

ASHFIELD DISTRICT COUNCIL



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

Agenda

Audit Committee

Date: **Monday, 30th January, 2023**

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

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Audit Committee

Membership

Chairman: Councillor Will Bostock

Councillors:

John Baird

Christian Chapman

Dave Shaw

Jamie Bell

Kevin Rostance

David Walters

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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

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- 1. To receive apologies for absence, if any.**
- 2. Declarations of Disclosable Pecuniary or Personal Interests and/or Non-Registrable Interests.**
- 3. To receive and approve as a correct record the minutes of the meeting of the Committee held on 28 November 2022.** 5 - 10
- 4. Capital Strategy 2023/24.** 11 - 42
- 5. Treasury Management Strategy 2023/24.** 43 - 86
- 6. Audit Progress Report.** 87 - 100

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AUDIT COMMITTEE

Meeting held in the Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield,
on Monday, 28th November, 2022 at 7.00 pm

Present: Councillor Will Bostock in the Chair;
Councillors John Baird, Jamie Bell,
Kevin Rostance, Dave Shaw and David Walters.

Apology for Absence: Councillor Christian Chapman.

Officers Present: Lynn Cain, Sarah Daniel, Ruth Dennis and
Peter Hudson.

In Attendance: 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 25 July 2022,
be received and approved as a correct record.

AC.13 Outdoor Recreation - Sports Bookings Audit Assignment: Verbal Update

The Council's Service Manager for Place and Wellbeing advised Members that officers were currently working on a draft Sports Booking Policy, with terms and conditions predominantly as before, to be submitted for consideration by Cabinet in January 2023. The pricing structures were also being developed and would feature as part of the Council's annual fees and charges report, also for Cabinet.

Security measures and CCTV installation had also been recently implemented at Titchfield Park, Hucknall and Kingsway Park, Kirkby to address ongoing issues at both sites.

The Council's booking system was also being reviewed as it was now somewhat outdated and a more modern, efficient system was required. As part of this upgrade and for the longer term, the Council's Digital Transformation Team would also be sourcing the most appropriate application

programming interfaces to enable the system's data and functionality to be communicated and exchanged with third parties.

However, due to ongoing priorities and demands within the Digital Transformation Team, the Place and Wellbeing Team were currently on a waiting list for support. The new in-house booking system would hopefully be in place for the 2023/24 football season.

Invoicing and payment had continued to be a problem as many clubs taking subs at matches etc. were not able to make any payments for the use of facilities in advance. It was hoped that this lag in receiving payments would be rectified with the new booking system that would include payments being made up front to complete a booking. It had also been agreed that the Council could benefit from charging annually for some usage rather than on a pay to play basis.

The offering of discounts for use of facilities was rare but could be facilitated with the approval of the Director. Some clubs were currently given priority if they had used the facilities in the previous year or if they were based within Ashfield.

To conclude Members acknowledged that there was currently no formal feedback procedure available, but the Council did receive a lot of positive feedback due to the good relationships that had been formed with clubs and organisations over the years. It was hoped a formal feedback facility would be incorporated into the new system.

AC.14 MAZARS: Audit Completion Report

David Hoose presented the Audit Completion report for Mazars to those charged with governance for 2021/22.

Committee Members acknowledged that the audit work was substantially complete and an unqualified opinion, without modification on the financial statements, was anticipated.

It was noted that one 'red issue' had arisen due to the Council having identified, and notified Mazars, of a material adjustment to the financial statements in respect of S106 Capital Grants Unapplied being incorrectly classified on the Balance Sheet to a value of approximately £2m. Due to the transaction being material, it constituted a prior period adjustment for the 2020/21 balances and the Council had already worked with Mazars to rectify this.

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. In relation to the Defined benefit liability valuation (Local Government Pension Scheme) some final completion work was still to be undertaken due to the high degree of estimation uncertainty associated with this valuation.

To conclude and with regard to internal control recommendations, two areas had been identified in relation to Elected Members not correctly completing declarations and two vehicle asset disposals not being written off in a timely manner through the Asset Register.

RESOLVED

that the Audit Completion report for 2021/22, as presented to Committee by Mazars, be duly received and noted.

AC.15 Audited Statement of Accounts 2021/22

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 2021/2022.

RESOLVED that

- a) the audited Statement of Accounts for 2021/22, subject to the outstanding items identified in the External Auditors Completion Report 2021/22, be approved;
- b) delegated authority be granted to the Corporate Finance Manager (Section 151 Officer), to undertake final approval of the audited Statement of Accounts for 2021/22, subject to a satisfactory outcome of outstanding items and to report back to Audit Committee details of any changes, if required.

AC.16 Treasury Management Mid Year Report 2022-23

The Council's Corporate Finance Manager (and Section 151 Officer) 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.

RESOLVED that

- a) Cabinet be recommended to approve the changes to the 2022/23 Prudential Indicators following in year changes to the 2022/23 Capital Programme;
- b) the contents of the report, as presented, be received and noted.

AC.17 Review of Local Code of Corporate Governance

The Director of Legal and Governance (and Monitoring Officer) presented the report and requested Members to consider the minor amendments to the Local Code of Corporate Governance as presented.

RESOLVED

that the updated Local Code of Corporate Governance, as appended to the report, be approved.

AC.18 Central Midlands Audit Partnership - External Quality Assessment

The Director of Legal and Governance (and Monitoring Officer) submitted the outcome and findings from the External Quality Assessment (EQA) undertaken by Business Risk Solutions in September 2022, which assessed the Central Midlands Audit Partnership's (CMAP) conformance with the Public Sector Internal Audit Standards (PSIAS).

RESOLVED

that the report be received and noted.

AC.19 Audit Progress Report

Mandy Marples, CMAP Audit Manager, presented the report and summarised audit progress as of 28 November 2022. CMAP were making good progress and no further changes to the plan were reported.

Five pieces of work had been finalised since the last meeting:

Housing Data Quality 2022-23
Homes England Grant 2022-23
Treasury Management 2022-23
Licensing 2022-23
IT Asset Inventory 2022-23.

The audit assignment in relation to Housing Data Quality 2022-23 had revealed significant issues mostly in relation to data integrity and had received a 'No' assurance rating. Members were taken through some of the key recommendations arising from the audit and management were currently working with CMAP and the Council's Digital Transformation Team to rectify and address the issues identified.

The Homes England Grant Certification audit had been carried out by CMAP on behalf of the Council, as appointed independent auditors. The findings had been submitted to Homes England who would report to the Council before 31 March 2023 and shared with the Audit Committee accordingly.

The IT Asset Inventory 2022-23 had been initially delayed allowing for a new asset inventory database to be installed. The audit, now completed, had resulted in 12 recommendations being presented to management for implementation. All had been accepted and the area would remain under review for the foreseeable future.

To conclude Members were asked to note the recommendation tracking updates as outlined in the report.

RESOLVED

that audit assignment progress as of 28 November 2022, as presented to Committee, be received and noted.

(Prior to consideration of the next item and in accordance with Council Procedure Rule 4 [Order of Business], the Chairman advised that he would be considering agenda item 13 (Homes England Compliance Audit Report 2022/23) as the next item of open business before moving into closed session for the remainder of the business. Members concurred with this course of action.)

AC.20 Homes England Compliance Audit Report 2022/23

In accordance with Council Procedure Rule 5 (Urgent Items), the Chairman had decided to accept the report as an urgent item of business to ensure the content of the report and its recommendations were considered and acknowledged as soon as practicable.

The Corporate Finance Manager (and Section 152 Officer) presented the Homes England Compliance Audit Report 2022/23 and asked Members to consider the content and note the findings had been graded Green, thus meeting all stated requirements.

RESOLVED

that the Homes England Compliance Audit Report 2022/23, as presented, be duly received and acknowledged.

**AC.21 Section 100A Local Government Act 1972:
Exclusion of the Press and Public**

RESOLVED

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

AC.22 Investment Property Performance 2022/23 as at 30th September 2022

The Council's Corporate Finance Manager (and Section 151 Officer) gave Members an update regarding performance and monitoring of the Council's Investment Property portfolio as at 30 September 2022.

RESOLVED

that performance in relation to the Council's Investment Property portfolio as at 30 September 2022, as presented, be received and noted.

(During consideration of the item and in accordance with Council Procedure Rule 23 (Conclusion of Proceedings), a motion was moved and seconded to extend the conclusion of the meeting to 9.30 p.m. The motion was put to the vote and duly carried.)

The meeting closed at 9.00 pm

Chairman.



Report To:	AUDIT COMMITTEE
Date:	30TH JANUARY 2023
Heading:	CAPITAL STRATEGY 2023/24
Executive Lead Member:	PORTFOLIO HOLDER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN
Ward/s:	ALL
Key Decision:	N/A
Subject to Call-In:	N/A

Purpose of Report

The Council's Proposed Capital Strategy for 2023/24 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 2023/24 including the Annexes 1-3;
- 2) for Audit Committee to recommend that Cabinet approves the:
 - Capital Strategy
 - Commercial Property Investment Strategy;
 - Commercial Property Indicators.

Reasons for Recommendation(s)

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

DLUHC Statutory Guidance on Local Government Investments requires 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 (formerly followed) process for acquiring Commercial Investment Properties.

The Strategy has been refreshed and updated for 2023/24. The main changes are to reflect that the current capital programme (to be approved February 2023) does not include any plans for further Commercial Property Investment, the last acquisition was made on 2nd April 2020. This is to ensure the Council maintains access to PWLB as a borrowing source for its capital plans. Annex

3 - the acquisition process for Commercial Investment Properties remains included to demonstrate the process the Council used for acquiring its current Investment Property portfolio.

Implications

Corporate Plan:

This Capital Strategy will allow delivery of the priorities in the Capital Programme, and 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. [RLD 20/01/2023]

Finance: No direct financial implications arising from the refresh of this Strategy. [PH 20/01/2023].

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 2021 Edition
- CIPFA Treasury Management Code 2021 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.

Report Author and Contact Officer

Colin Heap
Principal Accountant – Capital and Treasury
Tel: 01623 457215
Email: colin.heap@ashfield.gov.uk

Sponsoring Director

Craig Bonar
Director Resources and Business Transformation
Tel: 01623 457203
Email: craig.bonar@ashfield.gov.uk

**ASHFIELD DISTRICT COUNCIL
CAPITAL STRATEGY 2022/23 – 2025/26**

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 £385m as at 31 March 2022 (£357m as at 31 March 2021.)
- 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 2019).
 - 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.

- 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 2021 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.'

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.%20%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 21st June 2022.

- 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. New statutory guidance regarding the flexible use of capital receipts was issued 2nd August 2022 and covers financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024.
- 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 refuse a planning application. These S106 Developer Contributions are a means of supporting infrastructure costs such as play areas, transport networks, schools, etc.

5.4 Housing Revenue Account

5.4.1 Capital commitments are funded via surpluses from within the Council's Housing Revenue Account (HRA). The production of a 30 year HRA Business Plan, which is regularly reviewed, enables the funding needs of the Council's housing stock to be planned for and accommodated.

5.4.2 The HRA originally had a debt cap which was set at £80.081m in 2012. However, the Government has removed the cap allowing Councils to once again borrow against the value of its housing stock for improving the existing stock as well as delivering new stock.

5.4.3 The HRA Capital Programme is to a large extent driven by the amount of surplus generated which in turn is influenced by:

- The amount of income raised from rents, which for four years from 1/4/2016 was limited by Government policy, to a year on year decrease of 1%. Maximum increases of CPI plus 1% are permissible from 2020/21.
- The number of Right to Buy sales that take place and impact on the HRA stock and therefore the amount of future rent income receivable.

5.4.4 The resulting HRA Capital Programme provides for renovation and improvement of existing housing stock, refurbishment and limited estate regeneration.

6 New Delivery Models

6.1 In response to reducing capital resources the Council has looked to new delivery models to continue its capital investment in the District, which levers in other partners and innovative financing. These include consideration of developing a Housing Company, which the Council may establish to deliver new rented properties in the District.

6.2 In the context of the Capital Strategy, the Council has invested in property to produce an on-going revenue stream to contribute to the funding of the Council's revenue budget to sustain the delivery of key services to the District's residents. This capital expenditure has been funded through prudential borrowing. The prudential borrowing costs result in revenue costs of MRP and potentially interest. Prudential borrowing can be internal borrowing, against cash-backed reserves and working capital or external borrowing, loans from a third party. Interest costs are incurred where external borrowing is undertaken. The MRP and interest costs are funded from the on-going revenue stream from the property.

6.3 At the time of writing the Council currently has a portfolio of 'investment properties' of £61.770m (this is based on acquisition cost including associated

costs) and comprises of 15 properties. The portfolio is forecast to generate gross investment income of £4.589m in 22/23. The prudential borrowing costs are estimated to be £1.521m in 22/23, which includes interest on £22.3m, which is the additional external debt taken as a consequent of the investments made, with the remainder being funded with internal borrowing.

- 6.4 The Council's strategy in respect of 'investment properties' is detailed in the Commercial Investment Strategy (Non- Treasury Management Investment Strategy) included at Annex 1. Following the Public Works Loan Board (PWLB) Consultation outcome which was announced in November 2020 the Council has taken the decision to not acquire any further Investment Properties in order that it has continued access to the PWLB as a funding source for its Capital Programme.
- 6.5 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 and a further £4.772m received in 2022/23. All of these funding amounts have been included on the approved capital programme.

7 The Current Capital Programme 2022/23 – 2026/27

- 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 2023. The current programme covers the following key areas and major schemes:

- Area schemes & General Fund Schemes

- Towns Fund Programme
- Future High Street Fund Programme
- 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 Ashfield and are not held solely for returns or capital appreciation. The Council's risk exposure to be managed, in relation to these Commercial Properties include loss of income stream due to void periods and maintenance costs.

9. Grants & Contributions

9.1 The Council will make contributions to 3rd party schemes (including Disabled Facility Grants) as partner funding contributions to schemes not being directly delivered by the Council, to meet statutory grant requirements or to support particular initiatives.

9.2 The Council will also, where appropriate, seek grant funding and contributions to support the delivery of capital schemes.

10 Vehicles and Fleet

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

11 Service Transformation & Invest to Save

- 11.1 The Council still faces significant shortfalls in its revenue budget in the Medium term. Therefore, it will continue to invest in technologies and programmes which deliver ongoing savings to the Councils finances. These schemes will require initial Capital investment but must demonstrate a payback and ongoing savings as part of the evaluation process. A business case will need to be made for all proposals, which must include a financial appraisal.
- 11.2 These schemes can range from enhancements to buildings to make them more energy efficient, to ICT investment, to service transformation programmes. Where available, capital receipts will be used to fund one-off revenue costs associated with the Transformation Programme, in accordance with the Flexible Use of Capital Receipts Strategy up to 31 March 2025.

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. The Minimum Revenue Provision Guidance consultation ended on the 8th February 2022. The results of the consultation are still to be published, once published, this 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 Councils is exposed to a broad range of risks:

- **Financial risks** related to the investment of the Council's assets and cash flow, market volatility, currency etc.
- **Macroeconomic risks** related to the growth or decline of the local economy, interest rates, inflation and to a lesser degree, the wider national and global economy amongst others.
- **Credit and counterparty risks** related to investments, loans to institutions and individuals and counterparties in business transactions.
- **Operational risks** related to operational exposures within its organisation, its counterparties, partners and commercial interests.
- **Strategic risks** related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its goals.
- **Reputational risks** related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
- **Environmental and social risks** related to the environmental and social impact of the Council's strategy and interests.
- **Governance risks** related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that balance oversight and efficiency.

14.2 The Council must manage and mitigate these risks where possible but there is inherent risk in undertaking major Capital Projects and this needs to be recognised. Therefore, for each scheme, risk assessments and risk registers need to be prepared and monitored to ensure, as far as possible, risks are managed.

15 Governance & Monitoring

15.1 The Prudential Code sets out a clear governance procedure for the setting and revising of a Capital Strategy and Prudential Indicators i.e. this should be done by the same body that takes the decisions for the local authority's budget – i.e. Full Council.

15.2 The Prudential Code also states that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget. The Financial Procedure Rules (FPR) set out clear procedures for the approval of capital expenditure, including:

- approval of the capital programme – Full Council (FPRs para B.1)
- additions/changes to the capital programme – Cabinet/Council (FPRs para B.8)

- 15.3 The Audit Committee has delegated powers responsible for Governance and Treasury Management within the Council. They scrutinise and recommend an annual Treasury Management Strategy (incorporating an Investment Strategy and Borrowing Strategy) to Council for approval as part of the annual approval of budget. They also receive monitoring reports on Treasury activity and a year-end Annual Report.
- 15.4 The S151 Officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration. They also have to declare that they consider the strategy to be prudent and affordable, are integrated into the Treasury Management Strategy and other Strategic Plans, and that all the revenue implications are included in the MTFS.

16 Knowledge and Skills

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

**ASHFIELD DISTRICT COUNCIL
COMMERCIAL PROPERTY INVESTMENT STRATEGY**

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

The current capital programme (to be approved February 2023) 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. 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. The Council's Commercial Adviser inspects the Investment properties on a regular basis. They advise the Authority on any potential issues which they include on their quarterly monitoring report. 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.

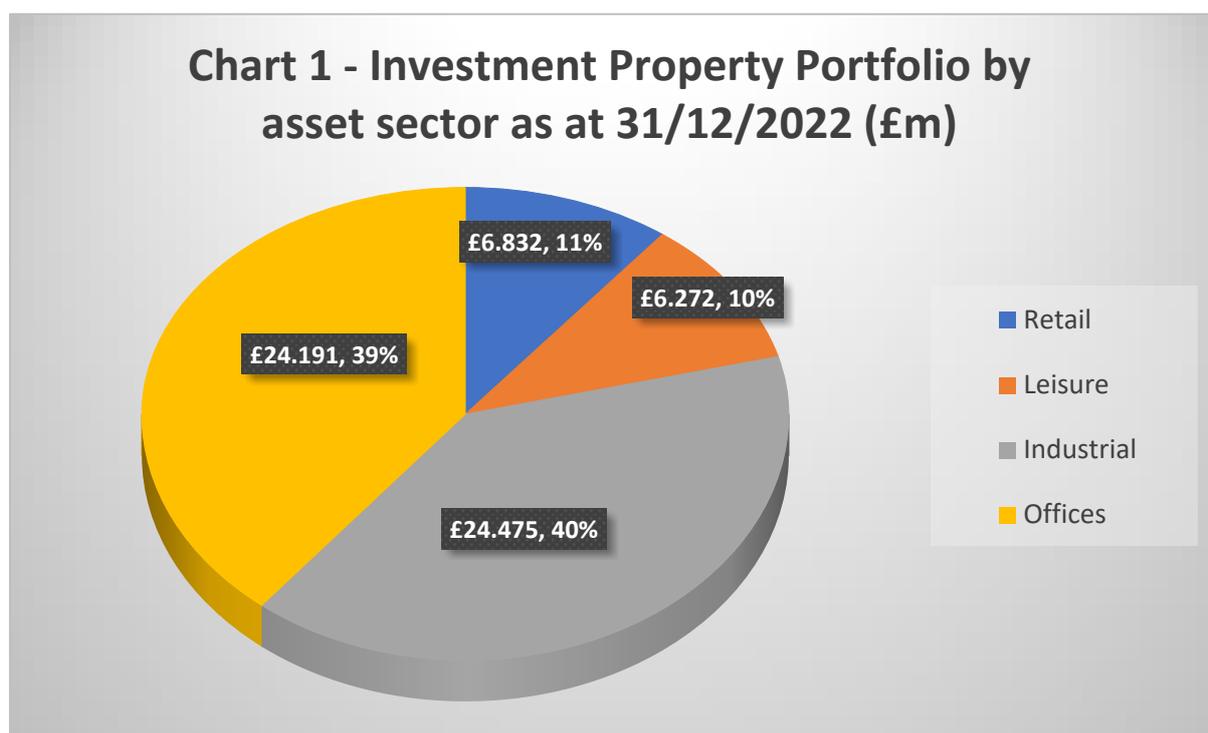
7.2.4 It will also be used to fund any debt outstanding following the sale of a Commercial Property Investment where the capital receipt does not extinguish the debt outstanding for the property.

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).

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 2023 and approved by Council March 2023) 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

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

	2021/22 (Actual)	2022/23 (Forecast)	2023/24	2024/25	2025/26
Debt to Net Service Expenditure	5.04	4.06	3.79	3.70	3.53

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

	2021/22 (Actual)	2022/23 (Forecast)	2023/24	2024/25	2025/26
Commercial Income to Net Service Expenditure	37.70%	31.76%	31.63%	29.64%	28.94%

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

	2021/22 (Actual)	2022/23 (Forecast)	2023/24	2024/25	2025/26
Investment Cover	1.40	1.38	1.56	1.36	1.36

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

	2021/22 (Actual)	2022/23 (Forecast)	2023/24	2024/25	2025/26
Loan to Value Ratio	117.92%	115.90%	113.97%	111.98%	109.95%

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

	2021/22 (Actual)	2022/23 (Forecast)	2023/24	2024/25	2025/26
Target Net Income Return	2.50%	2.50%	2.50%	2.50%	2.50%
Estimated Net Income Return	3.40%	3.35%	3.79%	3.30%	3.29%

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

	2021/22 (Actual)	2022/23 (Forecast)	2023/24	2024/25	2025/26
	£000s	£000s	£000s	£000s	£000s
Gross Income	£4,473	£4,590	£4,822	£4,541	£4,562
Net Income	£2,101	£2,073	£2,343	£2,038	£2,034

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

	2021/22 (Actual)	2022/23 (Forecast)	2023/24	2024/25	2025/26
	£000s	£000s	£000s	£000s	£000s
Gross Income	£4,473	£4,590	£4,822	£4,541	£4,562
Net Income	£3,055	£3,028	£3,297	£2,993	£2,989

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	0
2024/25	3
2025/26	1
2026/27	0
2027/28	0
2028/29	4
2029/30	2
2030/31	1
2031/32	1
2032/33	3
2033/34	0
2034/35	1
2035/36	1
2036/37	1
2037/38	0
2038/39	0
2039/40	1
2040/41	0
2041/42	0
2042/43	0
2043/44	0
2044/45	0
2045/46	0

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.

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Report To:	AUDIT COMMITTEE
Date:	30TH JANUARY 2023
Heading:	TREASURY MANAGEMENT STRATEGY 2023/24
Executive Lead Member:	PORTFOLIO HOLDER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN
Ward/s:	ALL
Key Decision:	Yes
Subject to Call-In:	Yes for Cabinet No for Audit Committee

Purpose of Report

This report outlines the Council's Treasury Management Strategy for the financial year 2023/24. 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 2023/24, 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 including new Liability Benchmark indicator
 - Treasury Management Practices: Risk Management which now includes Environmental, Social and Governance (ESG) update.

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

(with reasons why not adopted)

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 and investment activities
- Annual Borrowing Strategy, which outlines sources of borrowing
- Annual Investment Strategy for Treasury Management investments, which sets the limits for the maximum amounts to be invested and the types of investments the Council may consider.
- MRP Policy which states how the Council will apply MRP charges
- Annex A of Appendix 1 contains the proposed Prudential Indicators and Treasury Management Indicators for the Authority and now includes new liability Benchmark Indicator.
- Annex B shows the borrowing and investment position of the Council as at 31st December 2022
- Annex C shows the projections for future interest rates
- Annex D shows the Treasury Management Practice (TMP) for risk management of the Authority which now includes which now includes ESG update.

1. Annual Investment Strategy

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

- Deposit limit with the Debt Management Office (DMO) to increase from £5m to unlimited.

The UK Debt Management Office is the executive agency responsible for debt and cash management for the UK Government. It is probably the most secure place in which the Council can make investments. Increasing the limit to unlimited will mean that the Council can safely and easily invest short term excess surplus monies. Currently if the existing £5m limited with the DMO is maximised then alternative counterparties have to be found which is not always that easy and the alternative counterparties will often be not as secure as the DMO.

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.

The Minimum Revenue Provision Guidance consultation ended on the 8th February 2022. 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.

The results of the consultation are still to published when 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.

The ratio of financing cost to net revenue stream including the investment property income 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 £34.79 in 2023/24, £5.94 in 2024/25 and £8.98 in 2025/26. 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.

A new indicator required by the new Treasury Management Code is the Liability Benchmark (LB).

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

5. Revised Treasury Management Code

CIPFA issued a revised Treasury Management Code in December 2021. The new code is 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 have been incorporated into the TMSS for 2023/24.

Implications

Corporate Plan:

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

Legal:

It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy. It is a requirement of MHCLG (now DLUHC) Statutory Guidance on Local Government Investments to have an Investment Strategy. [RLD 20/01/2023]

Finance: No direct financial implications arising from the refresh of this Strategy. [PH 20/01/2023].

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

Risk:

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

Human Resources:

Not applicable.

Environmental/Sustainability

Not applicable.

Equalities:

Not applicable.

Other Implications:

Not applicable.

Reason(s) for Urgency

Not applicable.

Reason(s) for Exemption

Not applicable.

Background Papers

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

Report Author and Contact Officer

Colin Heap

Principal Accountant

colin.heap@ashfield.gov.uk

01623 457215

Sponsoring Director

Craig Bonar

Director-Resources and Business Transformation

craig.bonar@ashfield.gov.uk

01623 457203

Appendix 1

Ashfield District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

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. 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).

1.2.1 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 Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen’s passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

1.3.2 The UK unemployment rate fell to a 48-year low of 3.6%, and this is despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia’s invasion of Ukraine on 22nd February 2022.

1.3.3 Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

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
Quarterly Outturn Reports	Quarter 1 and Quarter 3 (Quarter 2 included in mid-year report and Quarter 4 included on Outturn Report)
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 organisation’s 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 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.
- 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 organisation’s 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 2022/23 to 2026/27 is to be presented to Cabinet as a separate agenda item at the 21st February 2023 Cabinet meeting, with final approval being

sought by Council on 2nd March 2023. Members will be asked to approve the capital expenditure forecasts at least annually.

Table 2 - Capital Expenditure

Capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	17.023	34.111	6.826	4.640	1.354	1.108
HRA	8.449	20.006	24.785	15.889	15.288	14.925
Total	25.472	54.117	31.611	20.529	16.642	16.033

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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Receipts	0.362	3.540	2.113	1.302	1.280	1.280
Capital Grants	10.900	14.623	6.053	2.533	1.108	1.108
Capital Reserves	0.117	0.640	0.000	0.000	0.000	0.000
Direct Revenue Financing	7.058	13.138	21.695	14.587	14.008	13.645
Borrowing Requirement	7.035	22.176	1.750	2.107	0.246	0.000

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 2024. 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 2024/25 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:	2022	2023	2024	2025	2026	2027
Capital Financing Requirement	166.7	186.5	184.8	183.3	179.8	176.1
Less: External Borrowing	-97.0	-90.5	-86.3	-85.1	-82.3	-82.3
Under(Over) Borrowing	69.6	96.0	98.5	98.2	97.5	93.8
Less: Usable Reserves plus working Capital	-112.9	-81.6	-78.1	-74.6	-72.0	-78.1
Investments / (New Borrowing)	43.3	-14.4	-20.4	-23.6	-25.5	-15.7

2.8 A new indicator required by the new Treasury Management Code is the Liability Benchmark (LB).

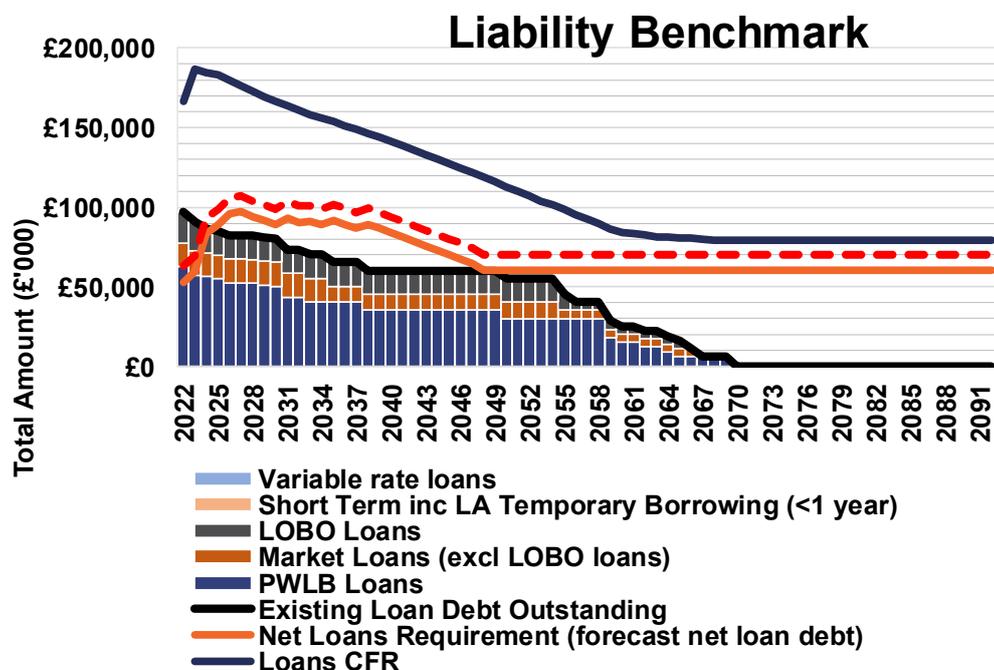
There are four components to the LB (see Table 4 below): -

- **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
- **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into

the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 5 – Liability Benchmark



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 is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these 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. There will be one option in 2023/24 and two in 2024/25. The Council understands that lenders are unlikely to exercise their options as the current interest rates paid are above the current market rates. 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 2023/24 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 2023/24 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 2021 ("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+. 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. It is recommended an exception is made to the £5m limit for the Debt Management Office (DMO) so that an unlimited amount can be deposited with the DMO. The DMO is probably the most secure institution that the Council can invest its funds with. By increasing the limit to unlimited this will avoid investment of short term surplus cash in less secure counterparties.

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.

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

3.4 Country and sector limits

Due care will be taken to consider the country, group, and sector exposure of the Council’s investments. 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.

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 6 below shows the Link forecast Bank Rates for financial year ends (31 March):

Table 6 - Forecast Bank Rates for financial year ends (31 March):

Year	Base Rate
2022/23	4.25%
2023/24	4.00%
2024/25	3.00%
2025/26	2.50% (Dec 2025)

- 3.5.2 Table 7 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 7 – Forecast Investment Rates

Year	Average Return
2022/23	2.00%
2023/24	2.00%
2024/25	1.50%
2025/26	1.25%

- 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 2023/24 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 not be charged until the later of; the year after capital expenditure is incurred or the year after the asset becomes operational.
- 4.13 Capital Receipts from the sale of investment properties funded as prudential borrowing will be used to reduce the Capital Financing Requirement by the outstanding prudential borrowing for the asset sold.
- 4.14 No MRP will be charged for assets in the Housing Revenue Account.
- 4.15 Voluntary Revenue Provision (VRP) may be made at the discretion of the S151 Officer.
- 4.16 For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.
- 4.17 Where loans are made to third parties for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

Annex A Prudential Indicators

Prudential Indicators of Affordability

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

The Prudential indicators for affordability are as follows:

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

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

The 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.

	2023/2024 %	2024/2025 %	2025/2026 %
Housing Revenue Account	10.57	10.74	11.02
General Fund	30.08	30.06	38.09

The General Fund indicators are based on best estimates for NNDR. These will be updated to reflect final MTFS for Cabinet in February. The Ratio for the General Fund increases from 2025/26 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.

	2023/2024 %	2024/2025 %	2025/2026 %
General Fund	-1.38	0.19	1.60

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

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

Authorities are required to estimate for the next three years the impact on the Council Tax (General Fund) and Rent levels (HRA) of the capital programme including running costs and financing costs. These indicators have been prepared using the revised Capital Programme, 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

	2023/2024 £	2024/2025 £	2025/2026 £
General Fund (Band D)	34.79	5.94	8.98
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. 2023/24 is high due to the MRP charges on new vehicle purchases. The MRP charge for vehicles is based on the borrowing amount for the vehicles divided by the expected life of the vehicles. Compared to other assets e.g. buildings, vehicles usually have a shorter life and therefore annual MRP costs are higher.

There is not anticipated to be any new borrowing for the HRA between 2023/24 – 2025/26.

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 2024 £m	31st March 2025 £m	31st March 2026 £m
Housing Revenue Account	80.061	80.061	80.061
General Fund	104.706	103.246	99.767
Total	184.767	183.307	179.828

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 2023/24 to 2025/26, as detailed in the Capital Programme Report approved by Cabinet on the 21st February 2023, is shown below in Table 5:

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

	2023/2024	2024/2025	2025/2026
	£m	£m	£m
Housing Revenue Account	24.785	15.889	15.288
General Fund	6.826	4.640	1.354
Total	31.611	20.529	16.642

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

	2023/2024	2024/2025	2025/2026
	£m	£m	£m
Borrowing	215	202	196

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.

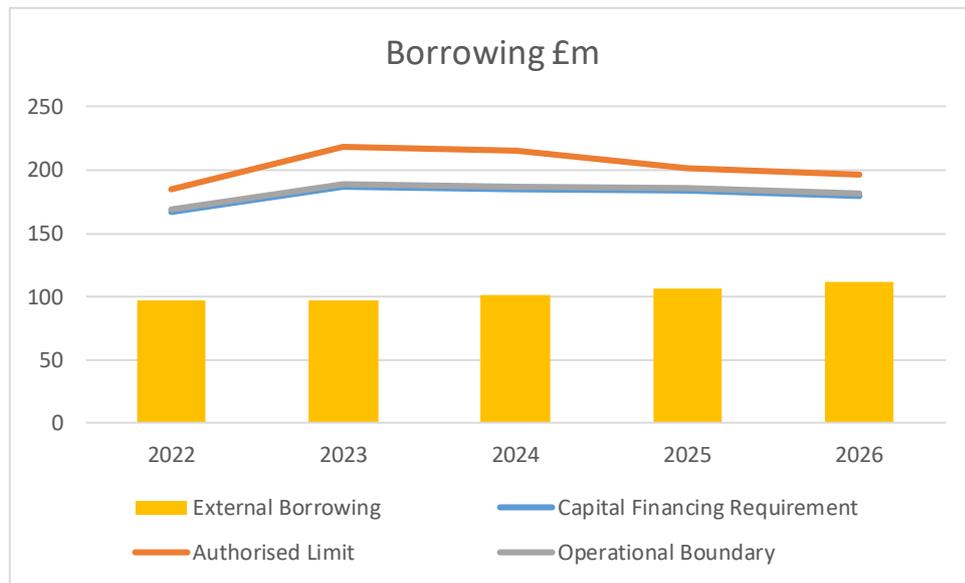
Table 7 – Operational Boundary for External Debt

	2023/2024	2024/2025	2025/2026
	£m	£m	£m
Borrowing	187	186	182

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 in 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	2023/2024	2024/2025	2025/2026
	£m	£m	£m
Fixed Rates	215.0	202.0	196.0
Variable Rates (No more than 40% of the operational boundary).	86.0	80.8	78.4

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 31/03/2023	Lower Limit %	Upper Limit %
Under 12 Months	4.67%	0%	10%
Under 24 Months	6.02%	0%	15%
Under 5 years	9.43%	0%	20%
Under 10 years	22.35%	0%	25%
Under 20 years	33.40%	0%	40%
Under 30 years	38.92%	0%	50%
Under 40 years	75.37%	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 2022

Maturity Structure of Fixed Rate Borrowing	Amount £m	Forecast Position for 31/03/2023	Lower Limit %	Previous Upper Limit %	Revised Upper Limit %
Under 12 Months	10.727	4.67%	0%	10%	10%
Under 24 Months	11.954	6.02%	0%	15%	15%
Under 5 years	15.041	9.43%	0%	20%	20%
Under 10 years	26.736	22.35%	0%	25%	25%
Under 20 years	36.736	33.40%	0%	40%	40%
Under 30 years	41.736	38.92%	0%	50%	50%
Under 40 years	74.736	75.37%	0%	80%	80%
Under 50 years	97.036	100.00%	0%	100%	100%
50 Years and Above	0	0.00%	0%	0%	0%

Table 2 – Council Loans at the 31st December 2022

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
Money Market Funds	-16.480
Call Accounts	-2.3350
Fixed Term Deposits	-28.000
Total Treasury Investments	-46.815
Total Net External Debt	50.221

Table 3 – Council Money Market Fund investments as at the 31st December 2022

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

Money Market Fund	£m
Aberdeen GBP Liquidity Fund	5.000
Insight Sterling Liquidity Fund	5.000
Federated Short Term	5.000
Aviva GBP Liquidity Fund	1.480
Total	16.480

Table 4 – Council Call Account Investments as at 31st December 2022

Call Accounts	£m
Barclays Bank	2.235
Handelsbanken	0.100
Total	2.335

Table 5 – Council Term Deposit Investments as at 31st December 2022

Money Market Fund	£m
Landesbank Hessen Thuringen Girozentrale	5.000
Nationwide Building Society	5.000
Cornwall Council	3.000
Clydesdale Bank	5.000
Halton Borough Council	5.000
West of England Combined Authority	5.000
Total	28.000

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 19th December 2022. These are forecasts for PWLB certainty rates, (gilt yields plus 80 bps).

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.5%	1.5%	4.25%-5.00%
GDP	-0.2%q/q (2.4%y/y) Q3	+0.2%q/q (2.1%y/y) Q3	2.6% Q3 Annualised
Inflation	11.1%/y/y (Oct)	10.0%/y/y (Nov)	7.7%/y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to

grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

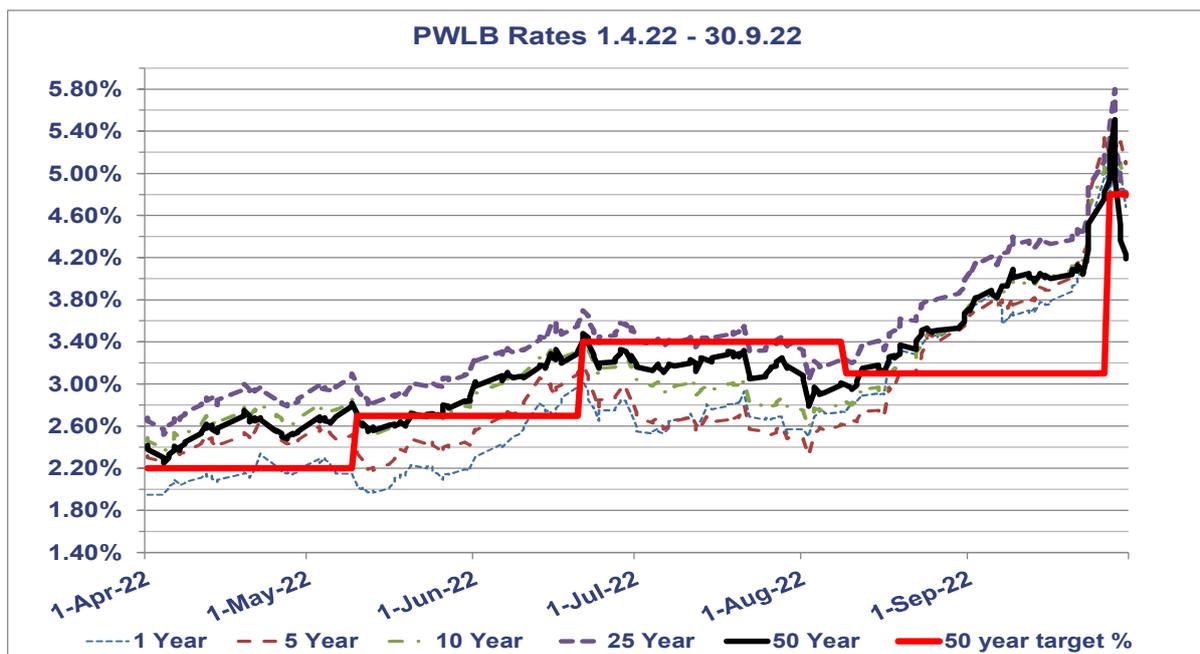
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

Sterling has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

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.

Environmental, Social and Governance (ESG)

This Authority has always followed a Security, Liquidity and Yield (SLY) policy for its treasury management investments with security being the most important as the Council needs to be as certain as possible when an investment is made that the amount invested is returned when due. Liquidity is important because the Council needs cash to deliver its day to day activities therefore treasury officers have to determine how much should be invested in call accounts where daily access is available and how much is invested in term accounts where the money is only available on maturity. Finally yield, which is the least important of the three, will only be considered after the security and liquidity requirements have been satisfied. For example if the Council had an opportunity to invest a sum of money and there were two investment opportunities and each of these both met the security and liquidity criteria then in this scenario the investment that pays the greatest yield will be chosen.

The Council will consider an organisation's ESG credentials when it has to choose between counterparties that both have similar SLY criteria.

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 Management Strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

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

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

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

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are a maximum investment of £5m in any one institution and a maximum duration of up to 1 year or duration as advised by our treasury management advisers.

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

	Non Specified Investment Category	Limit (£)
a.	<p>Supranational bonds greater than 1 year to maturity</p> <p>(a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.).</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail)</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>AAA long term ratings</p> <p>£5m</p> <p>£5m</p>

b.	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
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland

- U.S.A.

- AA
- Abu Dhabi (UAE)
- France

- AA-
- Belgium
- Qatar
- U.K.

THIS LIST IS AS AT 2.12.2022

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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Ashfield District Council – Audit Progress Report

Audit Committee: 30 January 2023



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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.

Contacts

Richard Boneham CPFA
Head of Internal Audit (DCC) &
Head of Audit Partnership
c/o Derby City Council
Council House
Corporation Street
Derby, DE1 2FS
Tel. 01332 643280
richard.boneham@derby.gov.uk

Adrian Manifold CMIIA
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643281
adrian.manifold@centralmidlandsaudit.co.uk

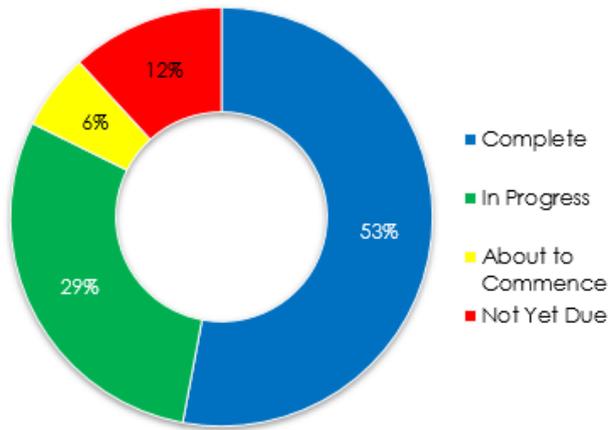
Mandy Marples CPFA, CCIP
Audit Manager
c/o Derby City Council
Council House
Corporation Street
Derby
DE1 2FS
Tel. 01332 643282
mandy.marples@centralmidlandsaudit.co.uk



Ashfield District Council – Audit Progress Report

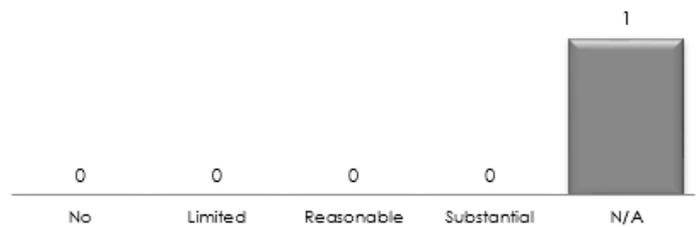
AUDIT DASHBOARD

Plan Progress



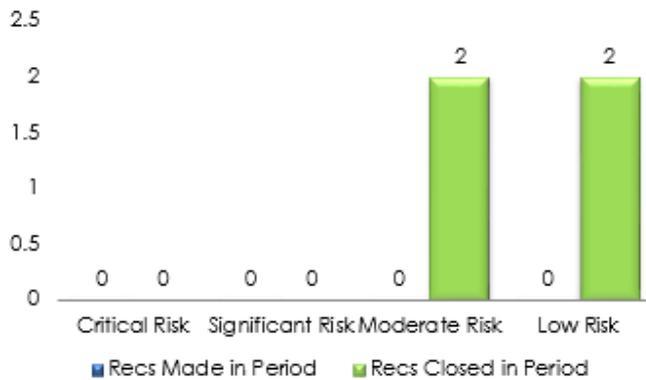
Assurance Ratings

Control Assurance Ratings Issued During Period



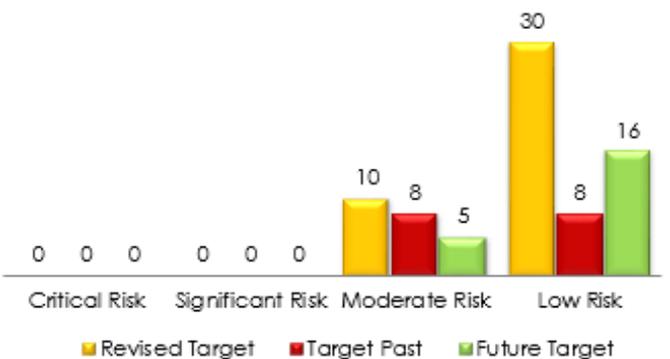
Recommendations

Movement During Period



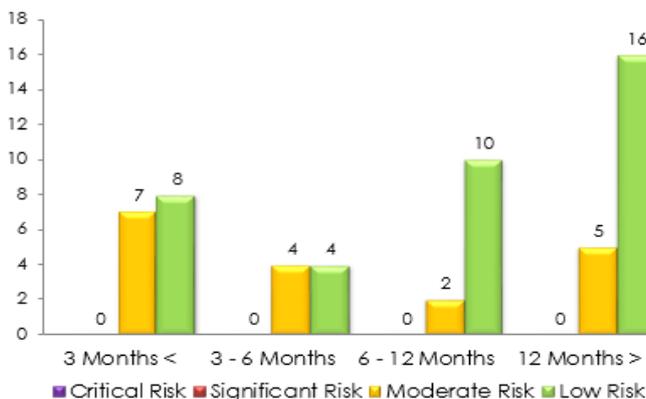
Recommendations

Recommendations Currently Open



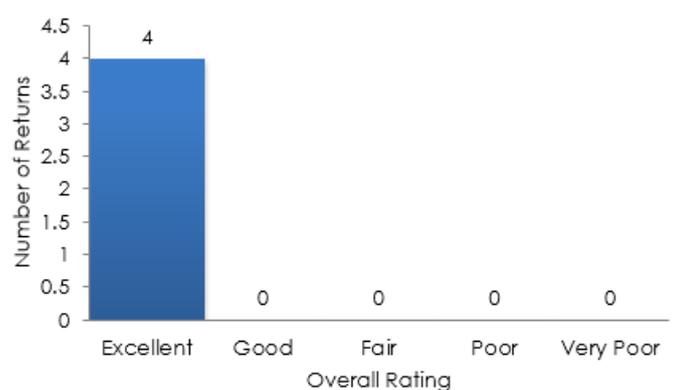
Recommendations

Overdue Recommendations



Customer Satisfaction

Returns Apr 2022 - January 2023



Ashfield District Council – Audit Progress Report

AUDIT PLAN

Progress on Audit Assignments

The following table provides the Committee with information on how audit assignments were progressing as of 17 January 2023.

2022-23 Jobs	Status	% Complete	Assurance Rating
Anti-Fraud & Corruption 2022-23	In Progress	20%	
Organisational Culture and Ethics 2022-23	Not Allocated		
General Ledger – Data Analytics 2022-23	In Progress	30%	
Treasury Management 2022-23	Final Report	100%	Reasonable
IT Asset Inventory 2022-23	Final Report	100%	Limited
Estates 2022-23	Allocated	5%	
Licencing 2022-23	Final Report	100%	Reasonable
Section 106 2022-23	In Progress	65%	
Leisure Centre 2022-23	In Progress	60%	
Future High Streets Fund 2022-23	Not Allocated		
Housing – Data Quality 2022-23	Final Report	100%	No
Climate Change & Sustainability 2022-23	Final Report	100%	N/A
Health & Safety 2022-23	Draft Report	90%	
Homes England Grant	Complete	100%	N/A
B/Fwd Jobs	Status	% Complete	Assurance Rating
Accounting Systems	Final Report	100%	Substantial
Corporate Credit Cards 2021-22	Final Report	100%	Reasonable
Planning	Final Report	100%	Reasonable

Audit Plan Changes

None to report.

Ashfield District Council – Audit Progress Report

AUDIT COVERAGE

Completed Audit Assignments

Between 16 November 2022 and 17 January 2023, the following audit assignment has 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	
Climate Change & Sustainability 2022-23	N/A	0	0	0	0	n/a
TOTALS		0	0	0	0	n/a

Climate Change & Sustainability 2022-23	Assurance Rating - Not Applicable
<p>The audit focused on reviewing documentation, including policies, strategies and action plans, relating to the Council's response to climate change. We sought to understand the governance arrangements in place and the responsibilities for implementation of the Council's plans.</p> <p>The audit was undertaken on a consultancy basis as the Council are still developing their climate change and sustainability response. Councils that have more developed strategies in place have demonstrated how climate change is at the centre of decision making, with net zero policies aligning with how resources are used. The Council is in the early stages of its climate change journey and it should look to expedite its plans.</p>	
Summary of Audit Findings	
<p>The Council had not identified risks in their Corporate Risk Register or the Service Risk Registers which considered the risks of climate change.</p>	
<p>The Climate Change Working Group did not have a formal Terms of Reference or set timetable to ensure the group is effective at delivering the climate change agenda.</p>	
<p>The climate change crisis was not a common thread running through all Council directorate and service area plans.</p>	
<p>The environmental or sustainability implications were not required to be noted on the Corporate Leadership Team reports or the Officer Decision Records templates.</p>	
<p>The Council don't utilise climate change impact assessment tools for identifying climate costs and benefits, to support decision making.</p>	

Ashfield District Council – Audit Progress Report

<p>The Council had not applied for the accreditation ISO14001 Environmental Management to evidence the Council is working at that level.</p>
<p>A review of the Investment Strategy and Pension Funds, to give due weight to climate change targets in the Investment and Pensions portfolios, was not included in the Climate Change Action Plan.</p>
<p>Actions within the Climate Change Action Plan were, at the time of the audit (August 2022), assigned to service areas instead of responsible officers.</p>
<p>The timescales in the Climate Change Action Plan were on a yearly basis and 'quick win' actions could have earlier deadlines.</p>
<p>Monitoring of the Climate Change Action Plan was not yet being undertaken and reported to CLT and Members periodically.</p>

Ashfield District Council – Audit Progress Report

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
24-Apr-18	ICT Performance Management	Reasonable	0	2	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	1	0
31-Jan-20	Information Governance	Reasonable	0	2	0
21-Jun-21	Management of Fraud Risk	Limited	0	9	0
10-May-21	People Management	Reasonable	0	6	0
21-Jun-21	Delegated Decisions	Reasonable	0	1	0
16-Aug-21	Teleworking Security	Reasonable	0	3	0
01-Oct-21	Environmental Health	Reasonable	2	1	0
05-Oct-21	PCI Compliance in Organisational Transformation	Reasonable	0	2	0
16-Feb-22	Housing Health & Safety Statutory Compliance	Reasonable	0	1	0
28-Feb-22	Outdoor Recreation - Sports Bookings	Limited	0	6	3
03-Mar-22	Risk Management 2021-22	Reasonable	0	0	1
29-Mar-22	Scrutiny	Reasonable	0	1	0
08-Apr-22	Accounting Systems 2021-22	Substantial	0	3	0
11-Jul-22	Planning	Reasonable	3	0	0
28-Jul-22	Housing - Data Quality 2022-23	No	6	0	4
24-Oct-22	Treasury Management 2022/23	Reasonable	0	0	1
25-Oct-22	Licensing 2022-23	Reasonable	0	0	4
10-Nov-22	IT Asset Inventory 2022-23	Limited	4	0	8
		TOTALS	16	40	21

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.

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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
ICT Performance Management	0	0	0	0	2	0
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	0	1
Information Governance	0	0	0	0	1	1
Management of Fraud Risk	0	0	0	0	1	8
People Management	0	0	0	0	0	6
Delegated Decisions	0	0	0	0	0	1
Teleworking Security	0	0	0	0	1	2
Environmental Health	0	0	2	0	0	1
PCI Compliance in Organisational Transformation	0	0	0	0	0	2
Housing Health & Safety Statutory Compliance	0	0	0	0	1	0
Outdoor Recreation – Sports Bookings	0	0	0	0	3	3
Scrutiny	0	0	0	0	0	1
Accounting Systems 2021-22	0	0	0	0	0	3
Planning	0	2	1	0	0	0
Housing – Data Quality 2022-23	0	5	1	0	0	0
IT Asset Inventory 2022-23	0	1	3	0	0	0
TOTALS	0	8	8	0	10	30

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Highlighted Recommendations

The following recommendations, that have not yet been implemented, are detailed for Committee's scrutiny.

Being Implemented Recommendations

Information Governance	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
<p>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.</p> <p>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.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>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:</p> <ul style="list-style-type: none"> - 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
<p>Actions have been taken to restrict folders and files. Internal Audit will be reviewing these actions as part of the ICT Key Controls audit.</p> <p>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.</p>	30/06/2022

ICT Performance Management	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>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.</p> <p>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.</p>	Moderate Risk

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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
<p>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.</p> <p>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.</p> <p>The Service Manager for ICT has requested a further extension whilst the newly appointed service desk team leader investigates the implementation of the recommendation.</p> <p>To be resolved with the implementation of the House on the Hill service desk application.</p>	30/11/2022

ICT Performance Management	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>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.</p> <p>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.</p>	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
<p>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.</p> <p>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.</p> <p>The Service Manager for ICT has requested a further extension whilst the newly appointed service desk team leader investigates the implementation of the recommendation.</p> <p>To be resolved with the implementation of the House on the Hill service desk application.</p>	30/11/2022

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Teleworking Security	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
<p>Accounts with Remote Desktop Gateway access permissions were not always being disabled in a timely manner for leavers, creating data protection risks.</p> <p>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.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>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.</p>	01/10/2021
Status Update Comments	Revised Date
<p>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.</p>	30/09/2022

Fire Safety	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
<p>Not all entrance doors to flats comply with Fire Safety Regulations.</p> <p>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.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>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.</p>	31/03/2020
Status Update Comments	Revised Date
<p>Standard fire doors (majority); installations to commence 07/02/22 – all to be complete by contract max end date 31/03/22.</p> <p>Leaseholder fire doors: Legal to expedite the process. Subject to access, the hope is for the project to be completed by as close to the end of April 2022 as possible.</p>	30/04/2022

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Management of Fraud Risk	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
<p>The Council did not have trained fraud investigators with professional accreditation to review and investigate all areas of potential fraud.</p> <p>We recommend that the Council ensure they have access to fully trained fraud investigators, who can be called upon to investigate any areas of suspected fraudulent activity.</p>	Moderate Risk
Management Response/Action Details	Action Date
The Council will consider how to access a suitably trained fraud investigator.	30/04/2022
Status Update Comments	Revised Date
Action still being progressed.	31/03/2023

Health & Safety Statutory Compliance	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
<p>The Council had not yet decided who will be the senior named person with responsibility for ensuring compliance with the Health and Safety obligations set out in the Social Housing White Paper.</p> <p>We recommend that the Council review the responsibilities in order to determine which officer will be responsible for the Health and Safety requirements in preparation for legislative changes in accordance with the Social Housing White Paper.</p>	Moderate Risk
Management Response/Action Details	Action Date
To identify responsible officer.	01/04/2022
Status Update Comments	Revised Date
We begin formal consultation on the DMA restructure at the end of this week so we are close to resolution. Would suggest action date is changed to 31/12/22.	31/12/2022

Outdoor Recreation – Sports Bookings	Rec No. 1
Summary of Weakness / Recommendation	Risk Rating
<p>The Council did not have an outdoor recreation sports bookings policy in place.</p> <p>We recommend that the Council develop a sports booking policy, and that this is made available to staff and on the internet, for customer information.</p>	Moderate Risk
Management Response/Action Details	Action Date
Outdoor sports booking policy to be developed.	30/09/2022
Status Update Comments	Revised Date
The sports bookings policy is drafted based on existing T&Cs and going to Cabinet on 24th January.	24/01/2023

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Outdoor Recreation – Sports Bookings	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
<p>Discounts had been awarded for sports bookings and fees had been waived in some instances without a formal policy being in place to support them. These discretionary reductions were made by an officer and not subject to senior management approval.</p> <p>We recommend that the criteria for awarding discounts is developed and included in a sports booking policy, with a requirement for formal approval of discounts awarded.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>Outdoor sports booking policy to be developed.</p> <p>Application of discounts has been very limited, the main one was 10% to the hockey club which pays over £5k in fees per annum for use of the astroturf. Most clubs pay less than £1,000 p.a. Discount will be incorporated into the policy.</p> <p>Fees were waived for one community organisation which the Council was supporting.</p>	30/09/2022
Status Update Comments	Revised Date
<p>Discounts – Hockey club paying £5k pa – incorporating into Policy that it's at the discretion of the Council, with approval of Director.</p>	31/01/2023

Outdoor Recreation – Sports Bookings	Rec No. 9
Summary of Weakness / Recommendation	Risk Rating
<p>There was no official allocation priority for the use of Council facilities documented and agreed by the Council. The standard method of allocation that was in use for pitches was not applied to the hire of the Hucknall Pavilion and pitches.</p> <p>We recommend that the issues with the hire and lease of the Hucknall Pavilion and pitches are rectified and that any future changes to leases are researched and consultation takes place with the Legal team before agreement is made. The rules regarding exclusive use of outdoor recreation facilities should be reflected in the sports booking policy (as per recommendation 1).</p> <p>The allocation priority in use by the Council should be agreed and formalised in the bookings policy, as per recommendation 1.</p>	Moderate Risk
Management Response/Action Details	Action Date
<p>Outdoor sports booking policy to be developed.</p> <p>Specific reasons why informal allocation policy couldn't be used at Hucknall/ Papplewick site. A consultant is being appointed to undertake the procurement process to appoint an organisation to manage the facility. The process is starting late February and is due to be concluded by late spring.</p>	30/09/2022
Status Update Comments	Revised Date
<p>Papplewick Pavilion in Hucknall – club uses that facility and added in allocation priority section into Policy (so clubs booked in previous years, and Ashfield clubs, will get priority). Service operator contract has gone out to tender for that site.</p>	28/02/2023

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Action Due

Planning	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
There were no processes in place that enabled management to monitor progress against tasks detailed on the Local Plan Work Programme. We recommend that management is provided with performance information, linking to the Local Plan Work Programme, from the Forward Planning Team on a regular basis.	Moderate Risk
Management Response/Action Details	Action Date
The team will be asked to provide a monthly report to the Assistant Director on a monthly basis.	31/07/2022
Status Update Comments	Revised Date

Risk Register	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
There was no evidence to confirm that Members had been suitably trained to fulfil their responsibilities in respect of risk management. We recommend, in accordance with the ALARM best practice guidance, that all Council Members should receive training on risk management. Given that all Elected Members, Council Cabinet and Audit Committee have specific responsibilities in respect of the Councils risk management framework, it is important that Members are appropriately trained such that they are able to actively support the Council in its management of risks and also challenge and scrutinise the Council's risk position. Evidence of the training given to Members should be retained.	Low Risk
Management Response/Action Details	Action Date
To be reviewed as part of member induction training package following local elections.	31/07/2019
Status Update Comments	Revised Date

Environmental Health	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
The performance indicators for Environmental Health were not meaningful or effective at providing senior management with assurance that the service area was performing to a high standard. We recommend that management review the performance indicators and associated targets to ensure they are measurable and effective at providing senior management with the assurance it requires to evidence that the service is performing to a high standard and therefore enabling management to make informed decisions.	Low Risk
Management Response/Action Details	Action Date
Janet and Christine to set up meeting to discuss and upload onto Pentana with Chris Clarke.	31/12/2021
Status Update Comments	Revised Date