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ASHFIELD DISTRICT COUNCIL

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

Agenda

Audit Committee

Date:	**Monday, 31st January, 2022**
Time:	**7.00 pm**
Venue:	**Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield**

For any further information please contact:

Lynn Cain

lynn.cain@ashfield.gov.uk

01623 457317

(Please note a training session in relation to Treasury Management has been arranged for Audit Committee Members to take place prior to the meeting at 6pm. The session is being conducted by an external trainer who will be in attendance at the event remotely.)

If you require an adjustment to enable you to participate or access the meeting, please contact the Democratic Services team at least 48 hours before the meeting.

Audit Committee

Membership

Chairman: Councillor David Walters

Councillors:

John Baird	Jim Blagden
Will Bostock	Christian Chapman
Kevin Rostance	Dave Shaw

FILMING/AUDIO RECORDING NOTICE

This meeting may be subject to filming or audio recording. If you have any queries regarding this, please contact Members' Services on 01623 457317.

SUMMONS

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

Theresa Hodgkinson
Chief Executive

AGENDA

A Member of the Committee is asked to move:-

“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.”

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AUDIT COMMITTEE

Meeting held in the Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield,

on Monday, 18th October, 2021 at 7.00 pm

Present:	Councillor David Walters in the Chair; Councillors John Baird, Will Bostock, Christian Chapman and Sarah Madigan (as substitute for Jim Blagden).
Apologies for Absence:	Councillors Jim Blagden and Dave Shaw.
Officers Present:	Bev Bull, Lynn Cain, Ruth Dennis and Peter Hudson.
In Attendance:	Michael Butler and David Hoose (Mazars). Hannah McDonald and Mandy Marples (CMAP).

AC.11 Declarations of Disclosable Pecuniary or Personal Interests and/or Non-Registrable Interests

No declarations of interest were made.

AC.12 Minutes

RESOLVED
that the minutes of the meeting of the Committee held on 26 July 2021, be received and approved as a correct record subject to the following amendment to Minute No. AC.7 (first paragraph) as follows:

"Mandy Marples, CMAP Audit Manager, presented the Internal Audit Annual Report for 2020/21 and as Chief Audit Executive, had reached an overall opinion that there was currently a…

Current Text
…'satisfactory system of internal audit' (the highest rating permissible) at the Council. Findings had indicated on the whole, controls were satisfactory, and management had been supportive in implementing any suggested enhancements via an action plan for improvement.

Amended Text
…Satisfactory System of Governance, Risk and Internal Control at the Council. Findings indicated that on the whole, arrangements were satisfactory, although some enhancements may have been recommended."

AC.13 MAZARS: Audit Completion Report

David Hoose presented the Audit Completion report for Mazars to those charged with governance for 2020/21.

Committee Members acknowledged that the audit had been clean with good progress being made. The work was substantially complete and there were currently no matters which would require modification of their current audit opinion.

Outstanding Matters
The outstanding matters (amber status), as outlined within the report at page 15, had now all been completed since publication of the agenda with the Property, plant and equipment matter (red status) remaining on track. In relation to the Whole Government Accounts (green status), guidance from central government in relation to the 2020/21 process was still awaited prior to any work commencing as planned.

Significant Findings
In relation to any significant findings from the audit, as outlined in Section 4 of the report, no issues had been identified that needed to be brought to the attention of Members.

Unadjusted Misstatements
A matter brought to Mazars' attention by the Nottinghamshire Pension Fund auditors regarding an identified 0.23% difference (increased) between the estimated 2020/21 Fund investment asset value used by the Actuary to prepare the employers' IAS19 valuation reports and the 2020/21 Fund financial statements being audited, had been disclosed as a difference £289k and this had not been classed as material in relation to the audit.

Adjusted Misstatements
Council Finance Management had identified an adjustment to the accounts of around £1.5million in relation to Property, plant and equipment which would be adjusted in the final accounts. This would have no impact on the Council's outturn position.

Internal Control Recommendations
There were no internal control recommendations identified as part of the 2020/21 financial audit so focus had been on an internal control recommendation disclosed within 2019/20 that remained open regarding Property, plant and equipment.

Value For Money Conclusion
Work was yet to be completed in respect of the Council's arrangements for the year ended 31 March 2021 but to date, no significant weaknesses in arrangements had been identified. Work was ongoing at the present time. It was noted that the Value For Money position would need to be published within 90 days of the Accounts being approved.

RESOLVED
that the Audit Completion report for 2020/21, as presented to Committee by Mazars, be duly received and noted.

Due to temporary technical problems with the electronic presentation equipment in the Committee Room, the Chairman advised that in accordance with Council Procedure Rule 4.1 (Order of Business), agenda item 5 (Audited Statement of Accounts 2020/21) would be taken at the end of the agenda. All Members present agreed with this course of action.

AC.14 Financial Management Code Self-Assessment

The Council's Chief Accountant presented the report and outlined the main principles of the CIPFA Financial Management Code (the FM Code) for good financial accounting. Local Authorities were required to complete a self-assessment of their assessed level of compliance with the standards contained in the FM Code and Members duly considered the completed self-assessment and action plan as outlined at Appendix 1.

RESOLVED
that the Council's position against the CIPFA Financial Management Code self-assessment requirements and the action plan as presented, be received and noted.

AC.15 Treasury Management Mid-Year Report 2021/22

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 and which covered the following:

- An economic update for the 2021/22 financial year as at 30 September 2021
- The Council's capital position (including prudential indicators)
- The Council's investment portfolio for 2021/22
- The Council's borrowing position for 2021/22.

RESOLVED that

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

b) the changes to the 2021/22 Prudential Indicators following in year changes to the 2021/22 Capital Programme, as detailed in the report, be approved.

AC.16 Audit Progress Report

Mandy Marples, CMAP Audit Manager, presented the report and summarised audit progress as of 18 October 2021.

Members were asked to note one change to the plan regarding the IT Audit for the Council's ICT Asset Inventory. During preliminary work, the Council recognised that there was a body of work required to bring the inventory up to date. With the approval of the Director of Legal and Governance, the audit had therefore been removed from the plan and replaced with a review of IT

Key Controls and would be included back into the audit plan following completion of the work being undertaken. Th IT Key Controls audit would ensure that essential IT Controls continued to operate as intended.

Four pieces of work had been finalised since the last meeting and all four had received reasonable assurances:

Financial Health & Resilience
Teleworking Security
Environmental Health
PCI – Compliance in
Organisational Development.

Members also received an update in relation to outstanding recommendations and their current status including two recommendations that had been superseded due to the pandemic.

During the ensuing discussion, a Member raised concerns (and asked for them to be formally noted) that the IT Council's ICT Asset Inventory review had been postponed due to the inventory documentation being out of date and was of the belief that the review should be undertaken regardless. Committee were informed that management were aware of the situation and had already commissioned an outside resource to carry out the work to update the inventory as required.

RESOLVED that

a) audit assignment progress as of 18 October 2021, as presented to Committee, be received and noted;

b) the Director of Resources and Business Transformation be invited to attend the next meeting of the Committee to advise Members on progress regarding the ICT Asset Inventory update.

AC.17 Audited Statement of Accounts 2020/21

The Council's Corporate Finance Manager (and Section 151 Officer) provided a presentation to the Committee giving details of the audited Statement of Accounts for 2020/2021.

RESOLVED that

a) approval be given to the audited Statement of Accounts for 2020/21 subject to the outstanding items identified in the External Auditors Completion Report 2020/21;

b) delegated authority be granted to the Corporate Finance Manager (Section 151 Officer), for final approval of the audited Statement of Accounts for 2020/21, subject to a satisfactory outcome of outstanding items with a proviso to report back to Audit Committee details of any changes, if required.

The meeting closed at 8.20 pm

Chairman.

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20 December 2021

Dear Committee Members

Conclusion of pending matters – Audit Completion Report for Ashfield District Council

Following on from our recent meeting and as required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that were marked as outstanding within the Audit Completion Report dated 7 October 2021.

The outstanding matters and the conclusions reached are detailed below:

Audit area	Status	Description of outstanding matters
Fees and charges	Complete	We have received the residual audit evidence and our work is complete. There are no further matters arising to report to the Committee.
COVID-19 grants	Complete	We have received the residual audit evidence and our work is complete. There are no further matters arising to report to the Committee.
Property, plant and equipment	Complete	We have received the residual audit evidence and our work is complete. The Local Audit Team have identified a total of 2 Internal control recommendations that need to be bought to the attention of members. Refer to Appendix A for further information.
Debtors	Complete	We have received the residual audit evidence and our work is complete. There are no further matters arising to report to the Committee.

Audit area	Status	Description of outstanding matters
Creditors	Complete	We have received the residual audit evidence and our work is complete. There are no further matters arising to report to the Committee.
Cash	Complete	We have received the residual audit evidence and our work is complete. There are no further matters arising to report to the Committee.
Whole of Government Accounts (WGA)	Incomplete	The National Audit Office's Group Instructions for local authority 2020/21 audits remain unavailable and consequently WGA returns, and audit certificates cannot be issued at the present time. We will aim to complete this work as soon as these instructions are available and report back to the Audit Committee on completion.
Audit quality control and completion procedures	Complete	We have undertaken the outstanding procedures and received the residual audit documentation required and our work is complete.

If you wish to discuss these or any other points, then please do not hesitate to contact me. We have attached our audit report wording to this letter for reference. Refer to Appendix B for further information.

Yours sincerely

David Hoose
Partner

For and on behalf of Mazars LLP

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Appendix A – New Internal Control Recommendations

Medium deficiencies in internal control – Level 2

Description of deficiency

The Local Audit Team have identified a difference between the source records maintained by the Council and the Valuer relating to floor areas that has led to a misstatement (unadjusted) in the carrying value of land and buildings. Although the misstatement is below our trivial threshold, there were some large individual variances; representing both upward and downward movements.

Potential effects

Inaccurate property records being maintained.

Recommendation

The Council needs to ensure that accurate records are maintained for all assets and undertake an annual reconciliation between base data and information provided/ used by the valuer.

Medium deficiencies in internal control – Level 2

Description of deficiency

The Local Audit Team have identified a few instances, where there was no clear audit trail in regard to the source evidence and calculations used within the Property Beacon valuation approach.

Potential effects

The Local Audit Team may be unable to substantiate source evidence for queries surrounding the valuation process.

Recommendation

The Council needs to ensure that working papers are kept up to date and that there is a clear audit trail that allows the Local Audit Team to efficiently re-perform.

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Appendix B – Audit Report

Independent auditor's report to the members of Ashfield District Council

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Ashfield District Council ("the Council) for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account – Income and Expenditure Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of Investment property assets

We draw attention to Note 2 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's investment property assets. As disclosed in Note 2 of the financial statements, the Council's valuers included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Finance Manager's (& S151 Officer) of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Corporate Finance Manager's (& S151 Officer) with respect to going concern are described in the relevant sections of this report.

Other information

The Corporate Finance Manager's (& S151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Corporate Finance Manager (& S151 Officer) for the financial statements

As explained more fully in the Statement of the Corporate Finance Manager's (& S151 Officer) Responsibilities, the Corporate Finance Manager (& S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Corporate Finance Manager (& S151 Officer) is also responsible for such internal control as the Corporate Finance Manager (& S151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Finance Manager (& S151 Officer) is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Corporate Finance Manager (& S151 Officer) is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, the Local Government and Housing Act 1989 and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Corporate Finance Manager's (& S151 Officer) incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Corporate Finance Manager's (& S151 Officer) use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

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Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Ashfield District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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Agenda Item 5

Ashfield
DISTRICT COUNCIL

Report To:	**Audit Committee**
Date:	**31ST JANUARY 2022**
Heading:	**APPOINTMENT OF EXTERNAL AUDITORS FROM 2023/24**
Portfolio Holder:	**PORTFOLIO HOLDER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN**
Ward/s:	**ALL**
Key Decision:	**No**
Subject to Call-In:	**NO**

Purpose of Report

This report sets out proposals for appointing the external auditor to the Council/Authority for the accounts for the five-year period from 2023/24.

Recommendation(s)

To recommend to Full Council that the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors for five financial years from 1 April 2023.

Reasons for Recommendation(s)

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council.

Alternative Options Considered

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
- To act jointly with other authorities to procure an auditor following the procedures in the Act.

These alternatives would be more resource-intensive processes to implement for the Council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service.

There is also a risk the Council would fail to appoint an auditor, as a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement.

Detailed Information

The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. All local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
- supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council/Authority. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council/Authority needs to return completed opt-in documents to PSAA by 11 March 2022.

Implications

Corporate Plan:

The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Value for Money Assessment of the Council in each financial year, in accordance with all relevant codes of practice and guidance.   This gives an opinion on the stewardship pf public money in achieving the Council's Corporate Plan priorities.

Legal:

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council/Authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 8 governs the procedure for appointment including that the Council/Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangement, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council/Authority under those arrangements.

Section 12 makes provision for the failure to appoint a local auditor. The Council/Authority must immediately inform the Secretary of State, who may direct the Council/Authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council/Authority.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

Finance:

There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, whilst ensuring the quality of audit is maintained, by entering a large scale collective procurement arrangement.

Budget Area	Implication
General Fund – Revenue Budget	The external audit fees are provided for in the annual budget and MTFS. The MTFS will be updated for changes in the fees from 23/24, following the national procurement process.
General Fund – Capital Programme	Not applicable
Housing Revenue Account – Revenue Budget	Not applicable
Housing Revenue Account – Capital Programme	Not applicable

Risk:

Risk	Mitigation
The Council fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation.	Opting into the sector-led approach through PSAA provides the greatest mitigation against this risk.
Does not achieve value for money in the appointment process.	Opting into the sector-led approach through PSAA provides the greatest mitigation against this risk.

Human Resources

None

Environmental/Sustainability

None

Equalities

None

Report Author and Contact Officer

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Sponsoring Director

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Agenda Item 6

Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**
Date:	**31ST JANUARY 2022**
Heading:	**CAPITAL STRATEGY 2022/23**
Portfolio Holder:	**PORTFOLIO HOLDER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN**
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 DLUHC (formerly MHCLG) 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 DLUHC 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 2022/23 including the Annexes 1-3;

2) for Audit Committee to recommend that Cabinet approves the:
    - Capital Strategy
    - Commercial Property Investment Strategy; and
    - 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.

DLUHC 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 DLUHC 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 DLUHC guidance and CIPFA .
3. Annex 3 shows the process previously used when we acquired Commercial Investment Properties.

The strategy has been refreshed and updated for 2022/23. Changes made to Annex 1 are highlighted yellow.   Annex 2 the Commercial Investment Property indicators have been recalculated for the actual 2020/21 performance, latest forecast for 2021/22 and latest estimates for 2022/23 onwards.

CIPFA issued a revised Prudential Code in December 2021 this states that authorities “must not borrow to invest primarily for financial return”. It also says that it is not prudent for them to make any investment or spending decision that could increase the need for borrowing, unless related to the functions of the authority and where financial returns are “either related to the financial viability of the project in question or otherwise incidental to the primary purpose". Therefore, the changes in the code are aligned to the decision to remove any further investment property purchases from our Capital Programme and Capital Strategy from 2021/22.

Full compliance with the revised Prudential Code is required from 2023/24. The other changes are being reviewed but are not expected to have a material impact, they will be implemented in the Capital Strategy 2023/24.

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	No implications
Housing Revenue Account – Revenue Budget	No implications
Housing Revenue Account – Capital Programme	No implications

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:

None

Environmental/Sustainability

None

Equalities:

None

Background Papers

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

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Appendix 1

ASHFIELD DISTRICT COUNCIL
CAPITAL STRATEGY 2021/22 – 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 £357m as at 31 March 2021 (£353m as at 31 March 2020.)

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 Department of Levelling Up, Housing and Communities (DLUHC), (formerly the Ministry of Housing Communities and Local Government (MHCLG)) 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 (December 2021)
- CIPFA Treasury Management Code of Practice (December 2021).

The Codes issued in December 2021 are to be fully applied from the financial year 2023/24, therefore the requirements of the 2017 codes apply to this 2022/23 strategy.

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://ashfieldintranet.moderngov.co.uk/documents/s19404/Enc.%202%20Corporate%20Plan%20Refresh%20202122.pdf

A new Corporate Plan is developed every four years, the current Corporate Plan was approved by Council on the 26th September 2019 and the latest refresh of the plan was approved by Cabinet on 19th June 2021.

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 Following national changes during 2021, the Council has entered into a new agreement with the DLUHC in relation to how retained Right to Buy (RTB) receipts can be applied. The Authority will recycle within a rolling 5-year period (changed from a 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 40% (previously 30%) of the capital costs of new build and acquisitions of affordable housing. A cap will be introduced on the use of RTB receipts for acquisitions with effect from 1 April 2022 and phased in over 2022-23 to 2024-25. The first 20 units of delivery in each year will be excluded from the cap and therefore, the cap is not expected to impact on our acquisition programme. If the retained receipts are not spent within 5 years, they must be returned to Government with interest. If future actual expenditure matches the budgeted expenditure in the capital programme, the spend requirement will be exceeded up to 31st March 2029. This position will continue to be monitored.

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% have been permissible since 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 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 in 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 £4.383m in 21/22. The prudential borrowing costs are estimated to be £1.498m in 21/22, 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 took the decision to not acquire any further Investment Properties in order that it could continue to access to the PWLB as a funding source for its Capital Programme.

6.5 The revised CIPFA Prudential Code issued in December 2021 states that Authorities "must not borrow to invest primarily for financial return". It also says that it is not prudent for them to make any investment or spending decision that could increase the need for borrowing, unless related to the functions of the authority and where financial returns are "either related to the financial viability of the project in question or otherwise incidental to the primary purpose". Therefore, the changes in the Code are aligned to the decision to remove any further investment property purchases from our Capital Programme and Capital Strategy.

6.6 Following a bidding process, the Council has been awarded funding of £6.27m from the Future High Street Fund, for four schemes in Sutton-in-Ashfield. All four schemes are included on the approved Capital Programme. All four schemes have commenced, and funding has been received based on the annual spending profiles submitted as part of the business cases.

6.7 The Council has successfully secured a Town Deal for both Kirkby-in-Ashfield and Sutton-in-Ashfield from the Towns Fund, securing £62.7m for 17 schemes. The Council is developing full business cases for each scheme, 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 and £3.150m, a 5% upfront payment in 2021/22, to enable the schemes to progress. Both of these funding amounts have been included on the approved Capital Programme.

7 The Current Capital Programme 2021/22 – 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 2022. The current programme covers the following key areas and major schemes:

- Area schemes & General Fund Schemes
  - Towns Fund Programme
  - Future High Street Fund Programme
  - Kirkby Leisure Centre New Build
  - Other Leisure Transformation schemes
  - 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 the District 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 includes 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 Council's 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 may 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 costs.

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 do not include making any loans to third parties. There is currently a consultation ending on the 8th February 2022 on the DLUHC Statutory Minimum Revenue Provision Guidance, which may result in changes that would impact on the viability of Local Authorities giving loans funded by borrowing 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's) set out clear procedures for the approval of capital expenditure, including:

- approval of the capital programme – Full Council (FPR's 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.

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.

Annex 1

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 2022) 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 DLUHC 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 DLUHC 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, Re-assignment and Regear Decision Making and Reporting

6.2.1 The acquisition process was 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 has 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.

6.2.3 This process is also followed where decisions are needed to be made urgently in relation to re-assigning and regears.

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 June/July/August 2021, apart from the DWP properties in Coventry and Rotherham and the Hotel, which are planned to be visited in the following quarter. Regular contact is also 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.

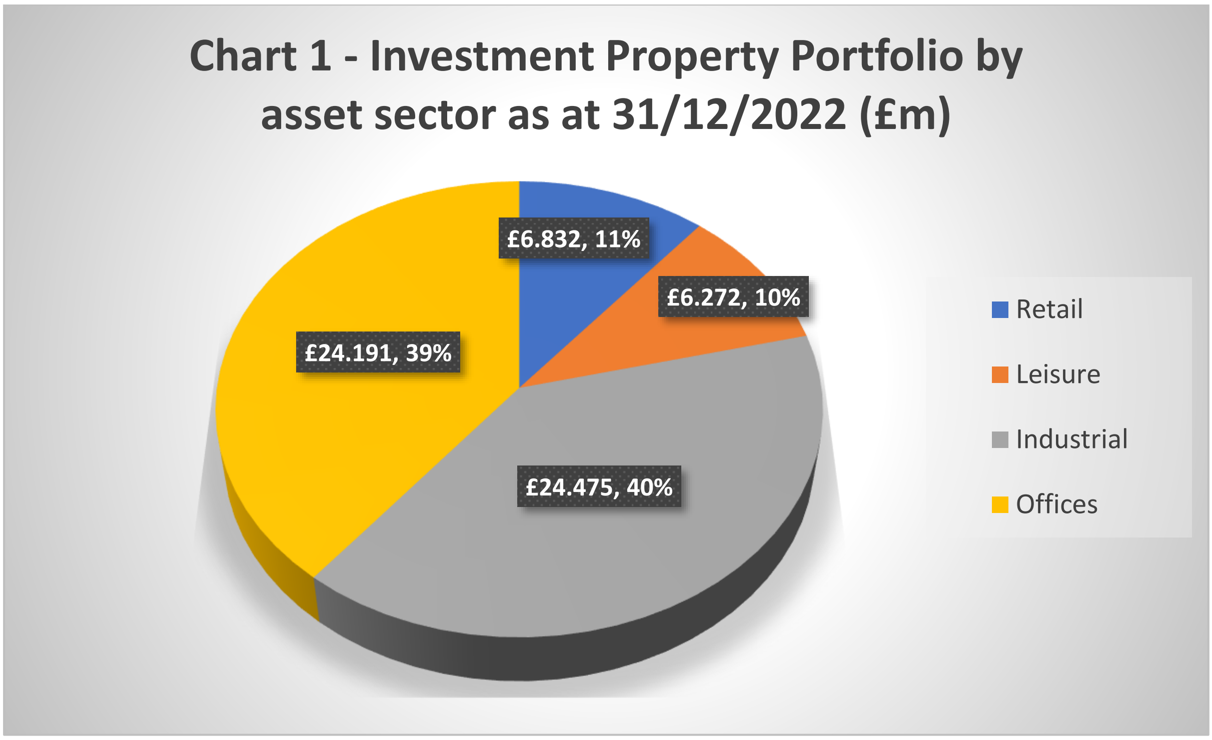
7.2.5 An annual review of the Commercial Property Investment Earmarked Reserve will be carried out as part of the Medium Term Financial Strategy to assess whether there are sufficient resources held in the Reserve. Where it is deemed there are insufficient resources, provision will be made to top up the reserve over a period of time as part of the budget setting process (through the Medium Term Financial Strategy).

Annex 2

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 2022 and approved by Council March 2022 does not include any plans for further Commercial Property Investments.

The DLUHC 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

	2020/21 (Actual)	2021/22 (Forecast)	2022/23	2023/24	2024/25
Debt to Net Service Expenditure	5.73	4.32	4.39	4.34	4.18

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. 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

	2020/21 (Actual)	2021/22 (Forecast)	2022/23	2023/24	2024/25
Commercial Income to Net Service Expenditure	40.8%	31.7%	35.3%	36.2%	34.8%

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 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

	2020/21 (Actual)	2021/22 (Forecast)	2022/23	2023/24	2024/25
Investment Cover	1.24	1.25	1.46	1.51	1.43

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

	2020/21 (Actual)	2021/22 (Forecast)	2022/23	2023/24	2024/25
Loan to Value Ratio	114.76%	112.99%	111.18%	109.32%	107.42%

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

	2020/21 (Actual)	2021/22 (Forecast)	2022/23	2023/24	2024/25
Target Net Income Return	2.50%	2.50%	2.50%	2.50%	2.50%
Estimated Net Income Return	3.07%	3.11%	3.61%	3.73%	3.55%

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

	2020/21 (Actual)	2021/22 (Forecast)	2022/23	2023/24	2024/25
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Gross Income	£4,311	£4,383	£4,714	£4,816	£4,727
Net Income	£1,899	£1,919	£2,228	£2,306	£2,193

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

	2020/21 (Actual)	2021/22 (Forecast)	2022/23	2023/24	2024/25
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Gross Income	£4,311	£4,383	£4,714	£4,816	£4,727
Net Income	£2,906	£2,885	£3,193	£3,271	£3,158

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
2021/22	0
2022/23	1
2023/24	1
2024/25	2
2025/26	1
2026/27	0
2027/28	0
2028/29	3
2029/30	0
2030/31	0
2031/32	1
2032/33	3
2033/34	1
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.

Annex 3

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.	• 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.	• 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.	• 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.	• 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.	• 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.	• 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.	• 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: • 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.	• 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

	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. 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.		
12a	**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.		Director of Legal and Governance
12b	**Instruct legal** – The Estates Manager will complete the official instructions for Legal to undertake the conveyancing process.		Service Manager – Commercial Development
13	**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.		Director of Legal and Governance
14	**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. If the property is being sold as a Transfer of a Going Concern (TOGC), finance will complete a		Corporate Finance Manager

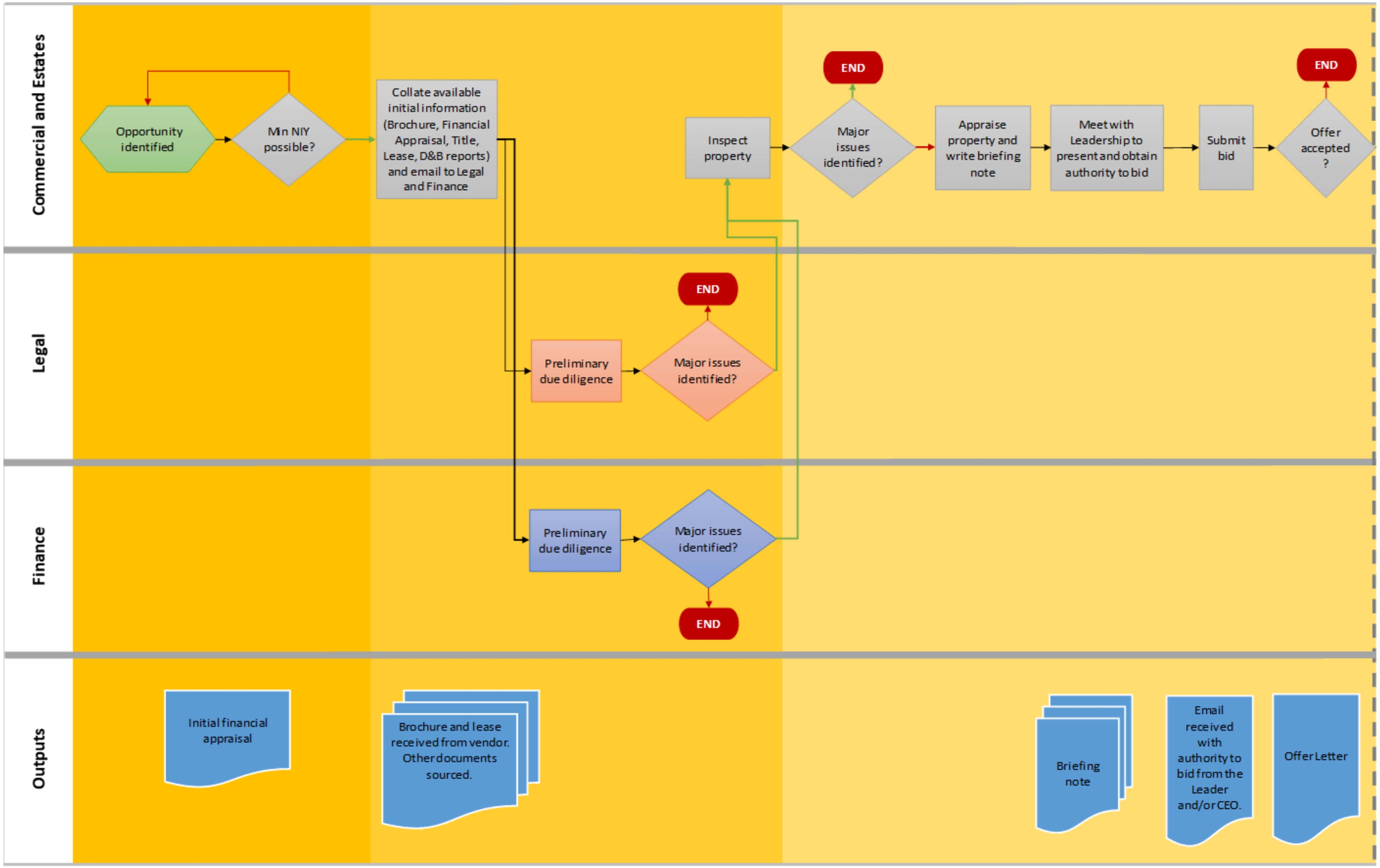
	form to Opt to Tax the property (VAT 1614A). When granted by HMRC, VAT must be paid and passed to HMRC on rents, but VAT will not apply on the purchase of the property. If for whatever reason the purchase does not complete then this can be rescinded by simply informing the HMRC.		
15	**Arrange Insurance –** 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 no later than 1700hrs on the day prior to completion. 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

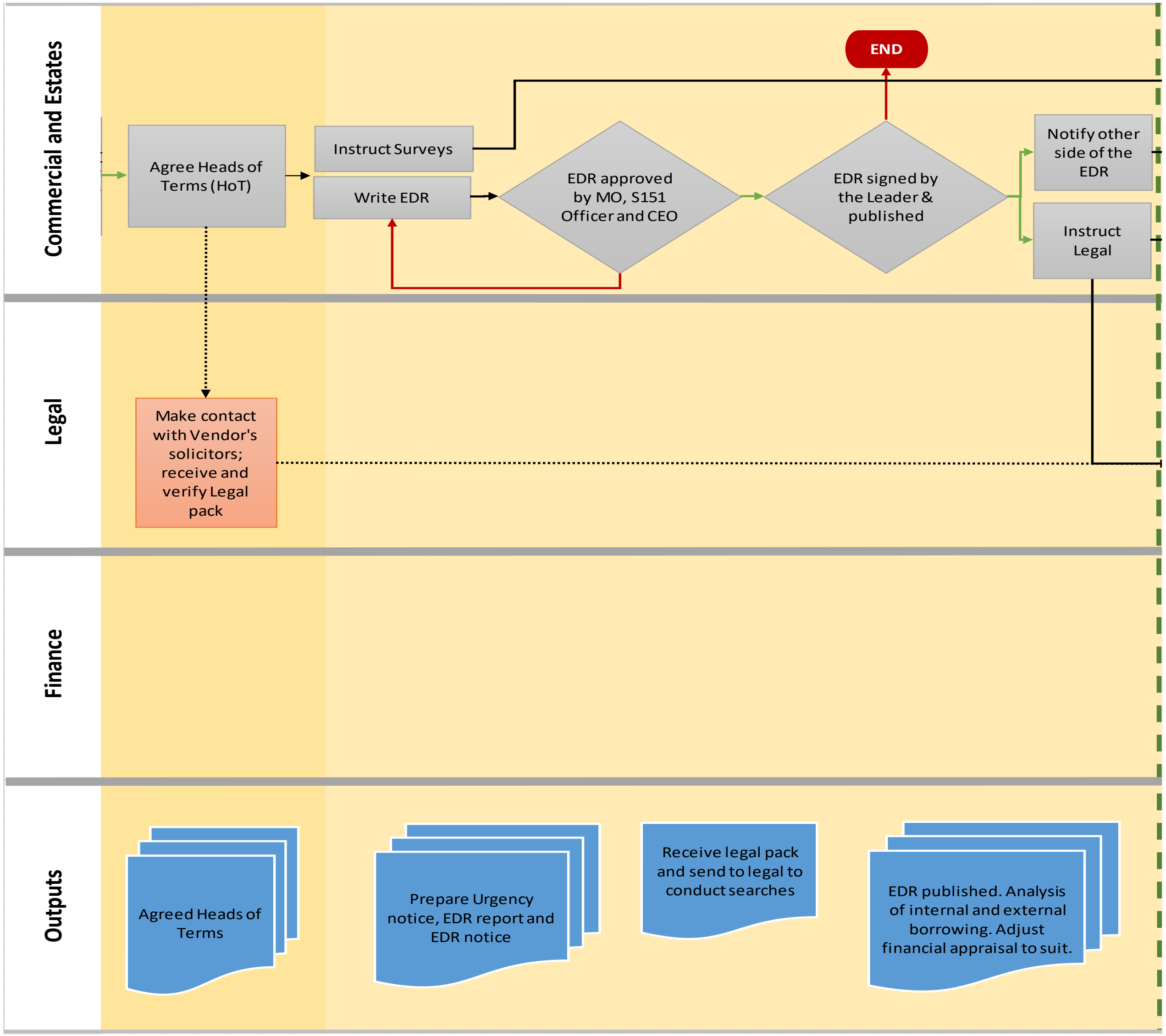
After completion, work remains to complete the entire process before day-to-day management begins.

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

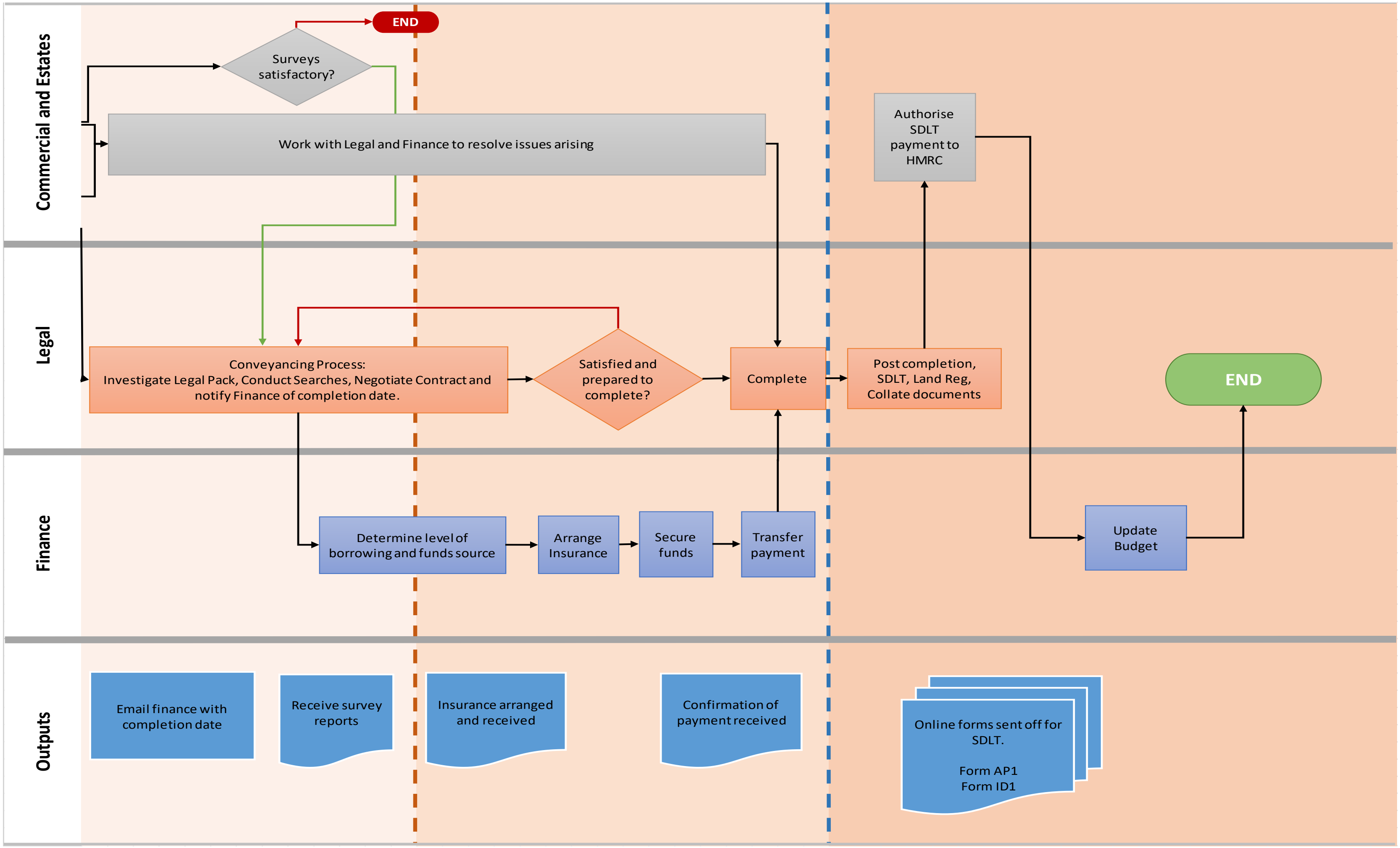
Investment Property Acquisition Process Map - Stage 1: Identification & Bid



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

Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**
Date:	**31ST JANUARY 2022**
Heading:	**TREASURY MANAGEMENT STRATEGY (TMS)**
Portfolio Holder:	**PORTFOLIO HOLDER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN**
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 2022/23. 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 Department for Levelling Up, Housing and Communities (DLUHC) formerly the 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 2022/23, including the changes to the Annual Investment Strategy.
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 (now DLUHC) 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 through its borrowing an 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 2021
- Annex C shows the projections for future interest rates
- Annex D shows the Treasury Management Practice (TMP) for risk management of the Authority.

1. Annual Investment Strategy

   The following changes have been made to the Annual Investment Strategy:

- The minimum sovereign country credit rating has been reduced from AAA to AA+.
- Pooled Funds have been added to types of investments the Council can use.

Reducing the sovereign country credit rating will widen investment opportunities available for the Council. A credit rating of AA+ will be at least as strong as those counterparties the Council uses within in the United Kingdom. Previously the Council had the highest sovereign rating requirements compared to other local authorities in Nottinghamshire. The proposed change will align sovereign rating requirements to other authorities within the County.

Pooled Funds are shares or units in diversified investment vehicles. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Pooled funds whose value changes with market prices and/or have a notice period may be used for longer investment periods.

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

2. 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 prudential 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.

3. 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 taxpayers. Local Authorities are required each year to set aside some of their revenues as provision for this debt.

There is currently a consultation ending on the 8th February 2022 on the DLUHC Statutory Minimum Revenue Provision Guidance. The proposals do not allow capital receipts to be used to replace MRP charges in year. This would mean the following would need to be removed from the 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.

Once the consultation has concluded and any new guidance is issued, the policy will be changed as required. The changes will be reported through the correct governance process.

4. 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 taxpayers 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 the new Kirkby Leisure Centre.

A new indicator has been included which shows the ratio of financing cost to net revenue stream including the investment property income. This indicator shows the positive effect the investment properties currently make to the Authority.

Estimates of the incremental impact of capital investment decisions on Council Tax Band D equivalents is £19.88 in 2022/23, £22.03 in 2023/24 and £4.82 in 2024/25. 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 for Leisure Centre schemes and their associated financing costs in 2022/23 and 2023/24. The indicator reduces significantly in 2024/25 when Leisure Centre Projects are expected to be completed. 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 pressure on the revenue budget or Council Tax Payers.

5. Revised Treasury Management Code

CIPFA issued a revised Treasury Management Code in December 2021. The new code will become effective from 2023/24. The changes mainly relate to additional reporting requirements, such as the inclusion of Environmental, Social and Governance requirements within the Counterparty Policies. The changes required are currently being reviewed and will be incorporated into the TMSS for 2023/24.

<u>Implications</u>

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 (now DLUHC) 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.
General Fund – Capital Programme	No implications
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.

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Appendix 1

Ashfield District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2022/23

1 INTRODUCTION

1.1 In 2021 CIPFA revised the Treasury Management Code and Prudential Code – changes which will impact on future Treasury Management Strategy Statement/ Annual Investment Strategy TMSS/AIS reports and the risk management framework.

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

1.1.3 The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address (Environmental, Social and Governance) ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council; and
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

1.1.4 In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity

which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council’s financial capacity – i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

1.1.5 As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

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

1.2.1 Background

1.2.2 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.

1.2.3 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.

1.2.4 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.

1.2.5 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."

1.3 External Context

1.3.1 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.

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

1.3.3 If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

1.3.4 Rising gas and electricity prices in October 2021 with further rises expected next April and increases in other prices caused by supply shortages and increases in National Insurance taxation next April, are already going to deflate consumer spending power without the Monetary Policy Committee (MPC) having to take any action on Bank Rate to cool inflation.

1.4 Key Principles

1.4.1 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.

1.5 Reporting requirements

1.5.1 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.

1.5.2 **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).

1.5.3 **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.

1.5.4 **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.

1.6 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 (October/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 reports to Cabinet/Council

1.7 Capital Strategy

1.7.1 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

1.7.2 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.

1.7.3 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.

1.7.4 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.

1.8 Non-Treasury Management Investments

1.7.1 The Department for Levelling Up, Housing and Communities (DLUHC) formerly Ministry of Housing and Local Government (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, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

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 31 January 2022.

1.11 Treasury management consultants

1.11.1 The Council 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 currently uses Link Asset Services, Treasury solutions as its external treasury management advisors. The contract for this service commenced on 1st April 2021. The Council monitors the services it receives against the terms of their appointment in the contract.

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

1.11.3 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, that is beyond the advice received by the treasury advisors.

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 2021/22 to 2025/26 is to be presented to Cabinet as a separate agenda item at the 22nd February 2022 Cabinet meeting, with final approval being sought by Council on 3rd March 2022. Members will be asked to approve the capital expenditure forecasts at least annually.

Table 2 - Capital Expenditure

Capital expenditure £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	3.335	31.283	15.173	2.095	3.229	1.368
HRA	5.098	11.999	23.087	16.868	14.287	13.713
Commercial activities / non financial investments	3.305	0.0000	0.000	0.000	0.000	0.000
Total	**11.738**	**43.282**	**38.260**	**18.963**	**17.516**	**15.081**

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	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Receipts	0.441	1.598	3.116	1.280	1.280	1.280
Capital Grants	3.077	12.612	7.928	2.558	1.122	1.122
Capital Reserves	0.104	0.120	0.000	0.000	0.000	0.000
Direct Revenue Financing	4.506	9.600	18.378	14.358	13.007	12.433
Borrowing Requirement	**3.610**	**19.352**	**8.838**	**0.767**	**2.107**	**0.246**

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

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 asset's 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 4 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.

2.7 The Council has an increasing CFR until the end of 2022/23 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. It shows a high-level direction of travel and indicates we may need to take on external debt in future years. The associated costs for external borrowing have been provided for in the Medium-Term Financial Strategy.

Table 4 - Balance Sheet Summary and Forecast

31st March:	2021	2022	2023	2024	2025	2026
Loans Capital Financing Requirement	162.1	175.3	180.2	177.3	175.8	172.3
Less: External Borrowing	(97.0)	(97.0)	(95.5)	(93.5)	(93.5)	(92.0)
Internal (Over) Borrowing	**65.1**	**78.3**	**84.6**	**83.8**	**82.3**	**80.2**
Less: Usable Reserves and Working Capital	-82.7	-95.7	-83.4	-81.3	-77.4	-74.5
Investments / (New Borrowing)	**17.6**	**17.4**	**-1.2**	**-2.5**	**-4.9**	**-5.8**

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**

2.12 **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.

2.13 **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

2.14 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.

2.15 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.

2.16 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 DLUHC 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.

2.17 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.

2.18 **Current portfolio position**
The Council's current treasury portfolio position is set out in **Appendix 'B'**.

2.19 **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.

2.20 **Borrowing strategy**

2.20.1 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. 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.

2.20.2 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.

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

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

2.20.4 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:

- Operating and Finance leases
- Hire Purchase
- Sale and leaseback

2.20.5 **LOBOs:** The Council holds £19.5m 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 2022/23. 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.

2.21 **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.

2.21.1 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 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

2.21.2 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 2022/23 annual budget report.

2.22 **Debt rescheduling**

2.22.1 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).

2.22.2 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).

2.22.3 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.

2.23 **Apportioning interest to the Housing Revenue Account**

2.23.1 The Council currently operates a one pool approach on external debt. 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 the interest rate charged on the Capital Financing Requirement (CFR) of the HRA to 4.43%. The HRA CFR is currently £80.061m. If this does not change the annual interest amount charged to the HRA will be £3.547m.

2.23.2 The Council will credit the HRA each year with its share of interest receivable. This will be calculated by multiplying the average HRA reserve balances 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 DLUHC'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 DLUHC 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 Country limit**.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of *AA+* previously AAA. The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex D Treasury Management Practice, TMP1 Risk Management, b) Approved Countries for Investments. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
(j) Pooled Funds – Multi Asset Income funds, bond funds and property funds.

This (Pooled Funds) will represent a new class of investment available for the Council.

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 DLUHC 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 AA+.

Non-specified investments - those with less high credit quality, those 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.

3.3.2The 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. This report is requesting that the Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from rating agencies. The previous minimum sovereign credit rating was AAA which was the highest credit rating of the Nottinghamshire Local Authorities.

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**.

  Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations. Table 7 below shows the Link forecast Bank Rates for financial year ends (31 March):

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

Year	Base Rate
2021/22	0.25%
2022/23	0.75%
2023/24	1.00%
2024/25	1.25%

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
2021/22	0.30%
2022/23	0.70%
2023/24	1.00%
2024/25	1.00%

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 2022/23 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 Department for Levelling Up, Housing and Communities (DLUHC) 'Guidance on Minimum Revenue Provision'. The latest guidance was issued in February 2018.

4.3 The broad aim of the DLUHC 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 DLUHC 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 DLUHC 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 has moved to a 50 year Annuity method, charging MRP based on a corresponding 50 year PWLB borrowing rate. This is more prudent than the previous 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 into 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 payment 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) <u>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</u>

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 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.

	2022/2023 %	**2023/2024 %**	**2024/2025 %**
Housing Revenue Account	13.92	13.23	12.56
General Fund	21.49	35.03	33.69

The General Fund indicators are based best estimates for NNDR these will be updated to reflect final MTFS for Cabinet in February. The Ratio for the General Fund increases from 2023/24 as a result of reduced Government funding and increased MRP charges due to Leisure Centre Developments.

Table 2 – Ratio of financing costs to net revenue stream for the General Fund including Investment Property income.

	2022/2023 %	**2023/2024 %**	**2024/2025 %**
General Fund	-9.60	-6.70	-6.46

The investment properties have significant financing costs. However, these financing costs are more than offset by the income they generate.

b) <u>Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels</u>

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, on the same agenda as this report.

The suggested indicators for the incremental impact for the next three years are shown in Table 3 below.

Table 3 - Incremental Impact of capital investment decisions on Council Tax and Rent Levels

	2022/2023 £	2023/2024 £	2024/2025 £
General Fund (Band D)	19.88	22.03	4.82
HRA (52 weeks)	0	0	0

Table 3 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 2022/23 – 2024/25.

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 4 below.

Table 4 – Estimates of Capital Financing Requirement.

	31st March 2023	31st March 2024	31st March 2025
	£m	£m	£m
Housing Revenue Account	80.061	80.061	80.061
General Fund	105.303	102.517	101.053
Total	185.364	182.578	181.114

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 2022/23 to 2024/25, as detailed in the Capital Programme Report approved by Cabinet on the 22nd February 2022, is shown below in Table 5:

Table 5 – Housing Revenue Account and General Fund Capital Expenditure estimates.

	2022/2023	2023/2024	2024/2025
	£m	£m	£m
Housing Revenue Account	23.087	16.868	14.287
General Fund	15.173	2.095	3.229
Total	38.260	18.963	17.516

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 6 below.

Table 6 – Authorised Limits for External Debt

	2022/2023	2023/2024	2024/2025
	£m	£m	£m
Borrowing	217	203	199

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 is shown in Table 7.

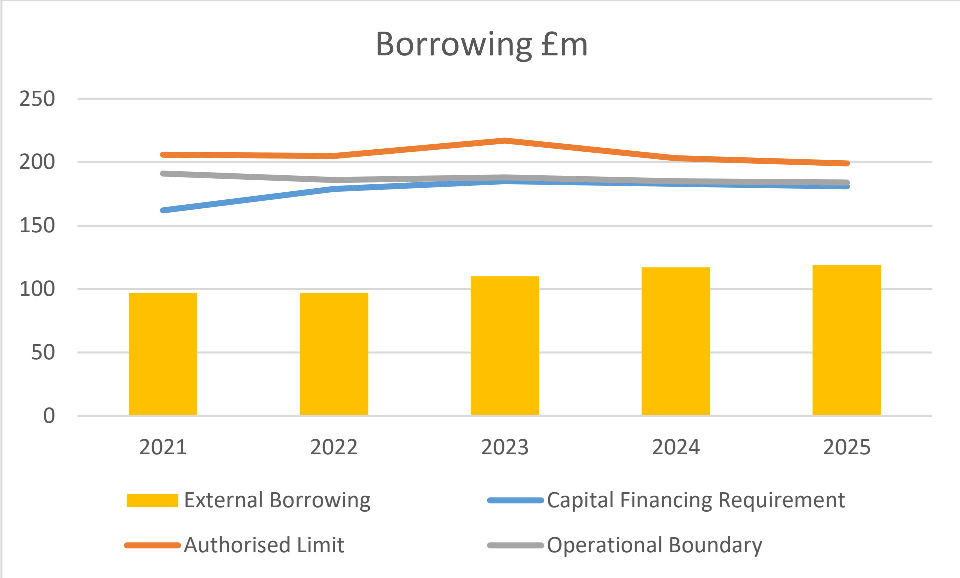
Table 7 – Operational Boundary for External Debt

	2022/2023	2023/2023	2024/2025
	£m	£m	£m
Borrowing	188	185	184

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

Table 8 below shows the gap between the existing external debt to the Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 8 – 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	**2022/2023**	**2023/2024**	**2024/2025**
	£m	**£m**	**£m**
Fixed Rates	217.0	203.0	199.0
Variable Rates (No more than 40% of the operational boundary).	86.8	81.2	79.6

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 31/03/2022	Lower Limit %	Upper Limit %
Under 12 Months	6.70%	0%	5%
Under 24 Months	11.05%	0%	10%
Under 5 Years	15.14%	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	77.02%	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 2021

Maturity Structure of Fixed Rate Borrowing	Amount £m	Forecast Position for 31/03/2022	Lower Limit %	Previous Upper Limit %	Revised Upper Limit %
Under 12 Months	6.500	6.70%	0%	5%	10%
Under 24 Months	10.727	11.05%	0%	10%	15%
Under 5 Years	14.690	15.14%	0%	20%	20%
Under 10 Years	23.736	24.46%	0%	25%	25%
Under 20 Years	36.736	37.86%	0%	40%	40%
Under 30 Years	41.736	43.01%	0%	50%	50%
Under 40 Years	74.736	77.02%	0%	80%	80%
Under 50 Years	97.036	100.00%	0%	100%	100%
50 Years and Above	0.000	0.00%	0%	0%	0%

Table 2 – Council Loans at the 31st December 2021

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	-19.900
Call Accounts	-13.437
Fixed Term Deposits	-12.000
Total Treasury Investments	**-45.337**
Total Net External Debt	**51.699**

Table 3 – Council Money Market Fund investments as at the 31st December 2021

Money Market Fund	**£m**
Aberdeen GBP Liquidity Fund	4.900
Insight Sterling Liquidity Fund	5.000
Federated Short Term	5.000
Aviva GBP Liquidity Fund	5.000
Total	**19.900**

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

Table 4 – Council Call Account Investments as at 31st December 2021

Call Accounts	£m
Barclays Bank	3.486
Handelsbanken	4.951
Santander 35 Day Notice Account	5.000
Total	**13.437**

Table 5 – Council Term Deposit Investments as at 31st December 2021

Term Deposits	£m
Al Rayan Bank	5.000
Landesbank Hessen Thüringen Girozentrale	5.000
Skipton Building Society	2.000
Total	**12.000**

Annex C - Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20th December 2021. These are forecasts for PWLB certainty rates, (gilt yields plus 80 bps).

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

ECONOMIC BACKGROUND

COVID-19 vaccines.

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

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decade high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.
  See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

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

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

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

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

Annex D Treasury Management Practices

TMP1 RISK MANAGEMENT
a) GENERAL STATEMENT

The DLUHC 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.	**Supranational bonds greater than 1 year to maturity**	AAA long term ratings
	(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.).	£5m
	(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail) 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.	£5m
b.	**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.	£5m
c.	**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.	£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 AA+. 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+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

THIS LIST IS AS AT 22.12.2021

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.

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central midlands audit partnership

Ashfield District Council – Audit Progress Report

Audit Committee: 31 January 2022

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Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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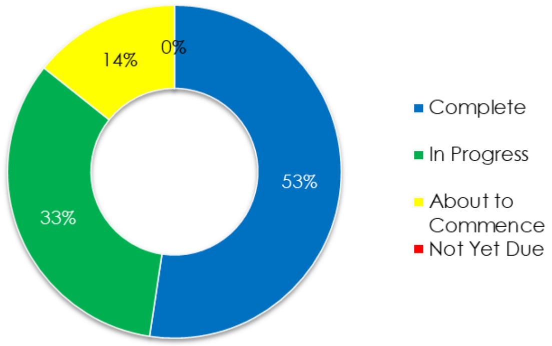
CMAP central midlands audit partnership

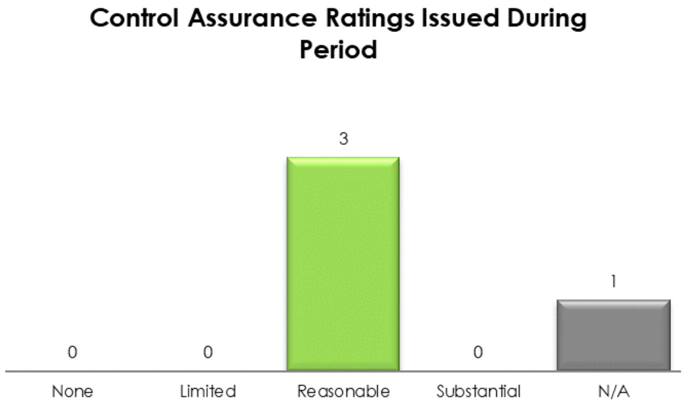
Providing Excellent Audit Services in the Public Sector

AUDIT DASHBOARD

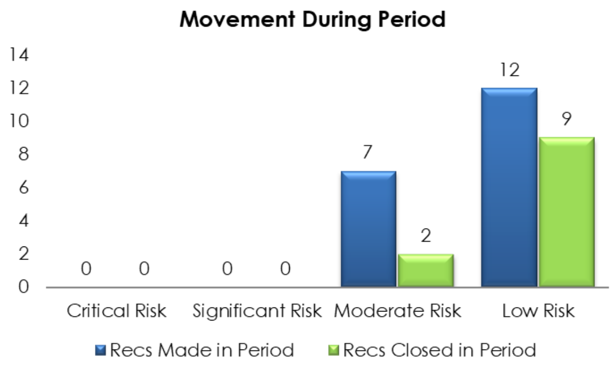
Plan Progress



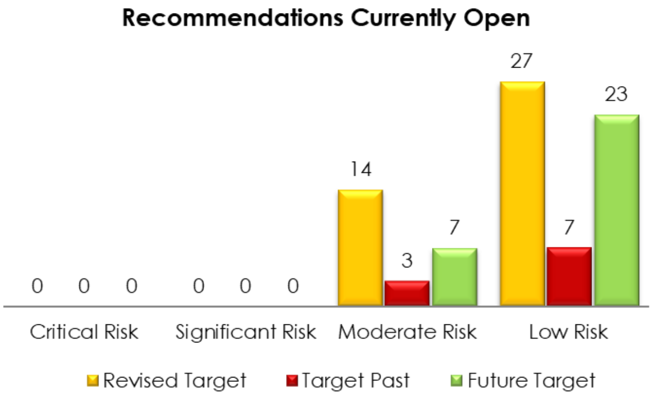
Assurance Ratings



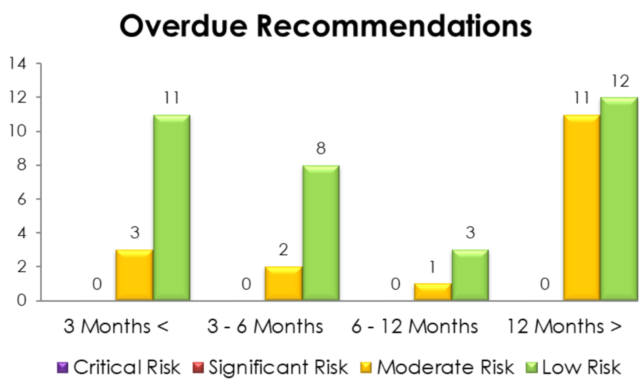
Recommendations



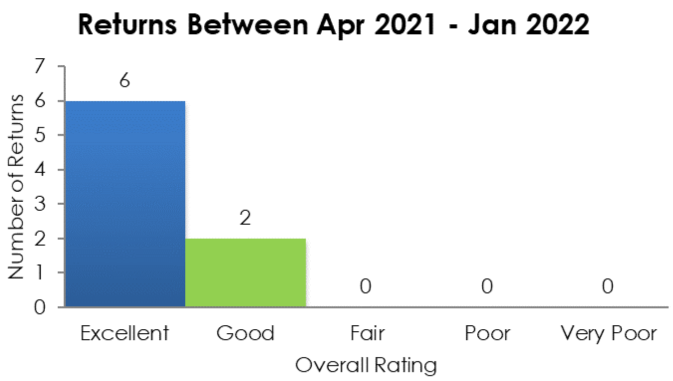
Recommendations



Recommendations



Customer Satisfaction



AUDIT PLAN

Progress on Audit Assignments

The following table provides the Committee with information on how audit assignments were progressing as of 19 January 2022.

2021-22 Jobs	Status	% Complete	Assurance Rating
Scrutiny	In Progress	60%	
Accounting Systems	Allocated	0%	
Creditors (including Purchase Cards)	Allocated	0%	
IT Consultancy – Office 365	In Progress	10%	
IT Key Controls 2021-22	Final Report	100%	Reasonable
PCI in Organisational Transformation	Final Report	100%	Reasonable
Risk Management	Reviewed	90%	
Debtors	Final Report	100%	Reasonable
Homes England Grant Compliance	Final Report	100%	N/A
Payroll	Draft Report	95%	
Planning	Allocated	0%	
Environmental Health	Final Report	100%	Reasonable
Outdoor Recreation	Reviewed	90%	
Selective Licensing	Final Report	100%	Reasonable
Housing Health & Safety Statutory Compliance	Draft Report	95%	
Anti-Fraud & Corruption	In Progress	40%	
B/Fwd Jobs	**Status**	**% Complete**	**Assurance Rating**
Teleworking Security	Final Report	100%	Reasonable
Financial Health & Resilience	Final Report	100%	Reasonable
Management of Fraud Risk	Final Report	100%	Limited
People Management	Final Report	100%	Reasonable
Delegated Decisions	Final Report	100%	Reasonable

Audit Plan Changes

A People Management Audit had been planned to review the Council's system for administering Annual Leave. However, the Council has experienced difficulties getting all employees onto a new system. Therefore, with the approval of the Director of Legal and Governance, we have removed this audit from the plan and undertaken some further work on the Risk Management Audit that is currently underway. We intend to carry out the People Management Audit in the first quarter of the 2022/23 Audit Plan year, subject to discussions with the Corporate Leadership Team.

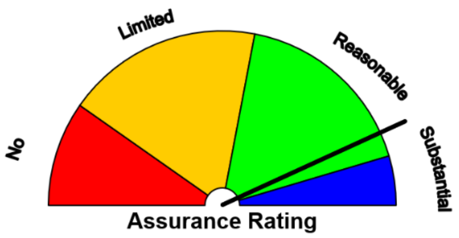
AUDIT COVERAGE

Completed Audit Assignments

Between 6 October 2021 and 19 January 2021, the following audit assignments have been finalised since the last progress update was given to the Audit Committee.

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Debtors	Reasonable	0	0	1	4	0%
Selective licensing	Reasonable	0	0	3	3	0%
IT Key Controls 2021-22	Reasonable	0	0	3	5	0%
Homes England Grant	N/A	0	0	0	0	0%
TOTALS		**0**	**0**	**7**	**12**	**0%**

Debtors

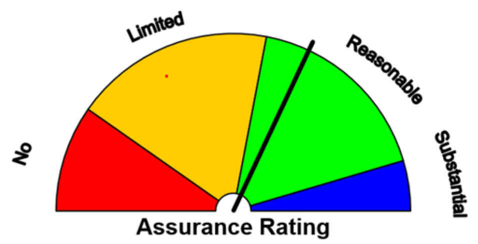


Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Up-to-date policy, procedures and guidance are in place for Debtors and access to the Debtors system is properly administered.	6	4	2	0
Invoices required for the providers of goods and services are accurate and issued in a timely manner.	7	5	2	0
Adequate credit control processes are in place to monitor debts and for the recovery of overdue payments.	6	5	1	0
TOTALS	**19**	**14**	**5**	**0**

Summary of Weakness	Risk Rating	Agreed Action Date
The Debt Collection Policy was out of date and had not been updated and made available on the service areas shared drive and the Council's internet or intranet pages.	Low Risk	31/03/2022
There were several former employees that still had access to the Civica Financials Debtor system, including 2 employees who had changed directorate and still had the same access but with no business need.	Low Risk	31/12/2021
There was a 3-month delay in an invoice being raised due to a service area not having business continuity procedures in place for an absent officer.	Low Risk	31/01/2022

Testing identified that a credit note was raised without appropriate approval and another that had been approved by management, but the approval had not been recorded on the file.	Low Risk	31/12/2021
There were recurring issues with a service area not chasing invoice debt, raising credit notes or amending invoices that were incorrect. These issues had not been escalated to senior management.	Moderate Risk	31/12/2021

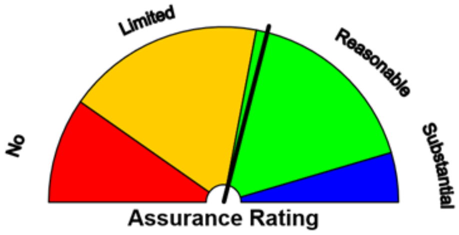
Selective Licensing



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
The selective licensing processes and procedures are adequately controlled, effective and timely.	7	1	6	0
The Council has procedures in place to ensure all the rented properties in the area have applied for and obtained a selective licence.	3	2	1	0
TOTALS	**10**	**3**	**7**	**0**

Summary of Weakness	Risk Rating	Agreed Action Date
The procedural documents for selective licensing were not dated, nor did they have version control.	Low Risk	31/03/2022
The Data Protection statement on the application form for selective licensing referred to the Data Protection Act (1988).	Moderate Risk	31/03/2022
Testing of selective licensing applications noted occasions where documents had not been obtained and retained as evidence that the Council had completed required checks.	Moderate Risk	31/03/2022
The Council had not been enforcing receipt of annual declarations and gas safety certificates for the selective licence properties/landlords.	Moderate Risk	31/03/2022
There had been delays in processing the application forms for selective licensing.	Low Risk	31/03/2022
Testing had identified 2 out of 10 cases where a property had been sold but the Council had not communicated with the new owner to ensure they obtained a licence, if required.	Low Risk	31/03/2022

IT Key Controls 2021-22



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
Network security and data protection issues identified in previous IT Audit coverage are being effectively managed, and assess how well controls are being used to protect information assets and business critical data	18	8	0	10
TOTALS	**18**	**8**	**0**	**10**

Summary of Weakness	Risk Rating	Agreed Action Date
An account that did not represent a dedicated administrative account had been granted local administrator privileges on live servers.	Low Risk	31/03/2022
Access permissions on a sample of 6 S:\ drive directories could not be justified. There was also no regular verification of access permissions on sensitive S:\ drive directories in operation.	Moderate Risk	31/10/2022
Personal and sensitive data was accessible on all user accessible file shares and folders in the Council's IT network.	Moderate Risk	31/10/2022
The number of active domain admins group members was excessive, with 32 enabled accounts, including the entire IT section. A number of the accounts had no recent login activity.	Low Risk	31/03/2022
Non-default local administrator accounts on live servers in the Council's network had no login activity or password change activity in several years.	Low Risk	31/03/2022
Domain admin accounts had been used to login to workstations, which does not align with good practice.	Low Risk	31/03/2022
10 workstations with November 2021 login activity, were operating versions of Windows 10 no longer supported by Microsoft.	Moderate Risk	31/03/2022
Concerns were identified with the configuration and permissions assigned to certain 3rd party software support accounts.	Low Risk	31/10/2022

Homes England Grant Certification	Assurance Rating - Not Applicable

The Council was required to appoint an independent auditor to carry out a compliance audit for a capital grant of £360,000. The scheme was to demolish 2 Community Centres and build affordable housing on these sites and also on a redundant car park.

CMAP were asked to undertake the role of independent auditor and carry out the audit of the Stoney Street Affordable Homes scheme and submit our findings in line with Homes England requirements. The Stoney Street Scheme covers three different sites namely; Stoney Street car park, The Beeches Community Centre and The Poplars Community Centre.

Audit findings are not permitted to be shared with the Council, only Homes England. Homes England will report to the Council prior to 31 March 2022 and the findings will be shared with the Audit Committee at that point.

RECOMMENDATION TRACKING

Final Report Date	Audit Assignments with Open Recommendations	Assurance Rating	Recommendations Open		
			Action Due	Being Implemented	Future Action
14-Feb-19	Risk Registers	Reasonable	1	0	0
10-Jan-19	Depot Investigation	Limited	0	4	0
24-Apr-18	ICT Performance Management	Reasonable	0	2	0
22-Jun-18	Health & Safety	Substantial	0	1	0
16-Aug-19	Fire Safety	Reasonable	0	1	0
12-Mar-19	Treasury Management & Banking Services	Reasonable	0	1	0
03-Dec-19	Data Quality & Performance Management	Reasonable	0	4	0
31-Jan-20	Information Governance	Reasonable	0	2	0
30-Apr-20	Creditors 2019-20	Substantial	0	2	0
27-May-20	Medium Term Financial Plan	Reasonable	0	3	0
09-Jul-20	Digital Transformation	Reasonable	0	3	0
27-Jul-20	Rent Control	Reasonable	0	1	0
16-Nov-20	Disabled Facilities Grants	Reasonable	0	1	0
18-Feb-21	Transformation Project Assurance	Limited	0	1	0
21-Jun-21	Management of Fraud Risk	Limited	0	3	10
10-May-21	People Management	Reasonable	0	6	0
21-Jun-21	Delegated Decisions	Reasonable	4	0	1
16-Aug-21	Teleworking Security	Reasonable	0	4	0
01-Oct-21	Environmental Health	Reasonable	2	0	3
05-Oct-21	PCI Compliance in Organisational Transformation	Reasonable	0	2	0
06-12-21	Debtors 2021-22	Reasonable	3	0	2
06-12-21	Selective Licensing	Reasonable	0	0	6
12-01-22	IT Key Controls 2021-22	Reasonable	0	0	8
		TOTALS	**10**	**41**	**30**

Action Due = The agreed actions are due, but Internal Audit has been unable to ascertain any progress information from the responsible officer.

Being Implemented = The original action date has now passed and the agreed actions have yet to be completed. Internal Audit has obtained status update comments from the responsible officer and a revised action date.

Future Action = The agreed actions are not yet due, so Internal Audit has not followed the matter up.

Audit Assignments with Recommendations Due	Action Due			Being Implemented		
	Significant Risk	Moderate Risk	Low Risk	Significant Risk	Moderate Risk	Low Risk
Risk Registers	0	0	1	0	0	0
Depot Investigation	0	0	0	0	3	1
ICT Performance Management	0	0	0	0	2	0
Health & Safety	0	0	0	0	0	1
Fire Safety	0	0	0	0	1	0
Treasury Management & Banking Services	0	0	0	0	0	1
Data Quality & Performance Management	0	0	0	0	1	3
Information Governance	0	0	0	0	1	1
Creditors 2019-20	0	0	0	0	0	2
Medium Term Financial Plan	0	0	0	0	1	2
Digital Transformation	0	0	0	0	2	1
Rent Control	0	0	0	0	1	0
Disabled Facilities Grants	0	0	0	0	0	1
Transformation Project Assurance	0	0	0	0	0	1
Management of Fraud Risk	0	0	0	0	1	2
People Management	0	0	0	0	0	6
Delegated Decisions	0	1	3	0	0	0
Teleworking Security	0	0	0	0	1	3
Environmental Health	0	1	1	0	0	0
PCI Compliance in Organisational Transformation	0	0	0	0	0	2
Debtors 2021-22	0	1	2	0	0	0
TOTALS	**0**	**3**	**7**	**0**	**14**	**27**

Ashfield District Council – Audit Progress Report

Highlighted Recommendations

The following significant or moderate risk rated recommendations, that have not yet been implemented, are detailed for Committee's scrutiny.

Being Implemented Recommendations

Data Quality & Performance Management	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
The Data Quality Strategy required updating and had not been formally approved by the Council. We recommend that the Data Quality Strategy is reviewed to ensure it is up to date specifically with current processes and organisational structure. The updated strategy should be approved in accordance with the Council's Constitution.	Moderate Risk
Management Response/Action Details	Action Date
The strategy will be reviewed and presented for approval.	30/04/2020
Status Update Comments	Revised Date
This action will be deferred to enable us to not only update the strategy but also make significant changes in alignment with our digital transformation programme. There have been a number of resourcing issues therefore we have taken on an Interim to undertake and complete these tasks. Interim commenced Dec 2021 and this task will be completed by 31/03/2022.	31/03/2022

Information Governance	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
Sensitive, personal data was being stored in locations which were not suitably restricted to only those officers with a genuine business need to access such information. We recommend that management take appropriate action to ensure that all personal, sensitive data is secured in files, within restrictive sub-folders, with access limited to only those officers who have a genuine business need to access such information.	Moderate Risk
Management Response/Action Details	Action Date
The IT Security Policy Framework is under review. As part of this review we will ensure it is updated to take account of GDPR requirements. Specifically, we will introduce the following measures to assist with ensuring access to data is suitably restricted to only those officers with a genuine business need to access such information: - Starters/Transfers/Leavers E-Form – to be completed by the Section Manager. This form will identify access rights of starters, amendments for staff transferring internally and identify when staff leave the Council. This will be used in conjunction/cross-references with the report received from HR on a quarterly basis. - E-Form for completion by Managers/Directors for folder access changes. - Introduction of new file structure guidelines and cascade through ELT/ALT, DMTs and MOD. - Provision of Group Access Permission lists on a quarterly basis to Service Managers for checking and confirmation/amendment. IT to meet with individual Managers to confirm, amend and clarify what is required of Managers as part of this new process.	30/06/2020
Status Update Comments	Revised Date
Actions have been taken to restrict folders and files. Internal Audit will be reviewing	31/03/2022

these actions as part of the ICT Key Controls audit. We are currently in the process of migrating documents to Sharepoint/Teams which will introduce private channels. This will make it easier for managers to check who has access to the data held in them.

ICT Performance Management	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
Despite commitment to performance management in the Council's latest Technology Strategy, we could not find any documented performance management metrics and goals to support this. Similarly, performance metrics for IT did not appear to be subject to annual review, or agreed or monitored by the Council. We recommend that Management defines performance management metrics for the IT service, and implements policies and procedures for monitoring and reporting compliance. Metrics, goals and targets should also be subject to annual review.	Moderate Risk
Management Response/Action Details	Action Date
There is a review of the ICT Helpdesk due shortly where performance metrics will be defined and agreed.	01/09/2018
Status Update Comments	Revised Date
The Service Manager for ICT has updated audit that a prerequisite for this recommendation is the implementation of a new helpdesk system which will have appropriate reporting capabilities. The first version of the ICT Service Desk software is now in place but ICT still need to review its reporting capabilities. The post of Service Desk Team Leader is currently being advertised. The Service Manager for ICT has requested a further extension whilst the newly appointed service desk team leader investigates the implementation of the recommendation.	31/03/2022

ICT Performance Management	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
Reviews of the team's performance in relation to the resolution of incidents and service requests did not appear to comply with a formal schedule, and evidence of previous reviews could not be provided as the actions/discussions were not documented in minutes. We recommend that Management defines a schedule for reviewing performance of incident and request resolution times, and ensures any agreed actions are documented in minutes which are retained.	Moderate Risk
Management Response/Action Details	Action Date
There is a review of the ICT Helpdesk due shortly where performance metrics will be defined and agreed.	01/09/2018
Status Update Comments	Revised Date
The Service Manager for ICT has updated audit that a prerequisite for this recommendation is the implementation of a new helpdesk system which will have appropriate reporting capabilities. The first version of the ICT Service Desk software is now in place but ICT still need to review its reporting capabilities. The post of Service Desk Team Leader is currently being advertised. The Service Manager for ICT has requested a further extension whilst the newly	31/03/2022

appointed service desk team leader investigates the implementation of the recommendation.

Depot Investigation	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
Management and staff were not always adhering to the Council's Leave Policy with meeting requests being used to request and approve leave. We recommend that Management ensure they are complying with the Council's Leave Policy and use the official process to authorise and record leave. After the year end, a sample of leave records should be examined by Management, independently of authorising Managers, to check for accuracy and review the appropriateness of records maintained.	Moderate Risk
Management Response/Action Details	Action Date
Review policy. Implementation of electronic leave request and approval system through MyView. Training and reminder messages for managers and officers. Introduce sample checks.	01/04/2020
Status Update Comments	Revised Date
Policy has been reviewed and circulated to trade unions. Training is still to be undertaken. This has been put on hold due to retirement of the System Administrator and COVID-19. The roll out is almost complete but there are a number of employees who have a digital skills gap or don't have a valid ADC email address in the system. These issues will need to be resolved before implementation is complete.	30/08/2022

Depot Investigation	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
We were informed by the Investigating officer that the Transport Manager's Purchase card had been photocopied and was available for use, unsecured in the general office. We recommend that all Purchase Card holders are reminded of the corporate policy and their personal responsibilities in relation to holding a card. Management should take appropriate action where instances of misuse are found.	Moderate Risk
Management Response/Action Details	Action Date
Carry out a review of the policy and procedure and then roll out to officers through the provision of information and training.	31/10/2019
Status Update Comments	Revised Date
Review of policy and procedure has been completed. A report will be presented to CLT before the 30th June 2021, thereafter the revised policy will be rolled out to Officers and training provided. Training to be completed by the end of October 2021.	31/10/2021

Depot Investigation	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
There were variances between Directorates over the controls in place for the authorisation and the recording and retention of supporting information for Purchase card usage. We recommend that corporate guidance is provided to Card holders which detail how they should be authorising and recording card purchases and the requirements for supporting information retention. The use of Purchase cards should be subject to regular Management oversight.	Moderate Risk
Management Response/Action Details	Action Date
Carry out a review of the policy and procedure and then roll out to officers through the provision of information and training. The revised policy will include a process for ensuring management oversight.	31/10/2019
Status Update Comments	Revised Date
Review of policy and procedure has been completed. A report will be presented to CLT before the 30th June 2021. Thereafter the revised policy will be rolled out to Officers and training provided. Training to be completed by the end of October 2021.	31/10/2021

Digital Transformation	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
The Council did not have signed, up to date and adequate contracts in place for some of the applications tested. We recommend that a review is undertaken to ensure that the Council has a signed, up to date and adequate contract in place for all Council applications. Where contracts are not in place, the Council should take action to formalise the provision and maintenance of applications in use.	Moderate Risk
Management Response/Action Details	Action Date
Solution architecture review to be completed across the portfolio.	31/10/2020
Status Update Comments	Revised Date
This review has now commenced by the Innovations and Solutions Manager and Procurement and Projects Officer. We need to look at each contract and make sure that on renewal contracts are detailed and in place for each application. We have reviewed all of the major applications and will be reviewing the rest by April 22.	30/04/2022

Digital Transformation	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
The contracts register did not include accurate detail for the applications reviewed as part of the audit. We recommend that the Council ensure all application contracts are included in the contracts register where appropriate, and any upgrades or new contract details are recorded on the register on a timely basis.	Moderate Risk
Management Response/Action Details	Action Date
Solution architecture review to be completed across the portfolio.	31/10/2020
Status Update Comments	Revised Date
We have looked at all of the contracts and dates in the contracts register but we	30/04/2022

need to make sure that all of our applications are fully covered. Innovations and Solutions Manager will be doing this work over the next months. Reviewed all of the major applications and will be reviewing the rest by April 22. All the entries on the software register have been reviewed by Solutions Manager and Procurement Officer, to get details of those known and applicable, including contract end dates and dates to review renewals.

Rent Control	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
There was no evidence of which officers had completed and reviewed the annual housing rent reconciliation. There were also a number of reconciling items from prior years which needed to be reviewed and adjustments made to the system where possible to remove these prior year balancing items on the reconciliation. We recommend that documentary evidence is retained to evidence the completion and review of the annual housing rent reconciliation. Also, that the prior year reconciling items are reviewed, and adjustments made to the system where possible to remove these prior year balancing items on the reconciliation.	Moderate Risk
Management Response/Action Details	Action Date
Part 1. This has been completed for 2019/20 but this was after the internal rent audit. Documented on the audit deliverables presented to Mazars. Agree to continue to complete the review annually. Part 2. These reconciling items are to do with system problems within the Open Housing Rent module this has caused errors with some transactions. System fixes are required to correct the balances in the rent groups on the Open Housing System. Until the fixes are completed, this carries forwards incorrect balances, by including these problems, on the Open Housing System. These prior year reconciling items are itemised and documented and do not change year on year. If separate system fixes to the current errors are not possible in the Open Housing System, then a forced fix will be required to the Open Housing System balance on the rent group. A time frame will be set as to when to make this adjustment failing the production of a fix from the software company. Other balances for example minor variance balances and the domestic alarm issue from 2016/17 will be adjusted as soon as possible.	30/09/2020
Status Update Comments	Revised Date
Part 1 completed. Part 2 relies on system fixes by the software provider and is being worked with IT (out of our hands regarding completion date, if at all). The other items are complete. A solution has been given however it requires finance to complete labour intensive changes to the system, therefore the deadline will need to be amended.	31/01/2022

Ashfield District Council – Audit Progress Report

Medium Term Financial Plan	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
A full and comprehensive Medium Term Financial Strategy had not been produced and approved by Members since October 2015. We recommend that a comprehensive Medium Term Financial Strategy is produced as soon as possible and approved by Members, and produced regularly thereafter.	Moderate Risk
Management Response/Action Details	Action Date
Agreed. A full MTFS will be produced which reflects the next spending round announcements in the Autumn 2020. With the impact of the Covid-19 pandemic we know that there will be delays to implementing the Fair Funding Review, level of Business Rates retention and possibly the reset. This, combined with the Governments response to recovering from the financial consequences of the Covid-19 pandemic will vastly increase the uncertainty of future funding streams and this uncertainty will be reflected in the new Strategy. The Strategy will be reviewed annually with amendments being presented to Members and a full Strategy will be produced at least every 4 years, earlier if changes to circumstances necessitate this (e.g. Significant changes to key funding streams, change in administration, etc.).	28/02/2021
Status Update Comments	Revised Date
Delayed due to COVID-19 and a single year settlement being announced for 2021/22. A full MTFS will be produced which reflects the next spending announcements in Autumn 2021. The strategy will be reviewed annually and presented to members. A full strategy will be produced every 4 years.	31/01/2022

Teleworking Security	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
Accounts with Remote Desktop Gateway access permissions were not always being disabled in a timely manner for leavers, creating data protection risks. We recommend that management defines, documents and implements a more comprehensive approach to disabling network access for former employees or 3rd parties. This could include populating the account expiration date in advance, once a leavers date has been agreed with the employee to reduce the risk of administrative error.	Moderate Risk
Management Response/Action Details	Action Date
We will review the process. We do have quite comprehensive processes in place but it is still possible to miss people leaving in the short term (they should get detected later due to another process). We will review each part of the process to ensure they are being carried out properly and look at implementing the "expiration date" where possible.	01/10/2021
Status Update Comments	Revised Date
Process is to be documented and added to Service Desk guidelines. 3rd party accounts are not left active when not in use. It will be raised that we need a proper process in place once HR comes back into the Council.	30/09/2022

Fire Safety	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
Not all entrance doors to flats comply with Fire Safety Regulations. We recommend that the Council reviews all flat entrance doors to identify those which do not comply with Fire Safety Regulations, or those that have failed recent government tests. The Council should then take action to ensure the appropriately accredited fire safety doors are installed at the entrances to all flats.	Moderate Risk
Management Response/Action Details	Action Date
An assessment of all flat entrance doors has been completed and the results forwarded to the Assets & Investment Section for building into future door replacement programme(s). However, due to uncertainties around the manufacture, testing, certification and subsequent affected supply of composite fire doors, it is currently not possible to identify a definitive timescale for completion. The option to use alternative timber fire doors of the appropriate fire safety standards and specification are currently being looked into.	31/03/2020
Status Update Comments	Revised Date
The Framework is with procurement, and legal are reviewing the lease holder agreement regarding the replacement of doors where there flat is leased.	30/09/2021

Action Due Recommendations

Delegated Decisions	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
The comment making process for decision records was not controlled, and unauthorised officers could provide responses. This meant that there was no process in place to enforce accountability. We recommend that the Council develops a process to ensure that the comments on a decision record can be traced back to the officer who provided the comment, therefore ensuring accountability.	Moderate Risk
Management Response/Action Details	Action Date
A process will be implemented whereby the appraisee will add their initials and a date to the comments included in a report. The process will firstly be communicated to appraisees and then explained to CLT followed by a MOTD/e-mail to all Service Managers to cascade to regular report authors to make them aware of the new process.	31/08/21
Status Update Comments	Revised Date
An email was sent out on the 30/06/2021, explaining the new system. And requesting any decisions going forward to include a initials and date comment given. The email states anything after August should have this approach.	

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