ashfield residents.

Corporate Risk Register

Where a risk has been elevated to be included on the Corporate Risk Register it remains the decision of the Corporate Leadership Team who will decide when and if it can be removed. It should only be removed if it no longer threatens the objectives of the Council and is no longer a threat. The decision to remove a risk should be documented in the minutes of the CLT meeting.

This should also be documented in the notes field for that risk within the register that is recorded in pentana.

Conclusion

The adoption of a sound risk management strategy will achieve many benefits for Ashfield District Council. It will help with business planning, the achievement of objectives, the demonstration of continuous improvement, the delivery of projects and demonstrate effective corporate governance.

The challenge however is to implement this comprehensive risk management process without significantly increasing workloads. This should be achieved by the integration of risk management into existing processes and reviews rather than as a separate process.

Appendix 1 – The risk management process



PROBABILITY	Very High P6	12	16	20	24
	High P5	10	14	16	20
	Significant P4	6	12	12	16
	Low P3	3	8	8	12
	Very Low P2	2	4	4	8
	Almost Impossible P1	1	2	3	4
		1 Negligible	2 Minor	3 Major	4 Critical
		IMPACT			

Averse Grey – Low risk/low opportunity

Cautious Green – Low to medium risk/low to medium opportunity

Open Blue – Medium risk/medium opportunity

Hungry Red – High risk/high opportunity

Stage 1 - risk Identification

Corporate Risk will be managed and monitored by CLT in partnership with the Service Manager – Corporate Services and Transformation. However it will be for each Directorate to decide upon the appropriate approach to identifying its key risks as this process is cascaded down throughout Ashfield District Council.

The categories of risk to prompt identification and to help to identify the cause / source of risks are:

Contractual/Supplier	Governance	Physical
Customer/Citizen	Legal	Political
Economic	Legislative/Regulatory	Procurement/Competitive
Environmental	Managerial/Professional	Social/People
Financial	Partnership	Technological

Other prompts for identifying risks include:

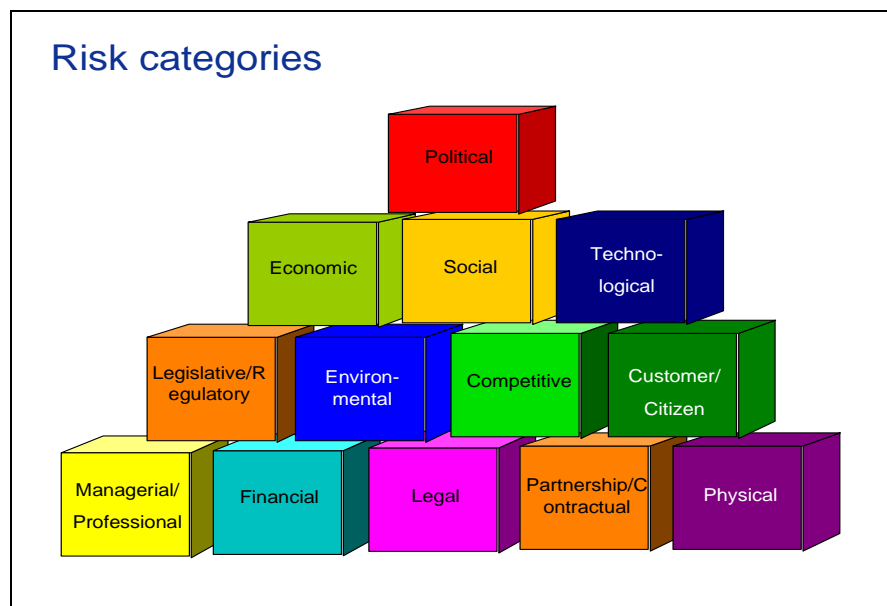
Actions in service plans	Changes in processes
Decision-making reports	Finance
Health and safety risks	Partnership working
Policy changes	Project management process e.g. new business case

The risk identification stage should also include a review of published information such as corporate/service plans, strategies, financial accounts, media mentions, inspectorate and audit reports etc.

Service Level Strategic Planning and Performance Management –

Each Service will review any relevant risks in the achievement of performance and improvement activity, and therefore achievement of Corporate Priorities. This will be undertaken quarterly as well as refreshed annually as part of the service planning

process. The Corporate Timeline Managers Checklist includes prompts for service managers to review risk on a regular basis (Appendix 2)



Risk	Definition	Examples
Political	Associated with the failure to deliver either local or central government policy or meet the local administration's manifest commitment	New political arrangements, Political personalities, Political make-up
Economic	Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external macro level economic changes or consequences proposed investment decisions	Cost of living, changes in interest rates, inflation, poverty indicators
Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to meet its objectives	Employee levels from available workforce, ageing population, health statistics

Technological	Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the council's ability to deliver its objectives	E-Gov. agenda, IT infrastructure, Employee/client needs, security standards
Legislative	Associated with current or potential changes in national or European law	Human rights, appliance or non-appliance of TUPE regulations
Environmental	Relating to the environmental consequences of progressing the Council's strategic objectives	Land use, recycling, pollution
Professional/ Managerial	Associated with the particular nature of each profession, internal protocols and managerial abilities	Employee restructure, key personalities, internal capacity
Financial	Associated with financial planning and control	Budget overspends, level of council tax, level of reserves
Legal	Related to possible breaches of legislation	Client brings legal challenge
Physical	Related to fire, security, accident prevention and health and safety	Offices in poor state of repair, use of equipment
Partnership/ Contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification	Contractor fails to deliver, partnership agencies do not have common goals
Competitive	Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value	Fail to win quality accreditation, position in league tables
Customer/ Citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens	Managing expectations, extent of consultation

Stage 2 – Risk analysis

The information gathered from the risk identification processes above should be analysed and risk scenarios developed for the key concerns using the Risk Register and Action Plan (see Appendix 3). The Risk Register and Action Plan (Corporate and Service) should include a clear description of the risk, priority rating of the risk and proposed action. Generally, where interviewees have perceived a risk, which has been corroborated by others, the risk should appear in the scenarios – particularly if it is backed up by available evidence.

Evaluate likelihood and impact

Likelihood/Probability					
1 Almost Impossible/ Never	2 Very Low/ Hardly Ever	3 Low/ Possible	4 Significant/ Probable	5 High/ Almost certain	6 Very High/ Almost definite
Never happened	No more than once in last 10 years	Happened a few times in last 10 years	Happened in last 3 years	Happened last year	More than once in last year
Will almost never to happen	Extremely unlikely again in year	Could happen in year	Possibility it might happen in year	Likely to happen in year	Expected to happen in year

Impact/Consequences				
	Service delivery	Finance	Reputation	People
4 Critical	Interruption to core service Failure of key project	Severe costs incurred; Financial loss of >10% of the tolerance set Impact on whole Council; Statutory	Significant media interest seriously affecting public opinion	Loss of life; Major casualties

		intervention		
	Service delivery	Finance	Reputation	People
3 Major	Key targets missed Some services compromised	Significant costs incurred Financial loss of >5% of the tolerance set Resetting of budgets required Service budgets exceeded	Local media interest and significant social media commentary; Comment from Inspectors; Impact on public opinion	Serious injuries; Traumatic experience; Exposure to dangerous conditions
2 Minor	Management action required to address short term difficulties	Some costs incurred Financial loss of <5% of the tolerance set Minor impact on budgets; (managed by Service Manager)	Limited local publicity; Mainly within local government community; Causes staff concern	Minor injuries or discomfort; Feelings of unease
1 Negligible	Managed within normal daily routines	Little loss anticipated Financial loss within the tolerance set	Little or no publicity; Little staff comment	

Stage3 – Prioritisation

Following identification and analysis the risk scenarios need to be evaluated

This should look at the risk scenarios and decide on their ranking according to the probability of the risk occurring and its impact if it did occur. The matrix (shown over) should be used to plot the risks and once completed this risk profile clearly illustrates the priority of each scenario.

It is essential at this stage that there is agreement around the timescales being used. The profiling group will agree if the risks are to be profiled over a 12-18 month timescale or a 3-4 year timescale. It will often depend on what the information will be used for – annual planning or 3-year planning. Impact should be assessed against the achievement of the Corporate, or service objectives as applicable.

Although the risk profile will produce a priority for addressing each risk determining the group's appetite for risk can enhance this. All risks above the appetite cannot be tolerated and must be managed down, transferred or avoided. The appetite for risk is determined during the facilitated workshop and is achieved by starting in box P1:I1 and asking the group to decide if they are prepared to live with a risk in that box or if they want to actively manage it. Continuing this process up and across the matrix sets a theoretical tolerance line.

When prioritising risks the P6:I4 box is the first priority or the most important risk to be managed. The priority is led by the impact axis – i.e. P5:I4 followed by P6:I3, P4:I4 followed by P5:I3 followed by P5:I2 and so on.

The risk matrix is given below:

PROBABILITY	Almost definite P6				
	Almost certain P5				
	Probable P4				
	Possible P3				
	Hardly ever P2				
	Never P1				
		I1 Negligible	I2 Minor	I3 Major	I4 Critical
		IMPACT			

Stage 4 - Risk Management

Once the risks have been prioritised the next step is to identify actions to help control the risk. Most risks are capable of being managed – either by managing down the likelihood or impact or both. Relatively few risks have to be avoided or transferred. Action plans will also identify the resources required to deliver the improvements, key dates and deadlines and critical success factors.

These plans should not be seen as a separate initiative and are incorporated into the existing business planning process. Therefore the results of the risk management work will be fed into the corporate planning, service planning and budgeting process. Ownership of each action plan needs to be allocated to appropriate members of staff with appropriate seniority and ability to drive the progress of the action plans. It will therefore be their responsibility to develop the actions required to mitigate the risks and complete the plans. The corporate Risk Register and Action plan template is shown in Appendix 3.

Stage 5 - Monitoring and reporting

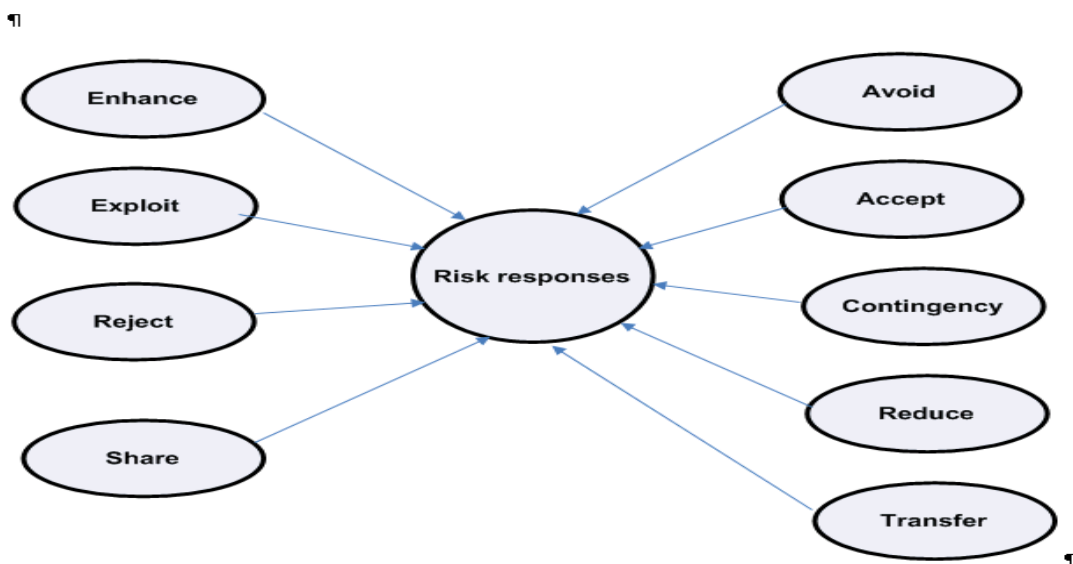
Monitoring the progress of action plans will be done as part of the Council's Performance Management process. This ensures the integration of risk management with other processes and ultimately ensure its profile and success is maintained. This is achieved through the recording and monitoring of risks within the corporate performance system called Pentana. The system sends email reminders to risk owners on a regular basis to review and re-assess the risk, adding comments regarding mitigating actions.

The strategic risk register is reviewed annually and updated and reported quarterly in the quarterly report to CLT, and six monthly to Cabinet and Audit Committee.

The operational risk register holds service specific, project and partnership risks and is also updated quarterly with exception reporting in the quarterly report at the discretion of Heads of Service e.g. if the risk has increased sufficiently to cause concern corporately or if additional mitigating action is required.

Stage 6 – Response

The response(s) to a given risk should reflect the risk type, the risk assessment (likelihood, impact, and criticality) and the organisation's attitude to risk. There are a number of possible responses to risks and as risks can be threats or opportunities these include responses that are suitable for potential opportunities



Risk response	Description
Threats	
Avoid	The risk is avoided e.g. change in strategy
Transfer	Some or all of the risk is transferred to a 3 rd party
Reduce	Action is taken to reduce either the likelihood of the risk occurring or the impact that it will have
Accept	The risk may be accepted perhaps because there is a low impact or likelihood
Contingency	A plan is put in place to respond if the risk is realised
Opportunities	
Share	An opportunity is shared with a partner or supplier to maximise the benefits e.g. through use of shared resource/technology
Exploit	A project could be adjusted e.g. to take advantage of a change in technology or a new market
Enhance	Action is taken to increase the likelihood of the opportunity occurring or the positive impact it could have. e.g. Strategic/commercial opportunities such as new partnerships, new capital investment
Reject	No action is taken and the chance to gain from the opportunity is rejected. Contingency plans may be put in place should the opportunity occur.- Political or environmental e.g. new transport links, change of government bringing positive changes in policy/opportunities

Links to other risk-related areas of work

- Fraud awareness and training – Finance team
- Emergency planning and business continuity – Corporate Risk Manager
- Insurance – Finance team
- Health & Safety – Health & Safety officer
- Information management and security – ICT Technical & Security Manager

Appendix 2 – Corporate Timeline Service Managers Checklist

Task	By When	Progress	Completion Date
Financial			
Review of budgets	End November		
Review of fees and charges	End November		
Review of contracts			
Review of year end employee unused benefits	6 April		
Review of year end spend/ income and accruals/ prepayments	6 April		
Monitor service spend	ongoing		
Capital bids	twice year to be agreed by CLT		
Service planning/ performance/ risk			
Review of front line service plans	End February		
Review of support service plans	End March		
Finalise service plan based on year end performance	End April		
Monitor performance and productivity	ongoing		
Quarterly risk register review	Mid-June		
	Mid October		
	Mid-January		
	Mid-April		
People			
PDRs – front line services	End March		
PDRs –support services	End April		
Workforce planning/ service needs analysis/ skills audits	Mid- February		
Business Continuity			
Review risk assessments	End September		
Review business continuity service plans	End December		
Review of critical function plans	End December		
Other health and safety			
Equalities			
Review equalities report	Yearly (by end of		

	January)		
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2019/2020 Risk Register & Action Plan

Last updated by	C Clarke	09/11/2020
Approved by		
Document Owner		

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Risk Matrix

PROBABILITY or LIKLIHOOD	Almost definite P6				
	Almost certain P5				
	Probable P4				
	Possible P3				
	Hardly ever P2				
	Never P1				
		I1 Negligible	I2 Minor	I3 Major	I4 Critical
		IMPACT			

▲ (ADC) CR032b-c Level of central government funding 2020 onwards-

Current

Compare

Description

Likelihood

Impact

Impact **3 Critical**

Likelihood **3 Low**

Score **9** ↓

Rectangular Snip

Next Assessment due 01 Jan 2021

Update ▾

Assessment ▲ **3x3 Critical - Low**

Date Assessed 27 Oct 2020

● (ADC) CR072 Risk of Government's Waste strategy setting unattainable targets around recycling and service provision. Including the requirement to provide free garden waste service and separate food waste collections-

Current

Compare

Description

Likelihood

Impact

Impact **3 Critical**

Likelihood **4 Significant**

Score **12** =

Next Assessment due 01 Jan 2021

Update ▾

Assessment ● **3x4 Critical - Significant**

Date Assessed 21 Sep 2020

▲ (ADC) CR083 Failure to Support and Safeguard Vulnerable people-

Current

Compare

Description

Likelihood

Impact

Impact **3 Critical**

Likelihood **3 Low**

Score **9**

Assessment ▲ **3x3 Critical - Low**

Date Assessed **21 Sep 2020**

Next Assessment due 01 Jan 2021

Update ▼

✓ (ADC) CR032b-a Business Rates appeals are higher than forecast-

Current

Compare

Description

Likelihood

Impact

Impact **2 Marginal**

Likelihood **3 Low**

Score **6**

Assessment ✓ **2x3 Marginal - Low**

Date Assessed **27 Aug 2020**

Next Assessment due 01 Jan 2021

Update ▼

Risk Review Timetable

	April 20	May 20	June 20	July 20	August 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	March 21
Cabinet			X									X
CLT		X			X		X			X		
DMT		X		X		X		X		X		X
Service areas	X		X		X		X		X		X	
Programme Boards **		X		X		X		X		X		X

**** where there is no Programme Board then the Service Director in their role as Corporate Programme Lead will review the risks with the Project Manager. For Programme Boards a risk report on live projects will be produced by the Corporate Performance and Improvement Team.**

Previous Cabinet reports are held locally on the s drive as well as published on Modern.gov as part of the agenda for the meeting.

Risk Management reporting: This is held in Pentana and is updated in real time and available on request from Vicky Green the Corporate Performance Lead.



Risk Appetite Framework

Version	Date	Status	Author	Change Description
V0.1	29/10/2020	Draft	Vicky Green	New framework in line with Audit recommendations
V0.2	10/11/2020	Draft	Vicky Green	Additional comments added from Jo Froggatt and Chris Clarke
V2.0	20/01/21	Final	Jo Froggatt	Final version for Audit Committee

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Risk Appetite

Risk appetite definition

'The level of risk that the Council and its leadership team are willing to take on, accept, tolerate or be exposed to in pursuit of Council objectives.'

Why define risk appetite?

Our risk appetite should clarify the options available to us, the risks that we can take and those which we need to avoid or reduce as a priority.

A risk appetite framework has been formalised in conjunction with the Council's Corporate Risk Strategy to provide clear guidance to all officers, managers, members and partners on the level of risk which can be accepted. It should be used to ensure consistency in, and accountability for:

- The reporting and management of existing or emerging risks
- The extent of governance arrangements and controls required
- Assessments of the suitability of proposals (savings, strategies, policies etc.)

Risk appetite levels

The Council uses the following definitions of risk appetite levels. At each level there is a *balance between risk and reward*, with 'hungry' risk appetite offering the highest risk and reward and 'averse' offering the lowest.

- ❖ Hungry - Where we seek out innovative delivery options and choose options offering the highest reward despite significant risks which are not able to be managed. Activities themselves may potentially carry, or contribute to, a high (red) residual risk.
- ❖ Open - Where we consider all potential delivery options, seek greater reward, are aware of the risks and can put in place actions to moderate these risks. Activities themselves may potentially carry, or contribute to, a moderate / high residual risk.
- ❖ Cautious - Where we seek to deliver safe options with a low degree of risk and limited reward. Activities undertaken may carry a high degree of inherent risk that is deemed controllable to a large extent.
- ❖ Minimalist - Where we seek to deliver very safe options with a low degree of risk which will return a very limited reward. Potential for reward / pursuit of opportunity is not a key decision driver.
- ❖ Averse - Where we focus on avoiding risk & uncertainty. Activities undertaken will be those considered to carry virtually no inherent risk.

The Council's risk matrix is used to measure the likelihood and impact of potential risk events. The methodology is explained fully as part of Step 2 (Risk Analysis) of the risk management process outlined in the [Council's Corporate Risk Strategy document](#).

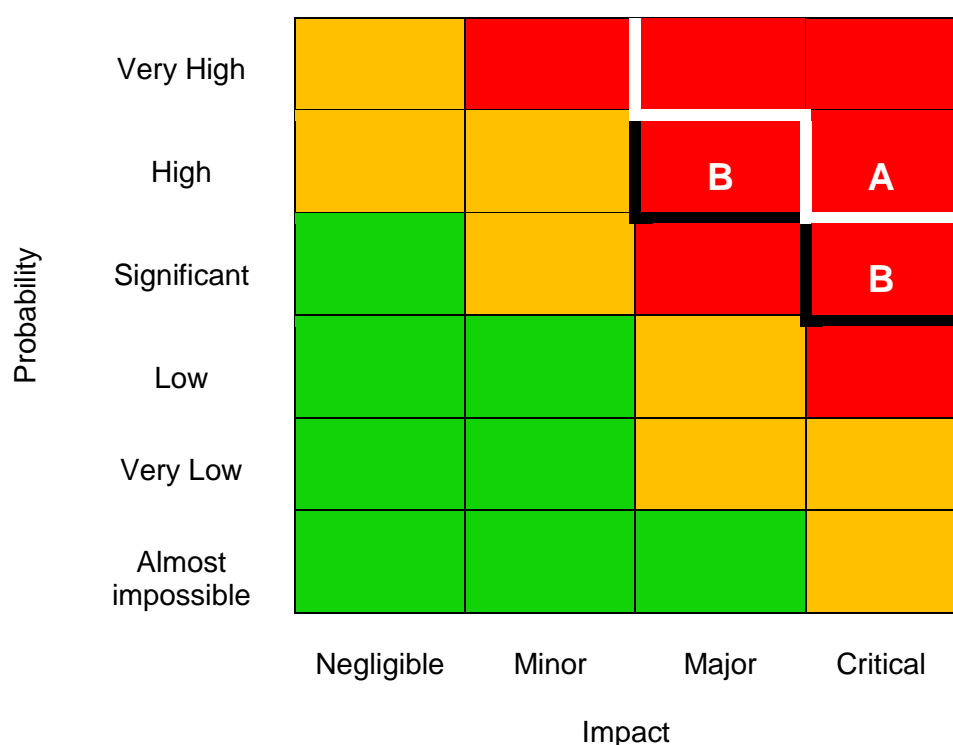
Risk Appetite Statement

We are not averse to taking risks, and our approach is based on judgement of the circumstances and the changing environment surrounding each potential risk and an assessment of its impact. This means:

- When we review existing or emerging risks we intervene to the extent necessary to manage risks within appetite.
- In making new decisions we ensure any risk exposure is within the same common risk appetite boundaries. Risks identified will be stated and assessed in the EDR and ODR documents.

i. Overall Risk Appetite and Risk Tolerance

At a summary level, we have established the broad levels of residual risk which may be accepted or tolerated for overall general application, monitoring and control.



The Council's overall broad risk appetite is displayed in the risk matrix below:

Risk rating Score	Risk rating action required
18-24 (A)	Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks. The Council is not willing to take risks at this level and action should be taken immediately to manage the risk. Corporate Risks, monitored by CLT
15-16 (B)	These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible. Corporate Risks, monitored by CLT

5-12	These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase. Corporate Risk only if deemed threat to delivery of Corporate Objectives
3-4	These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk.
1-2	Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.
Impact 4, Likelihood 1	Rare events that have a catastrophic impact form part of the Council's Business Continuity Planning response.

Key Principles

1. Considering overall risk appetite and tolerance levels is mandatory as a starting point
2. **An assessment against the 'Detailed Risk Appetite' must be made before making any decisions** on risk acceptance, or the required mitigations

ii. Detailed Risk Appetite

An overall corporate risk appetite has been set as a guiding principle for all residual risks as it is rare for a significant risk facing the Council to be purely composed of just one type of risk, or to impact upon only one directorate. The Council's large-scale and significant risks are interrelated, and often form part of a wider collection or cluster of risks.

Whilst an awareness of risk interdependencies is important, the Council has set a greater risk appetite for some areas than others and this needs to be applied in any risk analysis and decision making.

All risk assessments must be made against five standardised perspectives/lenses which each have a distinct risk appetite as follows:

- 'Open' risk appetite – not to be exceeded for Operational and Financial risks.
- 'Cautious' risk appetite - not to be exceeded for Legal, Reputational and Commercial risks.

The extent of risk acceptance and the urgency and extent of mitigation required must be a product of the risk assessment against the five risk perspectives and the risk appetites set.

The risk assessment tool in the Risk Management Strategy provides guidance on how each type of risk should be dealt with.

The Council's approved Risk Appetite

- ✓ **'Open'** risk appetite is acceptable as an upper risk limit (boundary) for
 - Operational Risk
 - Financial Risk
- ✓ **'Cautious'** risk appetite is acceptable as an upper risk limit (boundary) for
 - Legal and Regulatory Risk
 - Reputational Risk
 - Commercial Risk

Risk Perspectives:

1. Financial Risk

Risk to the Council's balance sheet, assets and liabilities, funding, income and spending levels.

5. Operational Risk

Risks to the effective and efficient delivery of Council services and business continuity.

2. Reputational Risk

Risks of adverse or damaging perception of the Council by the general public and Ashfield residents.

4. Legal Risk

Risks of breaching the law, legal action, losses, fines and other sanctions arising from non-compliance with laws and regulations.

3. Commercial

The consequences of weaknesses in the management of commercial partnership resulting in poor performance and failure to meet objectives.

iii. Application of Risk Appetite

In recognising the diversity of the Council's functions and operating environments, the Council's risk appetite is designed to enable delivery of effective innovation and change within clear boundaries to ensure strong governance and stewardship.

A key principle is of accountability. Whilst the opportunities for well managed risk-taking have been formally established, those providing risk information to support decision makers are responsible for robust risk assessments and clear communication of decision-related risk. In turn, decision makers are responsible for approving decisions with full consideration of the associated risks in accordance with the Council's risk appetite.

- ✓ Risk appetite should not be applied as a rigid target, but as a level of risk that we are willing to take if supported by a strong consideration of financial and non-financial costs, benefits and risks.

- ✓ A risk appetite decision making guide has been produced in figure 1. It should be used to communicate the risk associated with decisions, and ensure the Council's risk appetite is not exceeded.
- ✗ It is not acceptable to make decisions which exceed the risk appetite, or to fail to effectively measure and manage new or existing risks.

iv. Approach to Risk Appetite

The Council's Risk Strategy outlines how risks should be identified, assessed, managed and monitored through the different activities and functions of the Council in order to meet the overarching risk appetite requirements.

This is to ensure that:

- Risk registers are widely used to ensure risk appetite is not systematically breached and that all risk are managed with risk tolerance.
- When making decisions, there is a strong awareness of the opportunities available for taking risk, together with the accountabilities for managing any risk exposures.

The Risk Appetite Decision Matrix (Appendix 1) outlines the principles and characteristics demonstrated at different risk appetites, and should be used as the Council's common frame of reference when assessing and communicating risk appetite.

Risk Appetite – Decision Matrix

The following table provides a sample of risk appetite developed against a selection of the risk categories recommended in the government orange book for risk appetite.

Risk Appetite	Risk Appetite					
	Averse	Minimal	Cautious	Open	Eager	
	Financial	Avoidance of any financial impact or loss, is a key objective.	Only prepared to accept the possibility of very limited financial impact if essential to delivery.	Seek safe delivery options with little residual financial loss only if it could yield upside opportunities.	Prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels.	Prepared to invest for best possible benefit and accept possibility of financial loss (controls must be in place).
	Operations	Defensive approach to operational delivery - aim to maintain/protect, rather than create or innovate. Priority for close management controls and oversight with limited devolved authority	Innovations largely avoided unless essential. Decision making authority held by senior management.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Management through leading indicators.	Innovation supported, with clear demonstration of benefit / improvement in management control. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to ‘break the mold’ and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.
	Reputation	Zero appetite for any decisions with high chance of repercussion for organisations’ reputation.	Appetite for risk taking limited to those events where there is no chance of any significant repercussion for the organisation.	Appetite for risk taking limited to those events where there is little chance of any significant repercussion for the organisation.	Appetite to take decisions with potential to expose organisation to additional scrutiny, but only where appropriate steps are taken to minimise exposure.	Appetite to take decisions which are likely to bring additional governmental / organisational scrutiny only where potential benefits outweigh risks.
	Legal	Play safe and avoid anything which could be challenged, even unsuccessfully.	Want to be very sure we would win any challenge.	Want to be reasonably sure we would win any challenge.	Challenge will be problematic; we are likely to win and the gain will outweigh the adverse impact.	Chances of losing are high but exceptional benefits could be realised.
	Commercial	Zero appetite for untested commercial agreements. Priority for close management controls and oversight with limited devolved authority.	Appetite for risk taking limited to low scale procurement activity. Decision making authority held by senior management.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Management through leading indicators.	Innovation supported, with demonstration of benefit / improvement in service delivery. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to ‘break the mold’ and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.