Finance & Audit Scrutiny Committee

Wednesday 19 August 2020

A meeting of the Finance and Audit Scrutiny Committee will be held remotely on Wednesday 19 August 2020 at 6.00pm and available for the public to watch via the Warwick District Council YouTube channel.

Membership:

Councillor J Nicholls (Chair)

Councillor L Bartlett	Councillor Illingworth
Councillor J Dearing	Councillor Luckhurst
Councillor R Dickson	Councillor S Syson
Councillor J Grey	Councillor J Tracey
Councillor T Heath	Councillor T Wright

Agenda
Part A – General Items

1. **Apologies & Substitutes**

(a) to receive apologies for absence from any Councillor who is unable to attend; and

(b) to receive the name of any Councillor who is to act as a substitute, notice of which has been given to the Chief Executive, together with the name of the Councillor for whom they are acting.

2. **Declarations of Interest**

Members to declare the existence and nature of interests in items on the agenda in accordance with the adopted Code of Conduct.

Declarations should be disclosed during this item. However, the existence and nature of any interest that subsequently becomes apparent during the course of the meeting must be disclosed immediately. If the interest is not registered, Members must notify the Monitoring Officer of the interest within 28 days.

Members are also reminded of the need to declare predetermination on any matter.

If Members are unsure about whether or not they have an interest, or about its nature, they are strongly advised to seek advice from officers prior to the meeting.

3. **Minutes**

(a) To confirm the minutes of the meetings held on 27 May 2020 **(Pages 1 to 8)**

(b) To confirm the minutes of the meeting of the Joint Meeting of the Finance and Audit Scrutiny Committee and the Overview & Scrutiny Committee held on 29 July 2020. **(Pages 1 to 5)**

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Part B - Audit Items

4. **Audit Progress Report**

To consider a report from Finance **(Pages 1 – 24)**

5. **TM Half Year Review (October to March 2020)**

To consider a report from Finance **(Pages 1 – 25)**

6. **Treasury Management Annual report**

To consider a report from Finance **(Pages 1 – 27)**

Part C – Scrutiny Items

7. **Review of the Work Programme and Forward Plan & Comments from the Executive**

To consider a report from Civic & Committee Services **(Pages 1 to 6)**

8. **Executive Agenda (Non-Confidential Items and Reports) – Monday 24 August 2020**

To consider the non-confidential items on the Executive agenda which fall within the remit of this Committee. The only items to be considered are those which Committee Services have received notice of by 9.00am on the day of the meeting.

You are requested to bring your copy of that agenda to this meeting.
(Circulated separately)

9. **Public & Press**

To consider resolving that under Section 100A of the Local Government Act 1972 that the public and press be excluded from the meeting for the following item by reason of the likely disclosure of exempt information within the paragraph 3 of Schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006.

10. **Executive Agenda (Confidential Items and Reports) – Monday 24 August 2020**

To consider the confidential items on the Executive agenda which fall within the remit of this Committee. The only items to be considered are those which Committee Services have received notice of by 9.00am on the day of the meeting.

You are requested to bring your copy of that agenda to this meeting.
(Circulated separately)

Published Monday 10 August 2020

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For enquiries about specific reports, please contact the officers named in the reports.
You can e-mail the members of the Committee at fandascrutinycommittee@warwickdc.gov.uk

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Finance and Audit Scrutiny Committee

Minutes of the remote meeting held on Tuesday 27 May 2020 at 6.00pm, which was broadcast live via the Council's YouTube Channel.

Present: Councillors: Bartlett, J Dearing, R Dickson, Grey, Illingworth, Luckhurst, Nicholls, Syson, Tracey and Wright.

Also present: Councillor Hales (Portfolio Holder for Business & Finance).

1. **Apologies and Substitutes**

(a) there were no apologies for absence; and
(b) there were no substitutes.

2. **Appointment of Chair**

It was proposed by Councillor Syson, seconded by Councillor Bartlett and

Resolved that Councillor Nicholls be appointed as Chair for the 2020/21 Municipal Year.

3. **Declarations of Interest**

There were no declarations of interest.

4. **Minutes**

The minutes of the meeting held on 11 February 2020 were taken as read and signed by the Chairman as a correct record.

(Councillor Wright abstained from voting on this item.)

5. **Internal Audit Quarter 3 2018/19 Progress Report**

The Committee received a report from Finance that detailed progress in achieving the Internal Audit Plan 2019/20, summarised the audit work completed in the third quarter and provided assurance that action had been taken by managers in respect of the issues raised by Internal Audit.

Finance and Audit Scrutiny Committee was the audit committee for the Council. Guidance on the role and responsibilities of audit committees was available from a number of sources. Guidance which related to audit committees' relationship with internal audit and in particular the type and content of reports they should have received from internal audit was summarised in Appendix 1 to the report.

To help fulfil these responsibilities audit committees should have reviewed summary internal audit reports and the main issues arising, and seek assurance that action had been taken where necessary.

At the start of financial year, the Committee approved the Audit Plan setting out the audit assignments to be undertaken. An analysis of progress in completing the Audit Plan for 2019/20 was set out as Appendix 2 to the report.

Management was responsible for the system of internal control and should have set in place policies and procedures to help ensure that the system was functioning correctly. On behalf of the Authority, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls

Each audit report provided an overall opinion on the level of assurance provided by the controls within the area audited. The three assurance bands were substantial, moderate or limited.

These definitions had been developed following extensive investigation of other organisations' practices (including commercial operations)

Twelve audits were completed in the third quarter of 2019/20. Copies of all the reports issued during the quarter were available for viewing as part the online agenda for the meeting.

The action plans accompanying all Internal Audit reports issued in the quarter were set out as Appendix 3 to the report. These detailed the recommendations arising from the audits together with the management responses, including target implementation dates

Responses had been received from managers to all recommendations contained in audit reports issued during the quarter in question.

Four audits completed in the quarter were awarded a lower than substantial assurance opinion. These were in respect of the 'Cloud Applications', 'Information System Policies', Health and Safety Compliance of Council Buildings' and 'Catering Concessions'.

The state of implementation of low and medium risk recommendations made in the fourth quarter of 2018/19 and high risk recommendations made in the second quarter of 2019/20 was set out in Appendix 5 to the report.

The presentation of the report to the Committee had been delayed due to the cancellation of the March meeting of the Committee and subsequent meetings due to the restrictions on public gatherings in place as a result of the Coronavirus pandemic. The report was presented at the earliest opportunity to the Committee once formal meetings were meeting remotely following the introduction of revised regulations for Committee meetings by the Government.

Questions on this item had been submitted ahead of the meeting and responses to these published as an addendum to the agenda.

In response to further questions at the meeting the Internal Audit & Risk Manager explained that Sundry debtors would include service charges not paid for by tenants and would investigate when the invoices for these would be issued.

Resolved that

(1) the report, including its appendices 1 to 5, be noted; and

(2) Mr I Wilson, who had retired at the end of March, be thanked for his work with the Council for over 30 years.

6. **Internal Audit Quarter 4 2019/20 Progress Report**

The Committee received a report from Finance that detailed progress in achieving the Internal Audit Plan 2019/20, summarised the audit work completed in the third quarter and provided assurance that action had been taken by managers in respect of the issues raised by Internal Audit.

Sixteen assignments were completed in the fourth quarter of 2019/20. One of these was a consultancy review of CCTV at the request of the Deputy Chief Executive (AJ) and the Head of Health & Community Protection. This replaced the planned audit of Crime and Disorder which, because of previous high levels of assurance, was felt could safely be deferred to the next financial year. Copies of all the audit reports issued during the quarter were available for viewing on the online agenda for the meeting. As a consultancy report, the report on CCTV was not listed.

Despite a challenging working situation caused by the onset of the Coronavirus pandemic, the Audit Plan had been completed for the year (with the consultancy review of CCTV replacing the original planned audit of Crime and Disorder). It was the case that the scope in respect of the Housing Stock Asset Management review was curtailed due to staff unavailability. The areas not covered had been noted and would be covered at the next available opportunity.

Two of the audits completed in the quarter were awarded a lower than substantial assurance opinion. These were in respect of the 'Events Management' and 'Local Elections' assignments. Both were awarded a moderate level of assurance. A follow-up review of Local Elections was undertaken at the start of 2020/21 to review progress made since the 2019/20 audit and, because the weaknesses had been addressed, this had been given a substantial level of assurance.

The action plans accompanying all Internal Audit reports issued in the quarter were set out at Appendix 3 to the report. These detailed the recommendations arising from the audits together with the management responses, including target implementation dates.

Responses had been received from managers to all recommendations contained in audit reports issued during the quarter in question.

Questions on this item had been submitted ahead of the meeting and response to these published as an addendum to the agenda.

In response to further questions at the meeting the Internal Audit & Risk Manager explained that:

- there would need to be review of the audit plan including a review of the associated risks with the plan, and this would be reported to a meeting of the Committee in the near future;
- the team were undertaking some audits but focus had moved to grants payments and validating them; and
- he would raise the risk environment with SMT overall for them to consider.

Resolved that the report, including its appendices 1 to 4, be noted

7. **Internal Audit Annual report**

The Committee considered a report from Finance that presented a summary of the internal work undertaken during 2019/20 and provided a conclusion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The report formed part of the evidence for the Annual Governance Statement of the Council for 2019/20.

The Public Sector Internal Audit Standards required that "The 'chief audit executive' must deliver an annual internal audit opinion and report that could be used by the organisation to inform its governance statement.

Questions on this item had been submitted ahead of the meeting and response to these published as an addendum to the agenda.

Resolved that the Annual Report of Internal Audit for the year ended 31 March 2020 be noted.

8. **Annual Governance Statement 2019/20**

The Committee considered a report from Finance that set out the Council's Annual Governance Statement for 2019/20 describing the governance arrangements that were in place during the financial year.

The Statement would be signed by the Chief Executive and the Leader of the Council and would accompany the Council's Statement of Accounts after their approval.

Regulation 6 of the Accounts and Audit (England) Regulations 2015 required that "A relevant authority must, each financial year [...] prepare (and approve) an annual governance statement".

Questions on this item had been submitted ahead of the meeting and response to these published as an addendum to the agenda.

In response to a question from the Committee the Audit & Risk Manager explained that the statement covered the time period up to the date that it was formally approved. In addition, any actions within the plan would be reported to the Committee for them to Monitor.

The Committee urged officers to ensure that they recorded lessons learned through the Coronavirus response.

Resolved that the Annual Governance Statement for 2019/20 for Warwick District Council as set out at Appendix A to the report, be approved.

9. **Internal Audit Strategic Plan 2020/21 – 2022/23 and internal Audit Charter 2020**

The Committee considered a report from Finance that presented the Internal Audit Strategic Plan 2019/20 – 2021/22 and the Internal Audit Charter 2019 for consideration and approval.

The Internal Audit Strategic Plan was an important element in providing the required independent and objective opinion to the organisation on its control environment, in fulfilment of statutory duties.

The compilation of the Internal Audit Charter was a requirement of the Public Sector Internal Audit Standards.

The presentation of the report to the Committee had been delayed due to the cancellation of the March meeting of the Committee and subsequent meetings due to the restrictions on public gatherings in place as a result of the Coronavirus pandemic. The report was presented at the earliest opportunity to the Committee once formal meetings were meeting remotely following the introduction of revised regulations for Committee meetings by the Government.

Questions on this item had been submitted ahead of the meeting and response to these published as an addendum to the agenda.

The Audit & Risk Manager explained that one of the changes would need to be made would be in recognition in respect of the majority of officers were now working from home.

Resolved that the Internal Audit Strategic Plan 2019/20 – 2021/22 and the Internal Audit Charter 2019, be approved.

10. **2019/20 Audit of Accounts**

The Committee received a report that set out the Audit Plan for 2019/20 from the External Auditors, Grant Thornton, for members' consideration. This was supported by the "Informing the Risk Assessment" document.

Grant Thornton had commenced work on the audit and progress on the audit work to date, was included in the report.

Auditors had submitted the External Audit Plan for 2019/20 as set out at Appendix A to the report. The Committee were asked to agree the Plan and may have wished to seek assurance from officers and auditors that all had done to ensure the statutory requirement was met.

The "Informing the Risk Assessment", Appendix B to the report, had been produced by the external auditors, bringing together details of responses from officers. The document was to assist in the communication between members and the external auditors. Members needed to consider and agree the document and make any observations to the auditors. Officers responses to the document had been included.

The auditors had been on site for one visit to commence work on the audit. The intention was to undertake as much work as possible ahead of closedown and the compilation of the Statement of Accounts, so as to reduce their audit time in June/July.

The documents and supporting information requested by the auditors was supplied to the auditors during their interim visit. A few further requests had subsequently been raised, the majority of which had been responded to.

For the 2018/19 Audit, active use was made of Inflo. This was an on-line portal to securely share documents between the relative teams. Inflo worked well for 2018/19, with all parties keen to continue with this for 2019/20.

All external audit firms had stressed in recent months how tight their resources were for the audit to be completed by 31 July 2020. For 2018/19, a significant number of audits (none carried out by Grant Paterson) were not completed by the required date. If the 2019/20 audit was to be completed by the end of July, it was imperative that their requests for information were responded to promptly by Council officers. This would impact on the Accountants and officers from other Services.

In view of the pressure upon auditors, Public Sector Audit Appointments (PSAA) had recently emailed all S151 officers setting out the pressure external auditors were under and how this could have impacted upon future fees. PSAA had commissioned a review on the Future Procurement and Market Supply Options Review for external audit. The document considered the sustainability of audit supply alongside improvements in audit quality and the associated fee implications. The research concluded that 'almost all of the approved firms had reservations about remaining in the market'. These issues were considered further within the presentation prepared by Grant Thornton.

The presentation of the report to the Committee had been delayed due to the cancellation of the March meeting of the Committee and subsequent meetings due to the restrictions on public gatherings in place as a result of the Coronavirus pandemic. The report was being presented at the earliest opportunity to the Committee once formal meetings were meeting remotely following the introduction of revised regulations for Committee meetings by the Government. As a result, the majority of the details of the report had to be considered in parallel with the updated report as recorded in Minute 12.

Questions on this item had been submitted ahead of the meeting and response to these published as an addendum to the agenda.

Mary Wren and Grant Patterson both attended the meeting to represent Grant Thornton and outlined the planned Audit and what work had been completed.

In response to questions from the Committee it was explained that:

- Value for Money guidance under discussion with National Audit Office in respect of pandemic and mindful the Council was making regular submissions to the Government on the financial impact of the pandemic;
- the value for money for 19/20 included some forward looking but this was only up to 31 March 2020;
- Grant Thornton had specific tools/models in place to assess the value for money and going into the year the Council was in a better position than a significant number of other Councils, but the Council would be facing a lot of challenges;
- the loans approved by Council and the assessment of these being repaid to the Council was considered as part of the audit; and
- Grant Thornton would look at values of loans and what they were made against, as at 31 March 2020, and these may be accompanied by some notes in the final opinion.

Resolved that

(1) the 2019/20 External Audit Plan as set out at Appendix A to the report and the "Informing the Risk Assessment" as set out at Appendix B to the report be approved;

(2) the progress on the 2019/20 audit to date, be noted; and

(3) the documents supplied by Public Sector Audit Appointments, Appendices C and D to the report, which consider the local authority external audit market and potential fee implications, together with Grant Patterson's presentation thereon, Appendix E to the report, be noted.

11. **2019/20 Audit of Accounts – Update Report**

The Committee received a report from finance that supplemented the report prepared for Finance and Audit Scrutiny Committee in March 2020, minute 10, presenting an update on the current position for the closure of 2019/20 Accounts.

In response to the COVID 19 Pandemic the government had amended to key dates for the completion of the 2019/20 Statement of Accounts as follows:-

- Draft Accounts – to be available from 31 August 2020 (slipped from 31 May 2020);
- Draft Accounts to be advertised on or before 1 September 2020 (previously 10 June); and
- Audited accounts to be agreed by 30 November 2020 (previously 31 July 2020).

Officers were aiming to adhere as close as possible to the original timescale, despite some time being lost whilst staff adapted to new working practices and the relevant ICT was rolled out. As a consequence, the draft accounts were now planned on being ready for the middle of June.

The External Auditors had planned their next work on site 1 June for a week, followed by 15 June. Slipping the Accounts into June assisted the Auditors who would have struggled to adhere to the 1 June date due to other audit commitments, primarily in relation to the NHS. Consequently, the Auditors were planning on being on site for 2 weeks from 15 June, then a further 2 weeks from 6 July. On this basis, it was planned to report the Audited Accounts to Finance and Audit Scrutiny Committee at the end of July.

The Accountants and the Auditors acknowledged there would have remained risks to achieving these dates. Within the original timetable, there was believed to be sufficient contingency time. Progress on the completion of the Accounts was closely monitored and any potential changes to the current plan would be shared with the Finance Portfolio Holder and the Chair of Finance and Audit Scrutiny Committee.

A question on this item had been submitted ahead of the meeting and response to these published as an addendum to the agenda.

Resolved that the

(1) new statutory timetable for the closure of accounts and the plans for the completion of the Council's Statement of Accounts, be noted; and

(2) Audit Action Plan Update issued by the Council's External Auditors, be noted.

(The meeting ended at 7.40pm)

CHAIR
19 August 2020

Joint meeting of the Finance & Audit and Overview & Scrutiny Committees

Minutes of the remote joint meeting of the Finance & Audit and Overview & Scrutiny Committees held on Tuesday 29 July 2020 at 6.02pm, which was broadcast live via the Council's YouTube channel.

Present: Councillors Bartlett, Davison, A Dearing, J Dearing, K Dickson, R Dickson, Grey, Illingworth, Jacques, Luckhurst, Margrave, Milton, Murphy, Nicholls, Norris, Redford, Russell, Syson, Tracey, Weber and Wright.

6. **Appointment of Chair**

It was proposed by Councillor Russell, duly seconded by Councillor Syson and

Resolved that Councillor Milton be appointed as Chair for the meeting.

7. **Apologies and Substitutes**

(a) There were no apologies made.
(b) Councillor Murphy substituted for Councillor Noone, Councillor Weber substituted for Councillor Cullinan and Councillor K Dickson substituted for Councillor Kohler.

8. **Declarations of Interest**

There were no declarations of interest made.

9. **Minutes**

The minutes of the meeting held on 7 July 2020 were taken as read and signed by the Chair as a correct record.

10. **Developing Scrutiny**

The Committees considered a report from Democratic Services which brought forward proposals for developing Scrutiny within Warwick District Council to enhance its profile and use its resources more effectively.

Following the Council elections in May 2019, a Governance Review was undertaken and the details of this were included in a report to the Executive of 30 July 2020. As part of this review, considerable discussions took place on the importance of good scrutiny in helping all Councillors to make a valuable input in decision making and holding the Executive to account.

Following the appointment of two Scrutiny Chairs this year, they had conversations about the importance of scrutiny, and its workload, considering the significant pressures on the Council, Councillors and officers, especially in respect of responding to the global pandemic, climate change emergency and the Medium Term Financial Strategy combined with the Business Plan and Service Area Plans (including the significant number of projects within them).

The report included Article 6 of the Constitution and the Overview & Scrutiny Procedures Rules at Appendices 1 and 2 to the report. Appendix 3 to the report was an excerpt from the Constitution on Public Speaking rules for Scrutiny Committees. Suggested additions to these rules were in italics and a recommendation in the report sought that these additions should be recommended to Council for approval.

In recognition of the desire to improve Scrutiny, there was a joint meeting of both Scrutiny Committees on 7 July 2020 where Members brought forward individual ideas for improvement. These views were combined to bring forward the recommendations in the report for consideration by the Committees that sought to identify where scrutiny could add the most value.

A suggestion made by Councillor Illingworth was agreed; to replace the word previously with "satisfactorily" to Recommendation 2.2 (ii) so that it read:

"The Scrutiny Committees agree to trial to December 2020 for the Chairs of the Scrutiny Committees to have discretion to decline called in Executive item if questions were ~~previously~~ *satisfactorily* answered or if no good reason/questions are provided."

Following the publication of the agenda a revised wording for the proposed public speaking procedures for scrutiny, as initially set out at Appendix 3 to the report, had been circulated. The revised wording as circulated was generally supported by the Committee and were assured by the Democratic Services Manager & Deputy Monitoring Officer that the scheme was manageable.

It was proposed by Councillor Milton and seconded by Councillor R Dickson and:

Recommended to Council that the Public speaking procedure for Scrutiny Committees, as set out at Appendix 3 to the report, be approved, but the last paragraph written in italics should be wholly replaced with:

A maximum period of 3 minutes is allowed for each speaker. If several people wish to speak on the same subject, they will be restricted to an overall total of 5 minutes. The time allowed for all speakers at any one meeting is limited to 30 minutes. The Chair will have discretion to increase the time available for speakers *where they consider the matter has a significant public interest.*

Speakers will be encouraged and helped to contact each other so that repetition can be avoided. This means that you may be given the names, addresses and telephone numbers of other speakers on the same issue and they may be given your details, but only with your permission. It may be helpful for a spokesperson to speak on behalf of all speakers. Where a number of speakers cannot agree on a spokesperson, they will be heard in the order in which they registered their intention to speak.

Resolved that

(1) Performance
   (i) the annual Service Review reports cease to be produced for Scrutiny;
   (ii) the service area performance data be made available to Councillors electronically as soon as possible;
   (iii) the Red Amber Green (RAG) status, including the finance stream, of key projects sponsored by either the Chief Executive or his Deputies be made available to all Councillors by January 2021; and
   (iv) the work of the Performance Management Officer to investigate benchmarking Council performance with other Councils be noted;

(2) Executive reports
   (i) the Scrutiny Committees commit to the use of pre-meeting questions in writing on Executive reports;
   (ii) the Scrutiny Committees agree a trial to December 2020 for the Chairs of the Scrutiny Committees to have discretion to decline called in Executive items if questions were previously *satisfactorily* answered or if no good reason/questions are provided;
   (iii) the Chairs write to the Group Leaders to remind them that they can directly comment on Executive reports and the process for this; and
   (iv) Councillors Davison, Grey, Margrave, Milton and Nicholls, representing each political group, be appointed to meet and define the criteria for bringing an Executive report to Scrutiny;

(3) Work Programme
   (i) the Scrutiny Chairs and Lead officers produce revised Work Programmes to focus on core themes (Covid 19, Climate Change, Medium

Term Financial Strategy and Business Plan) while recognising statutory functions; and

(ii) Councillors bring forward concerns for review by the Scrutiny Committees based on exception and evidence; and

(4) Review – Senior Managers be asked for their views on where they find scrutiny useful for adding value to their work;

(5) Training

(i) the Chairs of Scrutiny meet with representatives from CfPS and the Deputy Chief Executives to develop a dedicated/mentoring scrutiny training for Officers and Councillors and to bring a report on this back to Committees in October 2020; and

(ii) the Chair of Finance & Audit Scrutiny Committee liaises with the Head of Finance and CfPS bring forward proposals to the October 2020 meeting on scrutiny of local Government Finance and identify training on local government finance for all Councillors; and

(6) the work being undertaken to promote Committee meetings be noted.

11. **Governance Review of Warwick District Council**

The Committees considered the following non-confidential item which would be discussed at the meeting of the Executive later on Thursday 30 July 2020.

Item 2 – Governance Review of Warwick District Council

The Committees supported the recommendations in the report but wanted to draw a number of points to the attention of the Executive that needed to be carefully monitored.

The Committees had concerns about the large remit of each PAB and how they would cope looking at such large areas of work. This was a specific concern that the listed areas were just projects and did not cover other work the PABs would look at, such as refinements to or creating new policies.

The Committees shared concerns that with the change to scrutiny of service provision, the development of and quality of service provision might not be adequately picked up by the scrutiny of RAG and KPIs that had been developed and which would be adopted.

They noted the dates in 2.2 and 2.7 for review should be combined so they were the same, and that the remit of the review should be produced in agreement with both Scrutiny Chairs.

The Committees appreciated clarification that the presumption would be for briefings to remain in the evening, in line with the protocol for arranging meetings with Councillors, but accepted this may mean some needed to be held at the same time as other meetings.

The Committees made a general comment on the resources for Civic & Committee Services, that this proposal should be work neutral and therefore this element needed to be closely monitored and fed back on as part of the 6, 12 and 18-month review.

In addition, some Members of the Committee raised concerns about:

- the loss of Shadow Portfolio Holder meetings and highlighted this could lead to more work for officers through more frequent questions/contacts from Councillors; and
- for providing an SRA for the role of Chairman of a PAB.

(The meeting ended at 7.16pm)

CHAIRS
Councillor Milton - 18 August 2020
Councillor Nicholls – 19 August 2020

WARWICK DISTRICT COUNCIL	**Finance and Audit Scrutiny Committee** **19 August 2020**	**Agenda Item No. 4**

Title	Audit Progress Report
For further information about this report please contact	Mike Snow 01926 456800 Andrew Rollins 01926 456013
Wards of the District directly affected	N/A
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	
Background Papers	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality Impact Assessment Undertaken	N/A

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	10/8/2020	Andrew Jones
Head of Service	10/8/2020	Mike Snow
CMT	10/8/2020	
Section 151 Officer	10/8/2020	Mike Snow
Monitoring Officer	10/8/2020	Andrew Jones
Finance	10/8/2020	Andrew Rollins
Portfolio Holder(s)	10/8/2020	Richard Hales
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

1. Summary

1.1 The audited Statement of Accounts were due to be signed off by this Committee on 19 August. With the current working arrangements, there have been some delays to the completion of the audit. This is discussed more fully within the attached Audit Progress Report from the External Auditors.

2. Recommendation

2.1 It is recommended that the Committee note this report and the report of the External Auditors.

3. Reasons for the Recommendation

3.1 Members will be aware that under the latest Accounts and Audit Regulations, the normal deadline for the Council's audited Statements of Accounts to be signed off is 31 July. Members have been updated previously on how the regulations have been changed for this year, with the deadline now being 30 November. However, it was still the intention of the Council and the auditors to keep to the original deadline as far as possible, as previously reported. Recently, it had been intended to be reporting the audited Statement of Accounts and the Auditor's Audit Findings Report to this Committee on 19 August.

3.2 Recent discussions with the external auditors have confirmed that it will not be possible. The reasons for this delay largely relates to problems with the current virtual and home working arrangements. Some elements of the audit are still best considered in a face to face, office environment.

3.3 The external auditors have submitted the Attached Audit Progress Report. This details some of the elements of the audit that still remain to be completed. It also provides some details about some of the problems encountered with the current audit.

3.4 Whilst the audit is not complete, the auditors have not raised any significant concerns with the draft accounts. Also, they are not expecting to encounter any problems as they complete their work.

3.5 Overall, the auditors estimate that the audit will take an additional 10 days to complete. All parties are very keen for the work to be completed as soon as possible, certainly before the end of August. The Audit Findings Report is expected to be issued in early September. This would then be reported to the Committee at the end of September.

3.6 With this delay to the audit, the Council is still in a very strong position compared to many local authorities. In some cases, the 2018/19 Accounts remain unsigned. Some authorities are expecting their audit to progress towards the 30 November deadline.

4. Policy Framework

4.1 Fit for the Future (FFF)

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	**Services**	**Money**
External		
Health, Homes, Communities	**Green, Clean, Safe**	**Infrastructure, Enterprise, Employment**
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Becoming a net-zero carbon organisation by 2025 Total carbon emissions within Warwick District are as close to zero as possible by 2030 Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/ productivity of local economy Increased employment and income levels
Impacts of Proposal		
The audited accounts support all strands of FFF by way of confirming how the Council is using its resources.		
Internal		
Effective Staff	**Maintain or Improve Services**	**Firm Financial Footing over the Longer Term**
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
The audited accounts support all strands of FFF by way of confirming how the Council is using its resources.		

4.2 **Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. The 2019/20 Accounts are consistent with the relevant supporting strategies.

4.3 **Changes to Existing Policies**

No changes to existing policies are proposed.

4.4 **Impact Assessments**

The Council's Final Accounts cover the community throughout the District. It is a statement of fact and officers will have considered any impact when amending their budgets.

5. Budgetary Framework

5.1 The original cost for the audit of the Accounts was agreed at £41,290, with an additional proposed £7,500 variation as reported to members in May. With the additional time required to complete the audit, it is uncertain as to whether this will be an additional charge for the Council. Fee variations are normally agreed by Public Sector Audit Appointments (PSAA), the body responsible for appointing external auditors. With most local authorities and auditors encountering similar problems, it is likely that a national approach will be proposed. In terms of the overall fee, an auditor working an extra 10 days should not amount to a significant increase to the fee.

6. Risks

6.1 The audit to date has not raised any significant risks.

7. Alternative Option(s) considered

7.1 In view of the current working arrangements and the progress on the audit, no alternative options are proposed.

Grant Thornton
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Audit Progress Report and Sector Update

Warwick District Council
Year ending 31 March 2020

9 August 2020

Contents

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Introduction

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This paper provides the Finance and Audit Scrutiny Committee with a report on progress as at 6 August 2020 in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Finance and Audit Scrutiny Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact Grant Patterson or Mary Wren.

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Headlines

Covid 19	The Covid-19 pandemic occurred prior to the start of the year end audit of the financial statements. In response to this a plan addendum was presented to the Finance and Audit Scrutiny Committee (virtual meeting) on 27 May 2020 which reported a financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices and your audit team are have been working from home since this date. Although there are some audit tasks which are best undertaken in person, we have been able to carry out appropriate audit procedures remotely. Restrictions for non-essential travel has meant both Council and audit teams have had to adapt to a new way of working , for example; remote accessing financial systems via screen sharing , video calling, physical verification of assets and additional procedures to validate the completeness and accuracy of information produced by the entity (IPE). Due to remote working and methods of reviewing source reports (for example screensharing) certain audit procedures have longer than prior years. We would like to extend out thanks to the Finance team for their continued support during a time where they are facing additional pressures to support the local community the council serves, for example the payment of business rate grants. We continue to work closely with your finance team to make this different way of working as efficient as possible for the remainder of the 2019/20 audit but also consider how we can all take the positive experiences from this period of remote working and integrate into our working arrangements going forward.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. **Financial accounts and supporting systems** The 2019/20 final accounts visit audit began on 15 June 2020 and as stated above our work has been completed remotely in light of the Covid 19 pandemic. Upon review of the draft financial statements a number of small amendments were identified by the Finance team which were corrected prior to the audit team receiving the financial statements on 18 June 2020. Remote working has highlighted the complexity of the Council's underlying financial systems. It has taken additional time to explain the audit trail of transactions through remote working rather than discussing processes and procedures in person. Certain reports have also taken longer to obtain in an appropriate format than would be expected, for example Journal, debtor and creditor reports. We estimate that combined with the impact of remote working this has extended the audit process by 2 weeks. The finance team are aware of the limitations with the current finance system and have recently been through a detailed procurement process to identify a replacement finance package. We understand the Council have now made a decision in relation to the new finance system which is due for implementation in 2020/21. **Significant risks** Our audit plan and plan addendum reported on 27 May 2020 identified the following risks which required specific audit procedures. • Covid-19 • The Revenue cycle includes fraudulent transactions (rebutted) • Management over-ride of controls • Valuation of Property, Plant and Equipment (PPE) • Valuation of the pension fund net liability Pages 6 to 8 detail the progress made as at 6 August against these significant risks. There are no significant issues we need to draw to your attention at this time. **Sample testing** In order to gain assurance over certain balances within the financial statements, as part of audit procedures we select a sample of items for detailed review. Pag 9 summarise the progress made as at 6 August in relation to sample testing. There are no significant issues we need to draw to your attention at this time.

Headlines (continued)

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have updated our risk based review of the Council's value for money arrangements and have not identified any additional risks in relation to Value for Money in addition to the financial sustainability risk included in the Audit Plan. Our audit work remains in progress.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	 • At this time we have not had to apply any of our additional powers and duties. • Our audit work remains in progress.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,200,000	• Materiality determined equates to approximately 1.4% of the Authority's cost of services expenditure
Performance materiality	840,000	• This is determined by applying 70% to headline materiality. The Council is continuing to improve it's closedown arrangements and there were no material amendments to the prior year's financial statements.
Trivial matters	60,000	• This is determined by applying 5% to headline materiality
Materiality for Senior Officer Remuneration	25,000	• We believe these disclosures are of specific interest to the reader of the accounts. We consider that using an absolute materiality value is appropriate, rather than applying a % of any other benchmark, because the magnitude of the disclosures does not vary greatly with the size of the organisation or any similar factors.

Acknowledgements

We would like to take this opportunity to record our appreciation for the on-going assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

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Progress against significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Progress as at 6th August 2020
Covid-19	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivables balances; Our work in relation to the Covid-19 risk is not yet complete. We need to complete the following procedures: • evaluate the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic, and • evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.
The Revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Warwick District Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Warwick District Council.

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Progress against significant risks (continued)

Risk	Reason for risk identification	Progress as at 6th August 2020
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence No issues have been identified in relation to our work completed so far. Our testing in relation to journals is not yet complete. We need to complete the following procedures in order to gain assurance over this risk: • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of PPE	The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£483m in the Authority's balance sheet at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. As part of the 2018/19 audit we made recommendations regarding the specific instructions issued to the valuer. We have therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register and accounted for correctly. No issues have been identified in relation to our work completed so far. Our testing in relation to the valuation of property, plant and equipment is not yet complete. We need to complete the following procedures in order to gain assurance over this risk: • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

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Progress against significant risks (continued)

Risk	Reason for risk identification	Progress as at 6th August 2020
Valuation of the pension fund net liability	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£40.9 million in the Authority’s balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority’s pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority’s pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary’s work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority’s pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; No issues have been identified in relation to our work completed so far. Our testing in relation to the valuation of he pension fund net liability is not yet complete. We need to complete the following procedures in order to gain assurance over this risk: • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. • obtain understanding and assurance over the significant experience valuation movements observed in 2019/20 • with the publication of MHCLG’s consultation on the proposed remedy in relation to McCloud consider management’s consideration of the potential impact of this upon the current estimate alongside that for GMP.

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Sample testing progress

Area tested	Description	Assessment of Progress
Operating expenditure	As per the financial statements note 7, operating expenditure totals £53,917k We have selected a total of 43 items for testing and have received sufficient evidence to support the 43 sample items. No errors have been identified from our testing.	● Green - 75% - 100% complete
Grant revenues	As per the financial statements note 33, grant revenue totals £40,415k. We have selected a total of 12 items for testing and have received sufficient evidence to support the 12 sample items . No errors have been identified from our testing.	● Green - 75% - 100% complete
Other revenues	As per the financial statements note 7, other revenue totals £42,060k. We have selected a total of 22 items for testing and have received evidence to support 16 sample items. Therefore we are still awaiting further support for 6 items and need to review the support received to date and conclude on our testing. No errors have been identified in the testing completed so far.	● Amber - 50% -75% complete
PPE Additions	As per the financial statements note 13, additions total £22,807k. We have selected a total of 29 items for testing and have received evidence to support the 29 sample items. However we still need to review this support and conclude on our testing. No errors have been identified in the testing completed so far.	● Amber - 50% -75% complete
REFCUS	As per the financial statements note 35, REFCUS totals £5,579k. We have selected a total of 5 items for testing and have received evidence to support the 5 sample items. However we still need to review this support and conclude on our testing. No errors have been identified in the testing completed so far.	● Green - 75% - 100% complete
Journals	As per the breakdown of manual journals obtained, we have selected a total of 25 journals (167 transaction lines) for testing and have received evidence to support all 25 journals. However we still need to review this support and conclude on our testing. No errors have been identified in the testing completed so far.	● Green - 75% - 100% complete
Receivables	As per the financial statements note 18, receivables total £6,365k. We have selected a total of 26 items for testing and have received sufficient evidence to support 14 sample items. Therefore we are still awaiting further support for 12 items in order to conclude on our testing. No errors have been identified in the testing completed so far.	● Amber - 50% -75% complete
Payables	As per the financial statements note 21, payables total £14,090k. We have selected a total of 26 items for testing and have received evidence to support all 26 sample items. However we still need to review this support and conclude on our testing. No errors have been identified in the testing completed so far.	● Amber - 50% -75% complete
Operating Expenditure (Completeness)	As per the breakdown of payments made from April 2020 to July 2020, we have selected a total of 30 items for testing and have received evidence to support all 30 sample items. However we still need to review this support and conclude on our testing. No errors have been identified in the testing completed so far.	● Amber 50% -75% complete

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Going Concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process	**Auditor commentary** Going Concern is defined as “the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.’ The Authority’s financial statements are prepared on going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due. Audit procedures undertaken have not found any indication of the existence of going concern events or conditions which may cast significant doubt on the Authority's ability to continue as a going concern. The Council budgets more than a year in advance and undertakes frequent spending reviews where budgets are adjusted where required.
Work performed	**Auditor commentary** We have reviewed the budgetary processes in place and would note the following: • We are satisfied from our review of the Council’s reserves balance that it has sufficiency of usable reserves (e general fund and earmarked reserves) to support its finances should its savings plans not be delivered, but clearly reserves can only be used once. • The Council is rightly concerned that there are a number of unknowns in its funding, especially with regard to the Business Rates Reset. However, in and of itself, this is not considered to cast significant doubt on the Council’s ability to continue as a going concern.
Further work required	The Council is in the process of updating its Medium Term financial plan in light of Covid 19 – we are aware that this is a situation which is changing regularly as funding announcements are being made . We will review the updated MTFP when this becomes available.
Concluding comments	Our work in this area is not yet complete however we have not identified any issues at this time that would lead us to challenge the Council’s conclusion that the going concern assumption is appropriate.

Value for Money - Progress

Significant risk identified as part of audit planning	Progress update 6 August 2020

❶ **Financial sustainability**

When Members approved the 2019/20 Budget in February 2019, the Medium term Financial Strategy showed that that the Council would be in deficit by £574,000 by 2023/24.

A number of changes have been made largely resulting from re-profiling of savings and the Council is now showing a projected increase in the recurring deficit of £1.868m by 2023/24. In the short term it is proposed to use the Business Rate Retention Volatility Reserve (BRRVR) to help smooth the savings needed to be secured.

This will eliminate the projected deficits in 2020/21 and 2021/22 and has enabled the Council to agree a balanced Budget for 2020/21. However, recurrent savings of £522k will be required in 2022/23 and additional recurrent savings of £1,346k in 2023/24.

The Council acknowledged that by using the BRRVR it has effectively bought itself some time to get new initiatives in place but that it now needs to develop strategies for balancing its budget over the medium to long term to create a sustainable platform to deliver services.

Our value for money risk assessment remains in progress. However, given the in-year challenges and those anticipated looking forward we believe a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions remains. We will review the Council's arrangements for identifying and agreeing savings plans to ensure that it remains resilient to the increasing financial challenges of coming years. We will keep the Finance and Audit Scrutiny Committee updated with our assessment.

In light of Covid-19 we have carried out a review of the updated financial information being produced by the council. Covid-19 has had a significant impact on all sectors. In particular Council's have faced challenges in relation to lost income , examples include parking and leisure income.

The Councils Medium term Financial Strategy was last formally reported to members in February 2020 as part of the 2020/21 Budget setting process. At that stage the profile of savings to be found was as follows:-

2020/21 – £0

2021/22 – £0

2022/23 - £522k

2023/24 - £1,868k

2024/25 - £1,762k

This profile of savings from 2020/21 to 2024/25 includes a net contribution of £6,245 from the Business Rates Volatility reserve to support the General Fund.

An informal update to the MTFS was completed at June 2020 and was presented by Finance to the Executive on 22/6/2020. A summary table is include below which shows the impact of lost income, additional cost pressures but also government funding received in relation to the Covid -19 pandemic.

Financial year	Savings required - February 2020 MTFP	Savings required updated June 2020	Movement
	000's	000's	
2020/21	0	3,503	-3,503
2021/22	0	3,515	-3,515
2022/23	522	2,581	-2,059
2023/24	1,868	4,044	-2,176
2024/25	1,762	3,943	-2,181
	4,152	**17,586**	**-13,434**

Source: Informal June Update of MTFS

We are aware that the Finance team are currently updating the formal MTFP which will be reported to Finance and Audit Scrutiny on 19 August. We will focus the remainder of out work on this update.

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Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Audit Plan (and addendum) We are required to issue a detailed audit plan to the Finance and Audit Scrutiny Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements. Plan addendum	May 2020.	Complete
Audit Progress and Sector Updates We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	August 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the September Finance and Audit Scrutiny Committee.	September 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	September 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	October 2020	Not yet due

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Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Finance and Audit Scrutiny Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

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In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

We shared the report with your officers and discussed relevant issues with them in a timely manner.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Nondomestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf

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Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that "aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government's response to COVID-19."

The NAO report notes "Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for."

The NAO comment "This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

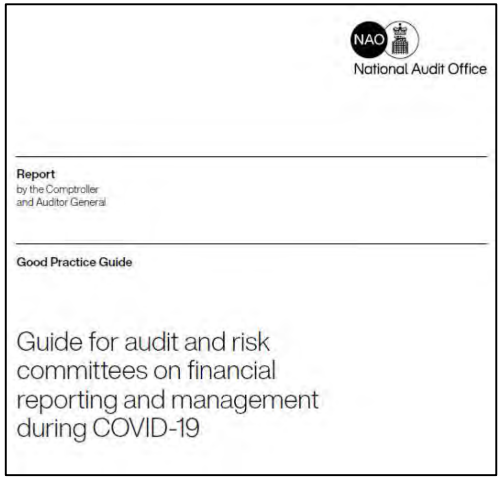
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period."

The full report can be obtained from the NAO website:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/


NAO
National Audit Office

Report
by the Comptroller
and Auditor General

Good Practice Guide

Guide for audit and risk committees on financial reporting and management during COVID-19

Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – "Building for renewal: kickstarting the C19 housing recovery".

Paul asked "So how do we address "the housing crisis" in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

• **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

• **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers form the service sectors who are very likely to lose their jobs because of the pandemic.

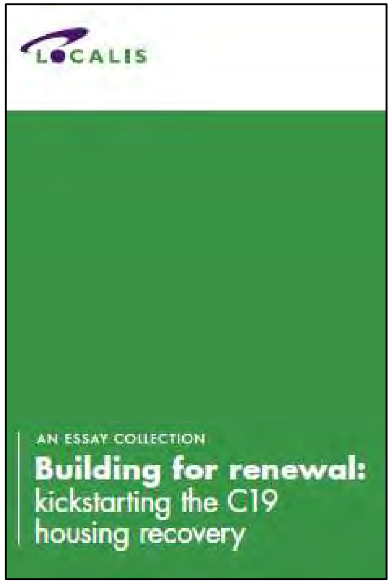
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

• **Building on existing initiatives to improve security of tenure and quality of accommodation**, a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded "Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need."



The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into placed-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

• Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.

• In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.

• Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnesses sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

• Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places –and focus investment decisions on closing that gap and levelling up local economies.

• The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.

• Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.

• Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

• The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/

CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

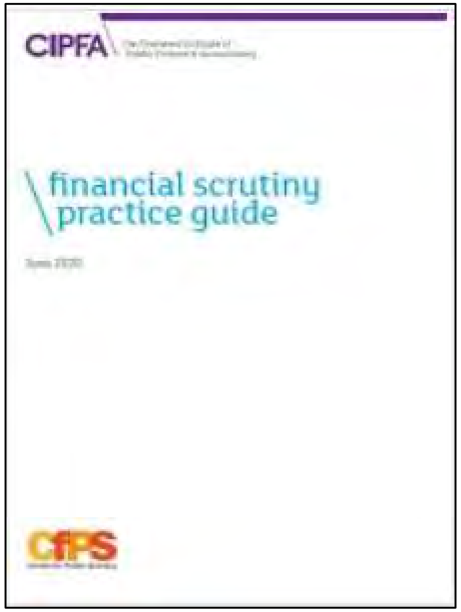
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny ‘events’ in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities’ formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA’s thinking on scrutiny’s role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA’s website:

https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

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Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.

The full report can be obtained from the PSAA website:

https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

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WARWICK DISTRICT COUNCIL	Finance and Audit Scrutiny Committee 19 August 2020	Agenda Item No. 5

Title	Treasury Management Activity Report for the period 1 October 2019 to 31 March 2020.
For further information about this report please contact	Karen Allison, Assistant Accountant 01926 456334 karen.allison@warwickdc.gov.uk
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	n/a
Background Papers	Treasury Management File L2/9 Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No – not relevant

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	6/8/20	Andrew Jones
Head of Service	1/8/20	Mike Snow
CMT		
Section 151 Officer	1/8/20	Mike Snow
Monitoring Officer	6/8/20	Andrew Jones
Finance	22/7/20	Karen Allison
Portfolio Holder(s)	4/8/20	Cllr Richard Hales
Consultation & Community Engagement		
None		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. Summary

1.1 This report details the Council's Treasury Management performance for the period 1 October 2019 to 31 March 2020.

2. Recommendations

2.1 That Finance and Audit Scrutiny Committee notes the contents of this report.

3. Reasons for the Recommendation

3.1 The Council's 2019/20 Treasury Management Strategy and Treasury Management Practices (TMP's) require the performance of the Treasury Management Function to be reported to Members on a half yearly basis.

4. Policy Framework

4.1 Fit for the Future (FFF)

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	**Services**	**Money**
External		
Health, Homes, Communities	**Green, Clean, Safe**	**Infrastructure, Enterprise, Employment**
<u>Intended outcomes:</u> Improved health for all. Housing needs for all met. Impressive cultural and sports activities. Cohesive and active communities.	<u>Intended outcomes:</u> Becoming a net-zero carbon organisation by 2025. Total carbon emissions within Warwick District are as close to zero as possible by 2030. Area has well looked after public spaces. All communities have access to decent open space. Improved air quality Low levels of crime and ASB.	<u>Intended outcomes:</u> Dynamic and diverse local economy. Vibrant town centres. Improved performance/ productivity of local economy. Increased employment and income levels.

FFF Strands		
People	**Services**	**Money**
Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision by maximising investment returns and minimising borrowing costs, while managing the risk to the Council's funds and maintaining liquidity. This protects services and benefits the Council's customers and other stakeholders.		
Internal		
Effective Staff	**Maintain or Improve Services**	**Firm Financial Footing over the Longer Term**
Intended outcomes: All staff are properly trained. All staff have the appropriate tools. All staff are engaged, empowered and supported. The right people are in the right job with the right skills and right behaviours.	Intended outcomes: Focusing on our customers' needs. Continuously improve our processes. Increase the digital provision of services.	Intended outcomes: Better return/use of our assets. Full Cost accounting. Continued cost management. Maximise income earning opportunities. Seek best value for money.
Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision.		

4.2 **Supporting Strategies**

Each strand of the FFF Strategy has a number of supporting strategies. The Treasury Management function is consistent with the relevant supporting strategies. Following the Treasury Management principles of Security, Liquidity and Yield (SLY) provides the financial stability for the Council to operate effectively.

4.3 **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies and national regulatory framework.

4.4 **Impact Assessments** – No impacts of new or significant policy changes proposed in respect of Equalities.

5. Budgetary framework

5.1 Treasury Management has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income and minimize borrowing interest payable whilst ensuring the security of the capital. The Council is reliant upon interest received to help fund the services it provides. The actual investment interest earned in 2019/20 compared with the original and latest budgets is shown in the following table:

	Original 2019/20 Budget £'000	Latest 2019/20 Budget £'000	2019/20 Actual £'000
Gross investment interest	1,096	1,091	1,228
less HRA allocation	-624	-422	-490
Net interest to General Fund	**472**	**670**	**738**

6. Risks

6.1. Continued uncertainty in the aftermath of the 2008 financial crisis, brought into sharp focus by the COVID-19 pandemic, has promoted a cautious approach, whereby investments are now dominated by low counterparty risk considerations, with relatively low returns compared to borrowing rates.

6.2 Investing the Council's funds inevitably creates risk and the Treasury Management function effectively manages this risk through the application of the SLY principle. Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y). It is accepted that longer duration investments increase the security risk within the portfolio, however this is inescapable in order to achieve the best possible return and still comply with the SLY principle, which is a cornerstone of treasury management within local authorities.

6.3 In addition to credit ratings themselves, the Council will also have regard to any ratings watch notices issued by the 3 agencies as well as articles in the Financial press, market data and intelligence from Link Asset Services benchmarking groups. It will also use Credit Default Swap (CDS) data as supplied by Link Asset Services – Treasury Solutions to determine the suitability of investing with counterparties.

6.4 Corporate Bonds and Floating Rate Notes (FRN's) introduce Counterparty credit risk into the portfolio by virtue of the fact that it is possible that the institution invested in could become bankrupt leading to the loss of all or part of the Council's investment. This is mitigated by only investing in Corporate Bonds or FRN's with a strong Fitch credit rating, in this case A and issued as Senior Unsecured debt which ranks above all other debt in the case of a bankruptcy.

6.5 Covered Bonds also reduces risk as the bond is "backed" by high quality assets such as prime residential mortgages thus ensuring that if the bond issuer defaults there are sufficient assets that can be realised in order to repay the bond in full.

6.6 Corporate Equity Funds have potential capital loss due to market price fluctuations. This is mitigated by ensuring the investments are available for the necessary length of time to ensure that there is no negative impact on the capital value of the fund. In addition, mitigation is achieved by having a spread of funds with differing risk appetites. The introduction of a "stop loss" limit in the case of Bond/Equity Funds whereby if the value in the fund(s) goes below a defined limit, the holdings in that fund will be sold thus limiting further losses will also reduce risk as will the use of a "volatility" reserve as a certain proportion of the annual return on the fund will be credited to the reserve and then when required released to revenue to either cover or at least mitigate the impact of any deficits.

7. Alternative Option(s) considered

7.1 This report retrospectively looks at what has happened during the last 6 months. It is a statement of fact.

8. Background

8.1 A detailed commentary by our Treasury Consultants, Link Asset Services, of the economic background surrounding this report appears as Appendix C.

9. Interest rate environment

9.1. The major influence on the Council's investments is the Bank Rate. The Bank Rate decreased twice in March 2020 from 0.75% to 0.25% then to 0.10%. The Council's Treasury Management Advisors, Link Asset Services, provided the following forecast for future Bank Rates:

Link Asset Services Bank Rate Forecasts:

Qtr ending	Now (Feb 20)	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22
Current Forecast, as at Feb 2020:											
Bank Rate	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%
Forecast, as at January 2019, (when Original Budgets were set):											
Bank Rate	1.00	1.25	1.25	1.25	1.50	1.50	1.75	1.75	1.75	2.00	n/a

The forecast as at January 2019 is shown for comparison purposes as this forecast was used in calculating the original budgets.

9.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2019/20 was approved by Council on 20 February 2019. This approved the current lending criteria which reflect the level of risk appetite of the Council. However, the Council continues to review its Standard Lending List as a result of frequent changes to Banking Institutions credit ratings, to ensure that it does not lend to those institutions identified as being at risk. A copy of the current lending list is shown as Appendix D.

10 INVESTMENT PERFORMANCE

Core Investments

10.1 During 2019/20, the in house function has invested its core cash in fixed term deposits in the Money Markets. The table in Appendix A illustrates the performance of the in house function during this second half year for each category normally invested in.

10.2 All the LIBID Benchmark rates in the table and referred to below include a margin of 0.0625%.

10.3 During October to March, twenty core investments matured. These were then reinvested in a laddered approach of length of investment in light of capital funding requirements and the uncertainty of interest rate movements.

10.4 All the investments taken out in the second half year out-performed the benchmark.

10.5 During 2019/20 the Council earned £409,938 interest on its Money Market investments at an average rate of 0.96%.

Cash Flow Derived Funds & Accounts

10.6 During January to March 2020 the Council's cash flow investments began to unwind themselves as cash outflows (precepts, NNDR payments to the Pool etc.) exceeded the inflows and any cash flow investments during this period were made into the Money Market Funds.

10.7 The in house function utilises the Money Market Funds and Call Accounts to assist in managing its short term liquidity needs. Their performance in this period is shown in table 2 of Appendix A.

10.8 During the half year, the Council's cash flow investments were into the Money Market Funds.

10.9 As with the Money Market investments in paragraph 10.2, the LIBID benchmark which in this case is the 7-day rate has been increased by a margin of 0.0625% and the results can be found in table 2 in Appendix A.

10.10 The Council continued to concentrate its investments in the highest performing funds Federated (variable and constant net asset value funds), Aberdeen Standard and Invesco.

10.11 During 2019/20 the Council earned £243,850 interest on its Money Market Fund investments at an average rate of 0.69%. The average balance during the year was £35,141,701.

Call Accounts

10.12 As with the Money Market investments in paragraph 10.2, the LIBID benchmark, has been increased by a margin of 0.0625%.

10.13 During 2019/20 the Council earned £2,573 interest on its Call Accounts at an average rate of 0.48% and the average balance held was £531,144.

10.14 In March 2020 most of the HSBC Business Deposit Account (BDA) account balance was used for cash flow purposes as there were two interest rate cuts to which the account is linked. However, towards the end of March 2020 £5 million was placed back into this account to ensure easy accessibility of liquid funds as COVID-19 impacted the way we worked i.e. homeworking and potential infection of staff.

10.15 The following table brings together the investments made in the various investment vehicles during the year to give an overall picture of the investment return:

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets	410	344	66
Money Market Funds	244	206	38
Call A/c's	3	3	-1
Total	**656**	**554**	**103**

Actual Outturn

10.16 The table below provides a breakdown of original estimate against actual outturn 2019/20:

Original Estimate compared to Outturn £'000		**Latest Estimate to Outturn £'000**	
Original estimate of annual external investment interest and other interest such as car loan and long term investments for 2019/20	£1,038.6	Latest Estimate	£799.3
Outturn	£937.2	Outturn	£937.2
Decrease of	£101.4	Increase of	£137.9
Mainly due to: Less interest earned on investment balances due to lower than expected interest rates.	-£101.4	Mainly due to: 1) Less interest earned on balances due to lower than expected interest rates. 2) Higher than expected equated bank balances due to phasing of capital expenditure.	-£2.7 +£140.6

10.17 It should be noted that the total investment return of £937,200 shown in the table above is in respect of investments made by the in-house team. It does not include the other interest received and not all will be received in 2019/20, as it is an annualised figure that includes interest relating to 2020/21.

10.18 An analysis of the overall in house investments held by the Council at the end of March 2020 is shown below:

(The previous half year is shown for comparison)

Fund	Closing Balance @ 31 March 2020 £'000	Closing Balance @ 30 September 2019 £'000
Money Markets incl. CD's & Bonds	42,500	41,900
Money Market Funds	18,125	29,786
Business Reserve Accounts incl. Call Accounts	5,000	6,551
Total In House Investments	**65,625**	**78,237**
Corporate Equity Funds	6,000	6,000
Total Investments	**71,625**	**84,237**

11. CORPORATE EQUITY FUNDS

11.1 The equity income fund values for the second half year are as follows:

Fund	Value of Fund 31 March 2020 £'000	Value of Fund @ 30 September 2019 £'000	Variation in 2nd half year £'000
Royal London UK Equity Fund	2,552.8	3,377.0	-824.2
Columbia Threadneedle UK Equity Income Fund	2,568.7	3,202.7	-634.0
Total Equity Funds	**5,121.5**	**6,579.7**	**-1,458.2**

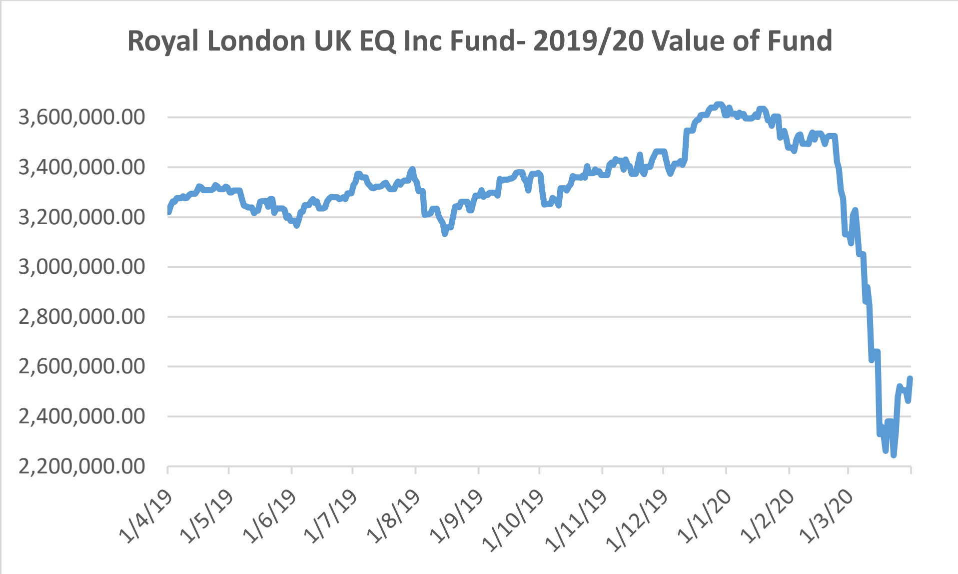
11.2 It can be seen from the table above that both funds had a negative value at year-end with Royal London having the most negative variation between the half years.

11.3 The table below gives a breakdown of income and capital elements of growth for the second half year, analysing the fund movement between accrued interest and capital gain or loss.

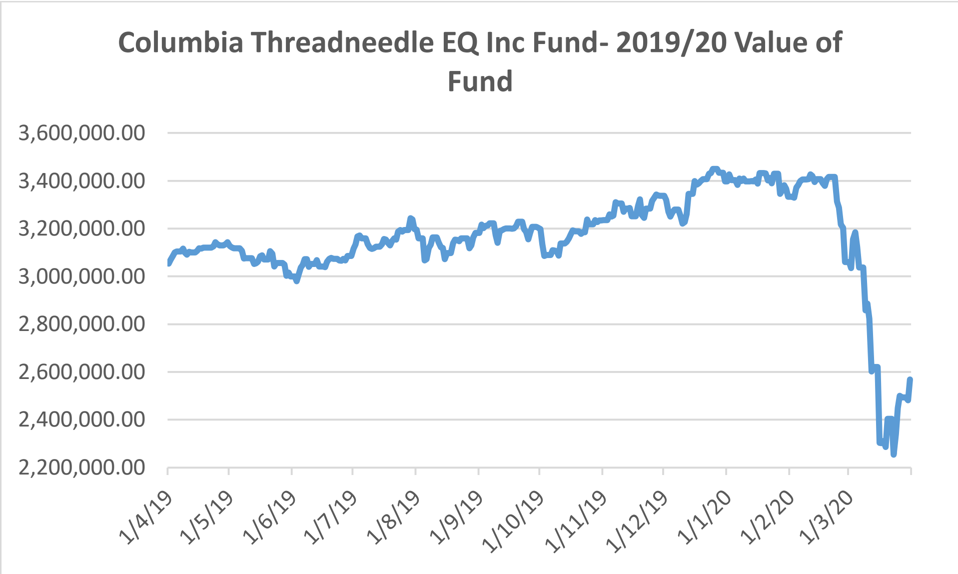
Equity Fund	Investment	Fund Value as at 31.03. 2020	Total Decline Oct 19 to Mar 20	Income element of growth	Income element of growth	Capital element of decline	Capital element of decline
	£’000	£’000	£’000	£’000	%	£’000	%
Royal London	3,000	2,553	447	83	19%	530	119%
Columbia Threadneedle	3,000	2,569	431	66	15%	497	115%

The equity funds pay dividend based on portfolio performance. Royal London is cash growth and the dividend remains within the portfolio as capital growth, whereas the Columbia’s dividend automatically purchases additional shares in the fund. As the timescale requirement for operational use of the cash is undefined, no fixed drawdown date was set. Funds may be withdrawn at any time, depending on either the Council’s need for cash or the funds’ return. However, it has been intended to regard the investments as long term, potentially for five years plus, as equities tend to make good returns over a longer time frame but can be subject to market 'shocks', such as Brexit, the USA / China trade dispute or COVID-19, in the shorter term.

11.4 Royal London (RLAM) UK Equity Income Fund value started to decline drastically in February 2020 as the impact of COVID-19 filtered into the markets, as can be seen from the graph below. The Fund outperformed both competitor funds and the FTSE All Share index in the quarter October to December 2019 but underperformed in both areas during the next quarter to March 2020.



11.5 Columbia Threadneedle Equity Income Fund had a similar scenario as RLAM, as the stocks held were broadly effected by the same international events. The fund out-performed the peer group and the FTSE All-Share in October 2019, January 2020, February 2020 and March 2020 but under-performed both measures in November 2019.



12. COUNTERPARTY CREDIT RATINGS

12.1 The investments made in the second half year and the credit ratings applicable to the counterparty at the point at which the investment was made is shown in Appendix B.

12.2 It can be seen that all investments made within the second half year were in accordance with the Council's credit rating criteria.

12.3 Also attached for the Committee's information as Appendix D is the Council's current 2019/20 Counterparty lending list.

13. BENCHMARKING

13.1 Link Asset Services operate a Treasury Management Benchmarking Club; the Council is part of a local group comprising both district and county councils, with the results being published quarterly. Analysis of the results for quarters three and four show that the Council's weighted average rate of return on its investments were 0.86% and 0.83% respectively. These were in line and above, respectively, with Link's model portfolio band range.

13.2 The results for the Council's weighted average rate of return for quarter three showed that it was on a par with that of the local group and for quarter four it was above. The weighted average credit risk in the portfolio followed the same scenario to that of the local group. This is consistent with the Council balancing its aim of achieving the best rate of return on its investments while primarily protecting the security of these investments.

14. BORROWING

14.1 During the second half year, there was no long term borrowing activity other than to pay the second half year interest instalment on the £136.157m PWLB borrowing taken out in March 2012 for the HRA Self Financing settlement, which amounted to £2.383m and also the interest of £99k on the £12m PWLB borrowing taken out in September 2019 to replace internal borrowing of leisure centres.

14.2 During the half year it was not necessary to undertake any money market borrowing to fund cashflow deficits, with any shortfalls being managed within minimal use of the Council's £50,000 overdraft facility with HSBC. The interest rate on this facility is 3.6% above Bank Rate and is charged on the cleared balance at the end of each day, when that balance is in debit i.e. overdrawn. In the second half year overdraft interest of £234 was paid.

14.3 The Council may need to take out further long-term borrowing to finance some of the housing projects in 2020/21.

15 PRUDENTIAL INDICATORS

15.1 The 2019/20 Treasury Management Strategy included a number of Prudential Indicators within which the Council must operate. The two major ones are the Authorised Limit and Operational Boundary for borrowing purposes. It is confirmed that during the half year neither indicator has been exceeded.

APPENDIX A

Investment Performance Analysis

Table 1 - Money Market Investments

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
No Investments	No investments were made		
Over 7 days & Up to 3 months			
April to September 2019	0.88%	0.72%	0.16%
Interest earned 1st half year £	6,606	5,451	1,155
October to March 2020	0.84%	0.66%	0.18%
Interest earned 2nd half year £	6,308	4,924	1,384
Rate for year	0.86%	0.69%	0.17%
Value of Interest earned in Year	12,914	10,375	2,539
Over 3 months & Up to 6 months			
April to September 2019	0.90%	0.80%	0.10%
Interest earned 1st half year £	77,835	68,835	9,000
October to March 2020	0.93%	0.73%	0.20%
Interest earned 2nd half year £	62,439	49,009	13,430
Rate for year	0.91%	0.77%	0.14%
Value of Interest earned in Year	140,274	117,844	22,430
Over 6 months to 365 days			
April to September 2019	1.02%	0.89%	0.13%
Interest earned 1st half year £	81,245	71,362	9,883
October to March 2019	0.99%	0.82%	0.17%
Interest earned 2nd half year £	175,505	144,495	31,010
Rate for year	1.00%	0.84%	0.16%
Value of Interest earned in Year	256,750	215,857	40,893
366 days and over			
April to September 2019	No investments were made		
October to March 2020	No investments were made		
TOTAL INTEREST FIRST HALF YEAR £	**165,686**	**145,648**	**20,038**
TOTAL INTEREST SECOND HALF YEAR £	**244,252**	**198,428**	**45,824**
TOTAL INTEREST FOR YEAR £	**409,938**	**344,076**	**65,862**

Table 2 - Money Market Funds

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche (CNAV)			
April to September 2019	0.68%	0.63%	0.05%
Interest earned 1st half year £	3,377	3,127	250
October to March 2020	0.65%	0.55%	0.10%
Interest earned 2nd half year £	41	35	6
Rate for year	0.68%	0.59%	0.09%
Value of Interest earned in Year	3,418	3,162	256
Goldman Sachs (CNAV)			
April to September 2019	0.69%	0.63%	0.06%
Interest earned 1st half year £	2,416	2,220	196
October to March 2020	0.67%	0.55%	0.12%
Interest earned 2nd half year £	9,483	7,759	1,724
Rate for year	0.67%	0.59%	0.08%
Value of Interest earned in Year	11,899	9,979	1,920
Invesco (CNAV)			
April to September 2019	0.74%	0.63%	0.11%
Interest earned 1st half year £	28,084	24,049	4,035
October to March 2020	0.71%	0.55%	0.16%
Interest earned 2nd half year £	28,051	21,700	6,351
Rate for year	0.72%	0.59%	0.13%
Value of Interest earned in Year	56,135	45,749	10,386
Aberdeen Standard (Used to be Standard Life (CNAV)			
April to September 2019	0.75%	0.63%	0.12%
Interest earned 1st half year £	35,142	29,509	5,633
October to March 2020	0.71%	0.55%	0.16%
Interest earned 2nd half year £	34,530	26,584	7,946
Rate for year	0.73%	0.59%	0.14%
Value of Interest earned in Year	69,672	56,093	13,579
Federated Constant Net Asset Value (CNAV)			
April to September 2019	0.81%	0.63%	0.18%
Interest earned 1st half year £	15,074	11,772	3,302
October to March 2020	0.75%	0.55%	0.20%
Interest earned 2nd half year £	12,245	8,955	3,290
Rate for year	0.78%	0.59%	0.19%
Value of Interest earned in Year	27,319	20,727	6,592
Federated Variable Net Asset Value (VNAV)			
April to September 2019	0.88%	0.63%	0.25%
Interest earned 1st half year £	26,276	18,855	7,421
October to March 2020	0.66%	0.55%	0.11%
Interest earned 2nd half year £	19,909	16,652	3,257
Rate for year	0.76%	0.59%	0.17%
Value of Interest earned in Year	46,185	35,507	10,678
Royal London Cash Plus Account (VNAV)			

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
April to September 2019	0.58%	0.63%	-0.05%
Interest earned 1st half year £	35,066	18,900	16,166
October to March 2020	-0.19%	0.55%	-0.74%
Interest earned 2nd half year £	-5,844	16,500	-22,344
Rate for year	0.49%	0.59%	-0.10%
Value of Interest earned in Year	29,222	35,400	-6,178
TOTAL INTEREST FIRST HALF YEAR £	**145,435**	**108,432**	**37,003**
TOTAL INTEREST SECOND HALF YEAR £	**98,415**	**98,185**	**230**
TOTAL INTEREST FOR YEAR £	**243,850**	**206,617**	**37,233**

Table 3 - Call Accounts

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2019	0.62%	0.63%	-0.01%
Interest earned 1st half year £	2,285	2,337	-52
October to March 2020	0.12%	0.55%	-0.43%
Interest earned 2nd half year £	168	772	-604
Rate for year	0.48%	0.59%	-0.11%
Value of Interest earned in Year	2,453	3,109	-656
Svenska Handelsbanken Account			
April to September 2019	0.57%	0.66%	-0.09%
Interest earned 1st half year £	60	66	-6
October to March 2020	0.57%	0.55%	0.02%
Interest earned 2nd half year £	60	58	2
Rate for year	0.57%	0.59%	-0.02%
Value of Interest earned in Year	120	124	-4
TOTAL INTEREST FIRST HALF YEAR £	**2,345**	**2,403**	**-58**
TOTAL INTEREST SECOND HALF YEAR £	**228**	**830**	**-602**
TOTAL INTEREST FOR YEAR £	**2,573**	**3,233**	**-660**

Table 4 - Summary of all investment interest 2019/20

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets	410	344	66
Money Market Funds	244	206	38
Call A/c's	3	3	-1
Total	**656**	**554**	**103**

APPENDIX B

Counterparty Rating At Time Of Investment

Counterparty	Investment Amount	Credit Rating		Duration of Investment (days)
		Long Term	Short term	
Banks				
WDC Minimum	**(Fitch)**	**A**	**F1**	
DBS Bank Ltd	£4,000,000	AA-	F1+	364
Standard Chartered CD	£2,000,000	A+	F1	182
Standard Chartered CD	£2,000,000	A+	F1	182
Lloyds Banking Group	£1,000,000	A+	F1	274
Goldman Sachs International	£2,000,000	A	F1	274
Lloyds Banking Group	£3,000,000	A+	F1	304
Lloyds Banking Group	£1,000,000	A+	F1	363
Close Brothers Ltd	£1,000,000	A	F1	357
Goldman Sachs International	£2,000,000	A	F1	365
Local Authority				
Thurrock Council	£4,000,000	n/a	n/a	365
Surrey Heath Borough Council	£3,000,000	n/a	n/a	182
Highland Council	£3,000,000	n/a	n/a	244
Building Society				
National Counties Building Society	£1,000,000	n/a as unrated	n/a as unrated	91
National Counties Building Society	£1,000,000	n/a as unrated	n/a as unrated	91
West Bromwich Building Society	£1,000,000	n/a as unrated	n/a as unrated	91
Money Market Funds (Investment amount is average balance in fund during the half year)				
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S&P AAAm or Moody's AAA & Volatility Rating MR1+			
Deutsche	£12,739	Fund retained its rating throughout half year		Liquid
Invesco	£7,892,198			
Federated Prime Rate	£6,068,361			
Aberdeen Standard	£9,815,083			
Goldman Sachs	£2,822,055			
Royal London Asset Management	£6,068,641			
Call Accounts				
WDC Minimum	(Fitch)	**A+**		**F1**
HSBC Business Deposit Account	£280,738	Counterparty retained its rating throughout period of AA- long term, F1+ short term		Liquid

APPENDIX C

Link Asset Services Commentary on the Current Economic Background

1.1 UK

Economic growth 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. The overall growth rate in quarter 1 was -2.2%, -1.7% y/y. However, the main fall in growth did not occur until April when it came in at -24.5% y/y after the closedown of whole sections of the economy. What is uncertain, however, is the extent of the damage that will have been done to businesses by the end of the lockdown period, how consumer confidence and behaviour may be impacted afterwards, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.

Although the UK left the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020. At the end of June, the UK Government rejected extending the transition period beyond 31 December 2020. This has increased the chances of a no-deal **Brexit**. However, the most likely outcome is expected to be a slim deal on trade in order to minimise as much disruption as possible. However, uncertainty is likely to prevail until the deadline date which will act as a drag on recovery.

After the Monetary Policy Committee left **Bank Rate** unchanged at 0.75% in January 2020, the onset of the coronavirus epidemic in March forced it into making two emergency cuts in Bank Rate first to 0.25% and then to 0.10%. These cuts were accompanied by an increase **in quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. In June, the MPC decided to add a further £100bn of QE purchases of gilts, but to be implemented over an extended period to the end of the year. The total stock of QE purchases will then amount to £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate into negative territory, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. Some forecasters think this could be as far away as five years.

The Government and the Bank were also very concerned to **stop people losing their jobs** during this lockdown period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months to the end of June while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lockdown period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The furlough scheme was subsequently extended for another three months to October but with employers having to take on graduated increases in paying for employees during that period. The Bank of England expects the unemployment rate to double to 8%.

The Government measures to support jobs and businesses will result in a huge increase in the annual budget deficit for the current year, from about 2% to nearly 17%. **The ratio of debt to GDP is also likely to increase from 80% to around 105%.** In the Budget in March 2020, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lockdown is ended. Economic statistics during June were giving a preliminary indication that the economy was recovering faster than previously expected. However, it may be a considerable time before economic activity recovers fully to its previous level.

Inflation. The annual inflation rate dropped to 0.5% in May from 0.8% in April and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy will be heading into a recession; this has caused a glut in the supply of oil which initially fell sharply in price, although the price has recovered somewhat more recently. Other UK domestic prices will also be under downward pressure; wage inflation was already on a downward path over the last half year and is likely to continue that trend in the current environment where unemployment will be rising significantly. In May's Monetary Policy Report, the Bank of England predicted that inflation would hit their 2% target by 2022. This was in the context of its forecast that GDP would rise by 3% in 2022 after a recovery during 2021. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

1.2 USA

Growth in quarter 1 of 2020 fell by an annualised 5.0% and will fall sharply in quarter 2. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition, there was $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

Non-farm payrolls unexpectedly increased by 2.5 million jobs in May, beating market expectations of an 8 million fall, and after declining by a record 20.7 million in April. The figures suggest that the economic recovery in the US may happen much faster than initially expected. Some states started reopening in mid-May after a two-month shutdown but a few have had to reimpose localised lockdowns since then.

1.3 EUROZONE

The Eurozone economy shrank by 3.6% on quarter in the first three months of 2020. So far the ECB has been by far the most important institution in helping to contain the impact of coronavirus and the crisis on financial markets. Since 12 March, it has implemented a range of new policies including providing additional cheap loans for commercial banks and easing capital requirements for the banking sector. But, most importantly, the ECB has stepped up and reformed its asset purchase programmes. So far it has increased its planned asset purchases for this year by €1,470bn on top of the €20bn per month that it was already committed to. The new purchases consist of an additional €120bn within the existing Public Sector Purchase Programme (PSPP), and €1,350bn in the Pandemic Emergency Purchase Programme (PEPP). At its 4 June monetary policy meeting, the ECB Governing Council also committed to continue net asset purchases under the PEPP until at least the end of June 2021 and to continue to reinvest maturing principal payments under the PEPP until at least the end of 2022. It has also made clear that it would not hesitate to top up PEPP as much as needed to contain the risk of a crisis.

Just as important as the size of the PEPP is its flexibility. Whereas previous asset purchase programmes adhered to strict issuer limits, the PEPP was designed to be flexible across "time, asset classes and jurisdictions". This means that the ECB can act in the interests of the euro-zone as a whole rather than having to treat each national bond market equally. However, while this overall programme will provide protection over the next year or so, some vulnerable countries, particularly Italy, already started the crisis with a high level of debt to GDP and the crisis will make that level even worse at the same time as GDP growth prospects will have worsened. This leaves a big question over 'what happens after then when financial markets will be concerned that those debt levels are unsustainable?'

What is currently missing is a major coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure. The EU's recently-proposed rescue fund, (officially designated "Next Generation EU"), is a major first step towards financial integration in the EU. However, it is striking just how small this package is as the proposed €500 billion of grants amount to about 0.6% of average annual euro-zone GDP (over the seven-year budget period). It will therefore supply relatively little support to the weaker and more vulnerable countries within the EU. This has therefore left individual national governments to implement a patchwork of support measures within each country. This shows up how far away the EU is from being an effective fiscal union.

1.4 CHINA

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lockdown of the country and a major contraction of economic activity in February-March 2020. The Chinese economy shrank 6.8% y/y in Q1 2020, following 6% y/y growth in Q4 of 2019. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems. The post COVID-19 government measures to stimulate more infrastructure investment are likely to result in an increase in inefficient low reward investment.

1.5 JAPAN

Japan has been struggling to stimulate consistent significant GDP growth for years and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. Japan appears to have escaped the worst effects of the virus - as yet.

1.6 WORLD GROWTH

The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019. This year, coronavirus is the inevitable big issue which is going to sweep around most countries in the world and have a major impact in causing a world recession in growth in 2020.

APPENDIX D

Warwick District Council Standard Lending List as at March 2020

Banks

Investments up to 365 days (3 months for explicitly guaranteed subsidiaries)

Investment/ Counterparty type:	S/term	L/term minimum	Security/ Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £6m if L/term rating minimum A+,£4m if L/Term rating A.	365 days	In House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	365 days	In House +Advice & EFM*
Bank subsidiaries of UK Banks	Unrated	Unrated	Explicit Parent Guarantee	£5m	3 months	In House +Advice & EFM*

NB. Includes Business Call Reserve Accounts and special tranches and any other form of investment with that institution e.g. Certificate of Deposits, Corporate Bonds and Repo's except where the Repo collateral is more highly credit rated than the counterparty in which case the counterparty limit is increased by £3m with a maximum in Repos of £3m.

Counterparty Limit is also the Group Limit where investments are with different but related institutions.

Investments over 365 days

Investment/ Counterparty type:	S/term	L/term minimum	Security/ Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £6m if L/term rating minimum A+,£4m if L/Term rating A.	2 years	In House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	2 years	In House +Advice & EFM*

NB. Includes Business Call Reserve Accounts and special tranches and any other form of investment with that institution e.g. Certificate of Deposits, Corporate Bonds and Repo's.

Counterparty limit is also the Group Limit where investments are with different but related institutions.

£15m overall limit for Corporate Bond / Property Funds & £20m limit for all counterparties.

£20m over 365-day limit only applies to those investments where at 1 April the remaining term is greater than 365 days. Any over 365 day investment with 365 days or less to maturity at 1 April is deemed to be short term.

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
AUSTRALIA (AAA)		
Australia & New Zealand Banking Group Ltd		
Commonwealth Bank of Australia		
Macquarie Bank Ltd		
National Australia Bank Ltd	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale) Clydesdale Bank*	Yes
Westpac Banking Corporation		
BELGIUM (AA)		
BNP Paribas Fortis		
KBC Bank NV		
CANADA (AAA)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce	Canadian Imperial Holdings Inc New York* CIBC World Markets Holdings Inc*	
National Bank of Canada	National Bank of Canada New York Branch*	
Royal Bank of Canada-negative outlook	Royal Trust Company* Royal Bank of Canada Europe* Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
DENMARK (AAA)		
Danske Bank		
FINLAND (AA+)		
Nordea Bank Finland	Nordea Bank Denmark* Nordea Bank AB Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
Societe Generale		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		
Landesbanken Hessen-Thueringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
HONG KONG (AA+) –		
The Hong Kong & Shanghai Banking Corporation Ltd		
LUXEMBOURG (AAA)		
Clearstream Banking		
NETHERLANDS (AAA)		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
ABN AMRO Bank N.V		
Bank Nederlandse Gemeenten		
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)		
ING Bank NV		
QATAR (AA)OUT OF RANGE— negative watch		
Qatar National Bank-monitoring		
SINGAPORE (AAA)		
DBS Bank Ltd	DBS Bank (Hong Kong)*	
Oversea Chinese Banking Corporation Ltd		
United Overseas Bank Ltd		
SWEDEN (AAA)		
Skandinaviska Enskilde Banken AB	SEB Bolan*	
Svenska Handelsbanken AB	Stadtshypotek* Svenska Handelsbanken Inc USA*	
Swedbank AB		
SWITZERLAND (AAA)		
Credit Suisse AG		
UBS AG		
UNITED ARAB EMIRATES (AA)- out of range		
First Abu Dhabi Bank PJSC		
UNITED KINGDOM (AA)negative outlook		
Abbey National Treasury Services plc		
Barclays Bank plc- LT Watch		
Close Brothers		
Goldman Sachs International Bank		
Handelsbanken Plc		
HSBC Bank plc	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	Yes
Lloyds Banking Group: Lloyds TSB Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
National Westminster Bank PLC (RFB)		
NatWest Markets Plc (NRFB)		
Royal Bank Of Scotland (RFB)		
Santander UK plc		
Standard Chartered Bank		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
Sumitomo Mitsui Banking Corporation Europe Ltd		
UBS Ltd		
UNITED STATES OF AMERICA (AAA) MONITORING		
Bank Of America		
Bank of New York Mellon	Bank of New York (Delaware USA)* Bank of New York (New York USA)* Bank of New York Trust Company*	
Citibank		
JP Morgan Chase Bank NA	Bank One Corp* Bank One Financial LLC* Bank One NA * First USA Inc* NDB Bank NA* Chemical Bank * Chemical Banking Corp* JP Morgan & Co Inc* Chase Bank USA* Robert Fleming Ltd*	
Wells Fargo Bank NA	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

Building Societies

Investments up to 365 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
Building Societies - category A	F1	A	UK Sovereign	£4m	365 days
Building Societies - category B • Coventry • Nationwide	F1		UK Sovereign	£2m	365 days
Building societies – assets > £500m (Category C) • Yorkshire • Skipton • Leeds • Principality • West Bromwich • Newcastle (Fitch removed ratings 7.9.16) • Nottingham • Progressive • Cumberland • National Counties • Saffron • Cambridge • Monmouthshire • Furness • Leek United				£1m	3 months

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
• Newbury • Hinckley & Rugby • Ipswich					

Investments over 365 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
Building societies Category A & B (see above)	F1	A	UK Sovereign	£1m	2 years

NB. Group limit of £8m.

<u>Other Counterparties</u>

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
DMADF	n/a	n/a	UK Sovereign	£12m	365 days
UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations /Nationalised Industries.	n/a	n/a	High viability/support	£9m	365 days
Money Market Fund(CNAV)	AAAm / Aaa-mf/AAAmmf			£10m	liquid
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/ AAA/V1			£6m	liquid
Corporate bonds - category 1		A A+ AA - & ABOVE	UK Sovereign	£4m £5m £6m	2 years
Corporate bonds - category 2		A		£9m	2 years
Corporate bonds - category 3		A A+ AA - & ABOVE	UK Sovereign	£4m £5m £6m	2 years
Covered bonds - category 1		A A+ AA - & ABOVE	UK Sovereign	£4m £5m £6m	2 years
Covered bonds - category 2		A		£9m	2 years
Covered bonds - category 3		A A+ AA - & ABOVE	UK Sovereign	£4m £5m £6m	2 years
Bonds - Supranational / Multi Lateral Development Banks European Community European Investment Bank African Development Bank Asian Development Bank Council of Europe Development Bank	AAA / Govt Guarantee			£5m	365 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
European Bank for Reconstruction & Development Inter-American Development Bank International Bank of Reconstruction & Development *Or* any other Supranational/Multi-Lateral Development Bank meeting criteria.					
Floating Rate Notes - category 1		A A+ AA - & ABOVE		£4m £6m £7m	364 days
Floating Rate Notes - category 2		A		£9m	364 days
Floating Rate Notes - category 3		A A+ AA - & ABOVE		£4m £5m £6m	364 days
Eligible Bank Bills	n/a		Determined by EFM	£5m	364 days
Sterling Securities guaranteed by HM Government	n/a		UK Sovereign	£9m	Not defined
Local Authorities	n/a	Viability/support= High £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£9m	5 years
Corporate Equity Funds - low risk (UK Equity Income Funds)	n/a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment.		£4m	10 years
Corporate Equity Funds - medium risk (UK Capital Growth Funds)	n/a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment.		£2m	10 years
Corporate Bond Funds	BBB	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£5m	10 years
Pooled property fund e.g.: REITS	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.			£5m	10 years
CCLA property funds	n/a	Security of Trustee of fund (LAMIT) controlled by LGA, COSLA who appoint the members and officers of LAMIT. £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£5m	10 years

<u>Categories for Covered Bonds, Corporate Bonds (must be Senior Unsecured), Floating Rate Notes:</u>

Category 1: Issued by private sector Financial Institutions
Category 2: Issued by Financial institutions wholly owned or part owned by the UK Government
Category 3: Issued by Corporates

WARWICK DISTRICT COUNCIL	**Finance and Audit Scrutiny Committee** **19 August 2020**	**Agenda Item No.**

Title	2019/20 Annual Treasury Management Report
For further information about this report please contact	Richard Wilson, Principal Accountant (Capital & Treasury) 01926 456801 e mail: richard.wilson@warwickdc.gov.uk
Wards of the District directly affected	None
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	N/A
Background Papers	Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	1139
Equality & Sustainability Impact Assessment Undertaken	No – not relevant

Officer/Councillor Approval

Officer Approval	**Date**	**Name**
Chief Executive	6/8/20	Chris Elliott
Head of Service	1/8/20	Mike Snow
CMT	6/8/20	
Section 151 Officer	1/8/20	Mike Snow
Monitoring Officer	7/8/20	Andrew Jones
Finance	22/7/20	Richard Wilson
Portfolio Holder(s)	4/8/20	Cllr Richard Hales

Consultation & Community Engagement

None

Final Decision?	Yes

Suggested next steps (if not final decision please set out below)

N/A

1. Summary

1.1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code). This report covers the Council's performance for the whole of 2019/20 and is attached as Appendix A.

2. Recommendations

2.1. That the Members of the Finance & Audit Scrutiny Committee note the contents of this report in respect of the Council's Treasury Management activities during 2019/20.

3. Reasons for the recommendations

3.1. The Treasury Management Strategy for 2019/20 and the Council's Treasury Management Practices, in accordance with the Code of Practice for Treasury Management, require that the Treasury Management function reports on its activities during the year by no later than 30 September in the year after that being reported on. This date remains in place despite COVID-19.

3.2. During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 25/3/2020[1])
- a mid-year (minimum) treasury update report (Finance & Audit Scrutiny 12/11/2019)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

3.3. In addition, this Council receives a half-yearly treasury management update reports for the second half of 2019/20 and which accompanies this report.

3.4. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3.5. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports

[1] Due to the outbreak of COVID-19 this decision was taken by the Chairman and Group Leaders in consultation with each other. The decision was taken in the absence of Council meeting due to the restrictions on public gatherings that are in place and will be ratified by Council the next time it is able to meet.

by the Finance & Audit Scrutiny Committee before they were reported to the full Council.

3.6. Member training on treasury management issues was undertaken during the year on 26 November 2019 in order to support members' scrutiny role.

3.7. Consideration of the Council's Treasury Management activities is within the remit of the Finance & Audit Scrutiny Committee on behalf of full Council; consequently, it is appropriate to report the Council's annual performance direct to this Committee.

3.8. The report follows the format used in the Treasury Management Strategy Plan presented to the Council on 25 March 2020 (see footnote) and comments, where appropriate, on the Council's actual performance against what was forecast in the Strategy Plan as well as, in certain instances, latest forecasts. The Council is also required to comment on its performance against its Annual Investment Strategy for the year.

3.9. The report consists of the following Appendices:

Appendix A - Annual Treasury Management Report 2019/20
Appendix B – Glossary of Terms

4. Policy Framework

4.1. Fit for the Future (FFF)

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end, amongst other things, the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	**Services**	**Money**
External		
Health, Homes, Communities	**Green, Clean, Safe**	**Infrastructure, Enterprise, Employment**
<u>Intended outcomes:</u> Improved health for all. Housing needs for all met. Impressive cultural and sports activities.	<u>Intended outcomes:</u> Becoming a net-zero carbon organisation by 2025. Total carbon emissions within Warwick District	<u>Intended outcomes:</u> Dynamic and diverse local economy. Vibrant town centres.

FFF Strands		
People	**Services**	**Money**
Cohesive and active communities.	are as close to zero as possible by 2030. Area has well looked after public spaces. All communities have access to decent open space. Improved air quality Low levels of crime and ASB.	Improved performance/ productivity of local economy. Increased employment and income levels.
Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision by maximising investment returns and minimising borrowing costs, while managing the risk to the Council's funds and maintaining liquidity. This protects services and benefits the Council's customers and other stakeholders.		
Internal		
Effective Staff	**Maintain or Improve Services**	**Firm Financial Footing over the Longer Term**
<u>Intended outcomes:</u> All staff are properly trained. All staff have the appropriate tools. All staff are engaged, empowered and supported. The right people are in the right job with the right skills and right behaviours.	<u>Intended outcomes:</u> Focusing on our customers' needs. Continuously improve our processes. Increase the digital provision of services.	<u>Intended outcomes:</u> Better return/use of our assets. Full Cost accounting. Continued cost management. Maximise income earning opportunities. Seek best value for money.
Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision.		

4.2. **Supporting Strategies**

Each strand of the FFF Strategy has a number of supporting strategies. The Treasury Management function is consistent with the relevant supporting strategies. Following the Treasury Management principles of Security, Liquidity and Yield (SLY) provides the financial stability for the Council to operate effectively.

4.3. **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies and national regulatory framework.

4.4. **Impact Assessments**

No impacts of new or significant policy changes proposed in respect of Equalities.

5. Budgetary framework

5.1. Treasury Management has a potentially significant impact on the Council's budgets through its ability to maximise its investment interest income and minimise borrowing costs.

5.2. The Council relies on interest received to fund the services it provides. The gross interest received in 2019/20, including non-Treasury Management interest, was £1,227,800. The interest paid to the HRA on its balances was £490,100, with a net of £737,600 retained by the General Fund. The table below compares this with budgeted figures:

	Original 2019/20 Budget £'000	Latest 2019/20 Budget £'000	2019/20 Actual £'000
Gross investment interest	1,096	1,091	1,228
less HRA allocation	-624	-422	-490
Net interest to General Fund	**472**	**670**	**738**

5.3. The reasons for the increase against that budgeted are a combination of lower than forecast interest rates, offset by higher than expected levels of year-end reserves and balances (especially for the HRA), in part due to a slower rate of capital expenditure than assumed.

5.4. Borrowing costs to the HRA from the 2012 Self-Financing are unchanged from previous financial years and are charged directly to the HRA. The new £12 million PWLB loan taken during 2019/20 is charged to the General Fund. The full year interest costs are £220,800[2].

6. Risks

6.1. Continued uncertainty in the aftermath of the 2008 financial crisis, brought into sharp focus by the COVID-19 pandemic, has promoted a cautious approach, whereby investments are now dominated by low counterparty risk considerations, with relatively low returns compared to borrowing rates.

6.2. Investing the Council's funds inevitably creates risk; Treasury Management

[2] Actual cash paid for 2019/20 was £99,000 for the period 16 September 2019 to 28 February 2020 with a further £20,700 accrued to 31 March 2020.

aims to manages risk through the application of the SLY principle: Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y).

6.3. In addition to credit ratings themselves, the Council has regard to any ratings watch notices issued by the rating agencies, as well as articles in the Financial press, market data and intelligence from benchmarking groups. It will also use Credit Default Swap (CDS) data as supplied by its treasury advisers (Link Asset Services) to determine the suitability of investing with counterparties.

6.4. Corporate Bonds and Floating Rate Notes (FRNs), if utilised, introduce counterparty credit risk into the portfolio by virtue of the fact that it is possible that the institution invested in could become bankrupt, leading to the loss of all or part of the Council's investment. This is mitigated by only investing in Corporate Bonds or FRNs with a strong Fitch credit rating, in this case 'A', and issued as Senior Unsecured debt which ranks above all other debt in the case of a bankruptcy.

6.5. Covered Bonds also reduce risk since the bond is 'backed' by high quality assets such as prime residential mortgages, ensuring that if the bond issuer defaults there are sufficient assets that can be realised in order to repay the bond in full.

6.6. While Corporate Equity Funds can help to ensure capital security in real (as opposed to nominal) terms, they consequently introduce the risk of capital loss due to market price fluctuations. This was evidenced with extreme movements worldwide in March 2020 as the extent and far-reaching consequences of COVID-19 saw investors 'take flight'. There has been some recovery from the initial 'crash' in March but the financial markets worldwide remain volatile. These type of investments must always be regarded as relatively long-term commitments to smooth out movements, both cyclical and in response to crises.

6.7. Under current (temporary) five-year accounting requirements the Council is required to take revaluation gains or losses to the Financial Instruments Revaluation Reserve, which has lessened the likely use of the Investment Rate Volatility Reserve, set up in February 2018 to mitigate against any adverse losses.

7. Alternative option considered

7.1. As explained in section 1 and paragraph 3.1, the Code of Practice mandates that Annual Treasury Management Performance must be reported by 30 September after that financial year has closed.

7.2. The Council has announced that it is to seek to divest from fossil fuels at the earliest opportunity; no later than the end of 2025, and ideally by the end of 2022. However, given the very significant losses incurred by the two equity funds since the COVID-19 outbreak[3] it may be very costly to divest by the earlier date as any losses would have to be charged to the General Fund revenue account in that financial year.

7.3. The Council may consider varying its investment vehicles or counterparty limits, however this would alter the potential credit and liquidity risks.

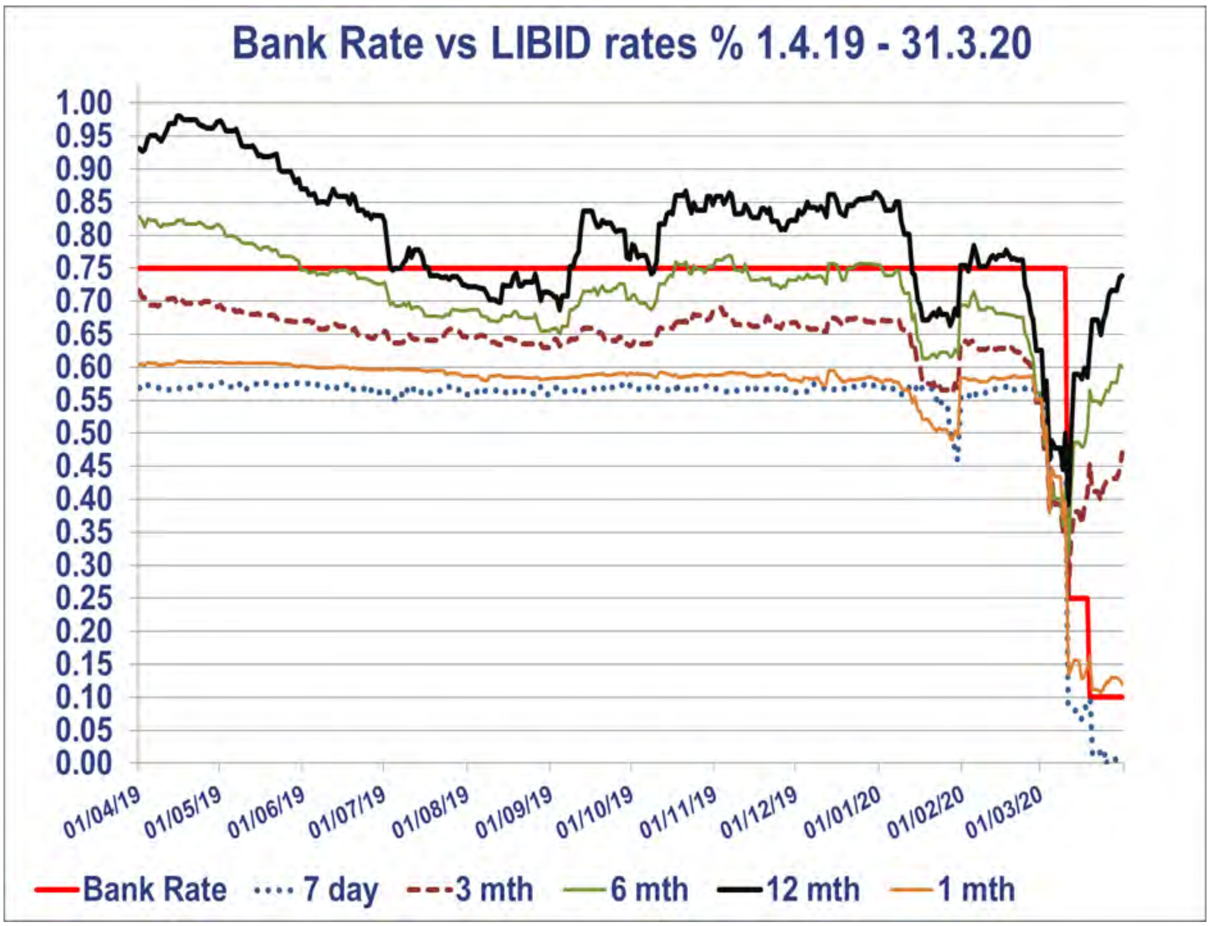
[3] Since inception the loss of value was around £878,000 at the end of March 2020, compared with £337,000 at the end of June 2020

APPENDIX A

2019/20 Annual Treasury Management Report

1. Investment strategy and control of interest rate risk

1.1. Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year. The table below shows rate movements during the year:



1.2. Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January 2020 departure of the UK from the EU. When the coronavirus (COVID-19) outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was, therefore, sought by placing longer term investments where cash balances were sufficient to allow this. This has placed the Council in a well-protected position against benchmarks for the first two quarters of 2020/21.

1.3. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far abler to cope with extreme stressed market and economic conditions.

1.4. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets, i.e. borrowing is deferred. External borrowing would have incurred an additional carrying cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

2. Borrowing strategy and control of interest rate risk

2.1. During 2019-20, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

2.2. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

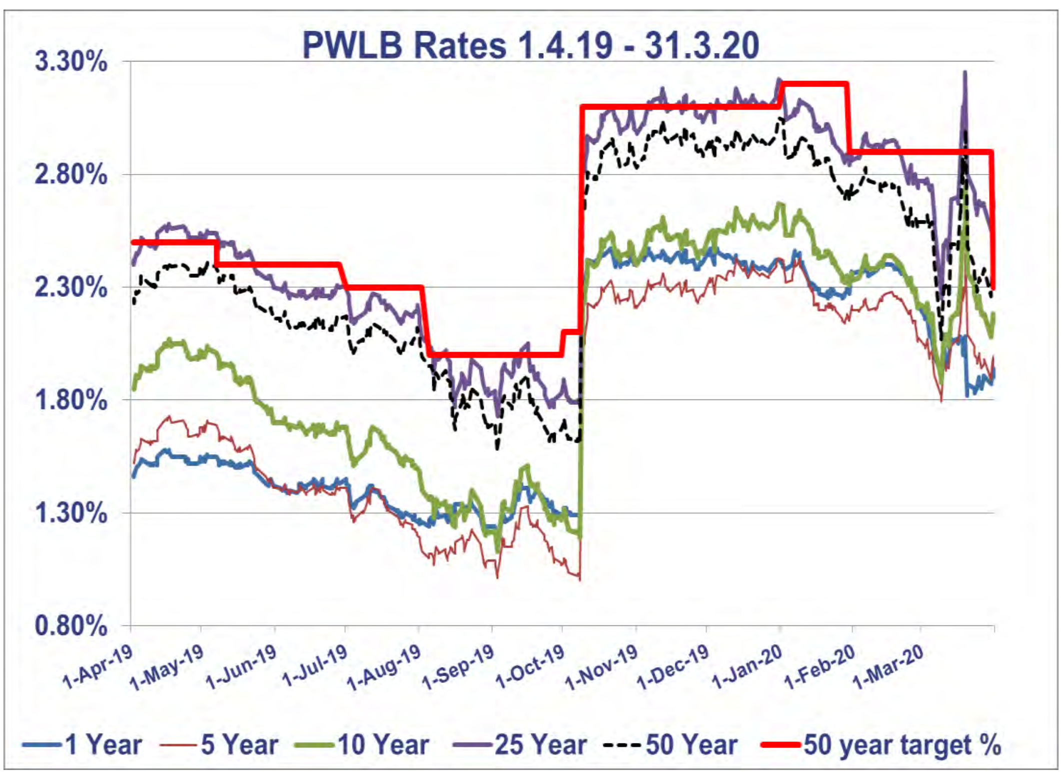
2.3. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

2.4. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury team monitored interest rates in financial markets and adopted a pragmatic strategy based on the following principle to manage interest rate risks:

- During the mid-point of 2019/20 it had been felt that there was a significant risk of a much sharper rise in long and short term rates than initially expected, due to a number of factors, including Brexit, potentially leading to an increase in world economic activity or a sudden increase in inflation risks, as well as increased Government scrutiny in the use of PWLB loans for commercial investments. Therefore, it was decided to draw down long-term General Fund borrowing that had been on hold, whilst interest rates were lower than they were projected (at September 2019) to be in the next few years.

2.5. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 31.3.20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50



2.6. PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M. Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields.

2.7. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

2.8. Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of Government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

2.9. However, H.M. Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019/20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ended on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

2.10. Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows:

- **PWLB Standard Rate:** gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate:** gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate:** gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate:** gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate:** gilt plus 60bps (G+60bps)

2.11. There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

3. Borrowing Outturn

3.1. **Borrowing** – £12 million of PWLB loans were drawn to fund unfinanced General Fund capital expenditure. There is no naturally maturing debt until 2053.

3.2. **Rescheduling** - No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling economically unviable. This is likely to remain the case for several years.

3.3. **Summary of debt transactions** – The £148.157m debt portfolio had an average interest rate of 3.28% and incurred £4.865m interest in cash terms, of which £4.766m was charged to the HRA in relation to the Self-Financing borrowing incurred in 2011/12.

4. Investment Outturn

4.1. **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 17 April 2019 (Executive 6 February 2019). The policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices, etc.).

4.2. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

4.3. **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as below, showing a reduction of £6.363 million (8.3%):

Balance Sheet Resources	31/3/19 £'000	31/3/20 £'000	Movement £'000
Balances (GF, Collection Fund)	2,947	1,174	-1,773
Balances (HRA)	9,553	7,983	-1,570
Earmarked reserves / other balances	50,507	47,872	-2,635
Provisions	4,789	5,656	867
Capital Receipts Reserve	8,509	7,257	-1,252
Total	**76,305**	**69,942**	**-6,363**

4.4. **Investments held by the Council**

- The Council maintained an average balance of £78.9m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.82%.
- The comparable performance indicator is the average 7-day and up to 3-months LIBID rate, which was 0.69%.
- This compares with a budget assumption of £74.6m investment balances earning an average rate of 0.80%.
- Investment income excluding externally managed funds and non-treasury management interest was £737,600, compared to a latest budget of £669,800.

4.5. **Investments held by fund managers**

The Council uses two external fund managers to invest part of its cash balances. The performance of the managers (capital movement and dividend) against the benchmark FTSE All-share return was:

Fund Manager	Investment held (nominal) £'000	Return	Benchmark
Columbia Threadneedle	3,000	-18.0%	-21.9%
Royal London	3,000	-25.4%	-21.9%
Total	**6,000**	**-21.7%**	**-21.9%**

4.6. The budget assumption on the average investment balances of £6.0m was a 4.25% dividend investment return and the actual return was 4.56%. However, this has been dwarfed by the unrealised capital losses of almost £1.4m – excluding dividends - for the financial year 2019/20, shown below.

Fund Manager	Balance at 31/3/19 £'000	Dividend 19/20 £'000	Loss £'000	Balance at 31/3/20 £'000
Columbia Threadneedle	3,031	133	-595	2,569
Royal London	3,202	152	-801	2,553
Total	**6,233**	**285**	**-1,396**	**5,122**

4.7. Due to the statutory override in place (see paragraph 5.2 below) this 'loss' in capital value does not have to be charged to revenue in the year but should the equity funds be disposed of any gains or losses actually realised do have to be charged to revenue in that year.

4.8. The amount of the two equity funds invested in fossil fuels at 31 March 2020 was 4.9% for Columbia Threadneedle and 8.6% for Royal London; for reference at 30 June the respective figures are 4.4% and 7.1%.

5. Other Issues

5.1. **IFRS 9** – The introduction of the 2019/20 Accounting Code of Practice affected the valuation of investments. The key considerations for this Council were:

- Expected credit loss (ECL) model. Whilst this should not be material for the Council's routine 'vanilla' treasury investments such as bank deposits, this is likely to be problematic for some funds that are not currently used (e.g. property funds), and also for non-treasury management investments dealt with in the Council's capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries (see paragraph 5.3 below). The Council's assessment of the ECL of investments was that the level of the potential impairment was immaterial.
- The valuation of investments previously valued under the 'available for sale' category - e.g. equity related to the "commercialism" agenda, property funds, equity funds and similar - has been changed to Fair Value through the Profit and Loss (FVPL).

5.2. Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), on IFRS 9 the Government introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds, effective from 1 April 2018. The statutory override currently applies for five years from this date, subject to any further extension. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve (the Financial Instruments Revaluation Reserve) throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. The net loss charged in 2019/20 was £1,105,451.

5.3. **Non-treasury management investments**. These predominantly include long-term debtors, where the borrower repays interest in addition to the principal lent to them. All interest rates are above "soft loan" rates (defined as preferential terms below normal 'market' rates). During 2019/20 the Council made long-term loans for capital purposes of £530,000. Details of these loans and the due diligence taken is outlined in the Statement of Accounts 2019/20; none have required impairment under the IFRS 9 ECL model. The purpose of these loans is to stimulate economic development in the District rather than an overriding purpose of income generation, which is a minor consideration with these loans.

5.4. It should be noted that the Government is consulting on PWLB lending to local government and a likely outcome is that councils deemed to be borrowing 'Debt For Yield' (i.e. in order to make a commercial return) will be prevented from taking *any* PWLB borrowing in that financial year, even for housing purposes, and would have to repay any loans already taken (with a premium).

6. Capital expenditure and financing

6.1. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.2. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure of £28.384m and how this was financed.

Capital expenditure	**2018/19 Actual £'000**	**2019/20 Budget £'000**	**2019/20 Actual £'000**
General Fund	9,805	12,832	7,671
HRA	11,086	42,040	20,183
Commercial activities / non-financial investments (long-term loans to third parties)	5,573	630	530
Total (A)	**26,464**	**55,502**	**28,384**

Financing of capital expenditure	2018/19 Actual £'000	2019/20 Budget £'000	2019/20 Actual £'000
Capital receipts	1,813	4,031	3,641
Capital grants and contributions	1,322	10,317	5,537
Reserves	11,889	27,520	18,367
Revenue contributions	166	279	298
Subtotal (B)	**15,190**	**42,147**	**27,843**
Net borrowing need for the year (A – B)	**11,274**	**13,355**	**541**

7. Treasury limits and prudential indicators

7.1. The Prudential Capital Finance system, introduced in 2004, is regulated by a number of 'Prudential Indicators', a number of which are relevant for treasury management purposes and are included in the Annual Strategy Report. The table below shows the 2019/20 outturn against the budget and previous year's budget:

Prudential Indicators (1)	2018/19 Actual £'000	2019/20 Budget £'000	2019/20 Actual £'000
Authorised Limit for External Debt			
Borrowing	166,853	192,728	192,728
Other Long term Liabilities	2,079	30	30
Total	**168,932**	**192,758**	**192,758**
Operational Boundary for External Debt			
Borrowing	148,879	173,728	173,728
Other Long term Liabilities	1,079	30	30
Total	**149,958**	**173,758**	**173,758**
Actual External Debt at Year End			
Long Term Borrowing	136,157	148,157	148,157
Long Term Liabilities	60	30	30
Total	**136,217**	**148,187**	**148,187**

Prudential Indicators (2)	2018/19 Actual £'000	2019/20 Budget £'000	2019/20 Actual £'000
Actual Capital Expenditure for Year			
General Fund	15,378	13,462	8,201
Housing Revenue Account	11,086	42,040	20,183
Overall	**26,464**	**55,502**	**28,384**

Capital Financing Requirement			
General Fund	20,343	20,873	20,676
Housing Revenue Account	135,738	150,524	135,738
Total CFR	**156,081**	**171,397**	**156,414**
Gross borrowing position	136,217	148,187	148,187
Under (-) / over funding of CFR	-19,864	-23,210	-8,227

Prudential Indicators (3)	2018/19 Actual %	2019/20 Budget %	2019/20 Actual %
Financing Costs as a % of Net Revenue Stream			
General Fund	-1.20%	-0.47%	-1.87%
Housing Revenue Account	41.06%	40.77%	38.40%
Overall	**24.85%**	**23.37%**	**21.11%**

7.2. Below are the indicators relating to borrowing:

Upper limit to fixed interest rate and variable interest rate exposures

Exposure limits	Strategy Report	Actual
Upper Limit Fixed Rate	100%	100%
Upper Limit Variable Rate	30%	30%

Upper and lower limits respectively for the maturity structure of borrowing

Strategy 2019/20 (revised)	Fixed		Variable	
Period	**Upper**	**Lower**	**Upper**	**Lower**
Under 12 months	12%	0%	100%	0%
12 months and within 24 months	20%	0%	100%	0%
24 months and within 5 years	20%	0%	100%	0%
5 years and within 10 years	20%	0%	100%	0%
10 years and above	100%	0%	n/a	n/a

7.3. In both cases the indicators were complied with as the only external borrowing outstanding at the year-end was the pre-existing £136.157m

PWLB debt in respect of the HRA Self Financing Payment and new £12m General Fund PWLB debt for previous expenditure on leisure centres. This debt is all fixed rate, maturing from years 33 to 42 (2053 to 2062) and, therefore, within both indicators shown above.

7.4. The final indicator monitors the amount invested for periods longer than 365 days which in 2019/20 was set at 70% of the investment portfolio subject to a maximum of £20 million at any one time. During 2019/20 the Council entered into no investments for 365 days or over. Therefore, the indicator was complied with.

8. Annual investment strategy and investment performance

8.1. The Government guidance on local government investments requires the production of an Annual Investment Strategy that includes an outline of the investment vehicles that the Council would use and separates them off into Specified and Non Specified investments. The 2019/20 Annual Investment Strategy was approved in February 2019.

8.2. The in-house function has invested the Council's cash funds in fixed term money market deposits, equity funds and Money Market Funds. No Corporate Bonds or Certificates of Deposit (CD's) were used during 2019/20. The table below illustrates the performance for the year of the in-house function for each category invested in (please refer to the second half year report for a breakdown by half year):

Vehicle	**Return** (annualised) **£'000**	**Benchmark** (annualised) **£'000**	**Perform-ance £'000**
Money Markets	409.9	344.1	65.9
Money Market Funds	243.8	206.6	37.2
Call Accounts	2.6	3.2	-0.7
Total	**656.4**	**553.9**	**102.4**

Money Market Investments:

Period	Investment Return (annualised)	LIBID Benchmark (annualised)	Out/(under) performance
Up to 7 days			
Annual performance	-	0.55%	n/a
Annual interest	£0	£0	£0
Over 7 days & up to 3 months			
Annual performance	0.86%	0.69%	0.17%
Annual interest	£12,914	£10,375	£2,539
Over 3 months & up to 6 months			
Annual performance	0.91%	0.77%	0.15%
Annual interest	£140,274	£117,843	£22,431
Over 6 months to 365 days			
Annual performance	1.00%	0.84%	0.16%
Annual interest	£256,750	£215,857	£40,893
366 days and Over			
Annual performance	-	-	n/a
Annual interest	£0	£0	£0
Total Interest For Year	**£409,938**	**£344,075**	**£65,863**

Money Market Funds:

8.3. Under IFRS 9 there were changes to investment categories, with most Constant Net Asset Value (CNAV) funds, other than those invested in Government bonds, being re-categorised as Low Volatility Net Asset Value (LVNAV).

8.4. The in-house function utilised AAA rated LVNAV (Deutsche, Goldman Sachs, Invesco, Standard Life and Federated) Money Market Funds and Variable Net Asset Value, VNAV, (Federated and Royal London) funds to assist in managing its short term liquidity needs. The table below illustrates the performance of these funds for the full year:

Money Market Fund	**Investment Return** (annualised)	**LIBID Benchmark** (annualised)	**Out/(under) performance**
Deutsche			
Annual performance	0.68%	0.59%	0.09%
Annual interest	£3,418	£3,162	£256
Goldman Sachs			
Annual performance	0.67%	0.59%	0.08%
Annual interest	£11,899	£9,979	£1,920
Invesco			
Annual performance	0.72%	0.59%	0.13%
Annual interest	£56,135	£45,749	£10,386
Standard Life			
Annual performance	0.73%	0.59%	0.14%
Annual interest	£69,672	£56,093	£13,579
Federated Constant Net Asset Value (CNAV)			
Annual performance	0.78%	0.59%	0.19%
Annual interest	£27,319	£20,727	£6,592
Federated Variable Net Asset Value (VNAV)			
Annual performance	0.76%	0.59%	0.17%
Annual interest	£46,185	£35,507	£10,678
Royal London Cash Plus Account (VNAV)			
Annual performance	0.49%	0.59%	-0.10%
Annual interest	£29,222	£35,400	-£6,178
Total Interest For Year	**£243,850**	**£206,617**	**£37,233**

8.5. The 'Up to 7 days' LIBID rate is the benchmark for the LV/CNAV funds and it can be seen that they all made returns in excess of this. The VNAV fund benchmark is based on the 6 month LIBID rate (plus a margin of 0.0625%) and the returns include fees and so are not directly comparable with the benchmark.

Call Accounts:

8.6. The Council operates two Call accounts with HSBC and Svenska Handelsbanken. In the case of the HSBC account on balances of £2m and over this offered instant access at a rate above the lower performing LV/CNAV MMF's thus forming a useful addition for investing the Council's cash flow derived money. The Svenska Handelsbanken account is a 35-day notice account that became less attractive against the rate available in the Money Markets for three-month fixed investments. The performance of these call accounts are shown in the table below:

Call Account	**Investment Return** (annualised)	**LIBID Benchmark** (annualised)	**Out/(under) performance**
HSBC Business Deposit Account			
Rate for year	0.48%	0.59%	-0.11%
Value of interest earned in year	£2,453	£3,109	-£656
Svenska Handelsbanken Account			
Rate for year	0.57%	0.59%	-0.02%
Value of interest earned in year	£120	£124	-£4
Total Interest For Year	**£2,573**	**£3,233**	**-£660**

8.7. The Annual Investment Strategy (Appendix B of the Treasury Management Strategy 2019/20) anticipated that the Council would have an average investment balance of £78.9m during the year. The actual average investment balance was £85.2m due in part to lower HRA capital expenditure than anticipated.

8.8. Paragraph 2.3 of the Annual Investment Strategy makes reference to a 70% maximum long term investments holding. Based on the average investment balance of £85.2m, a maximum of £59.6m could have been invested for more than 365 days at any one time. However, there were no investments during the year for more than 365 days, due to expectations that core investment balances would be minimal towards the end of the year. Therefore, the Council did not exceed the 70% limit on longer term investments, nor did it contravene the requirement to hold at least 40% of its portfolio in short term (365 days or less) investments.

In-House Investment Returns:

8.9. The Annual Investment Strategy, approved in February 2019, anticipated that the in-house portfolio would achieve a 0.80% return for 2019/20. The actual rate was 0.93%, as shown below:

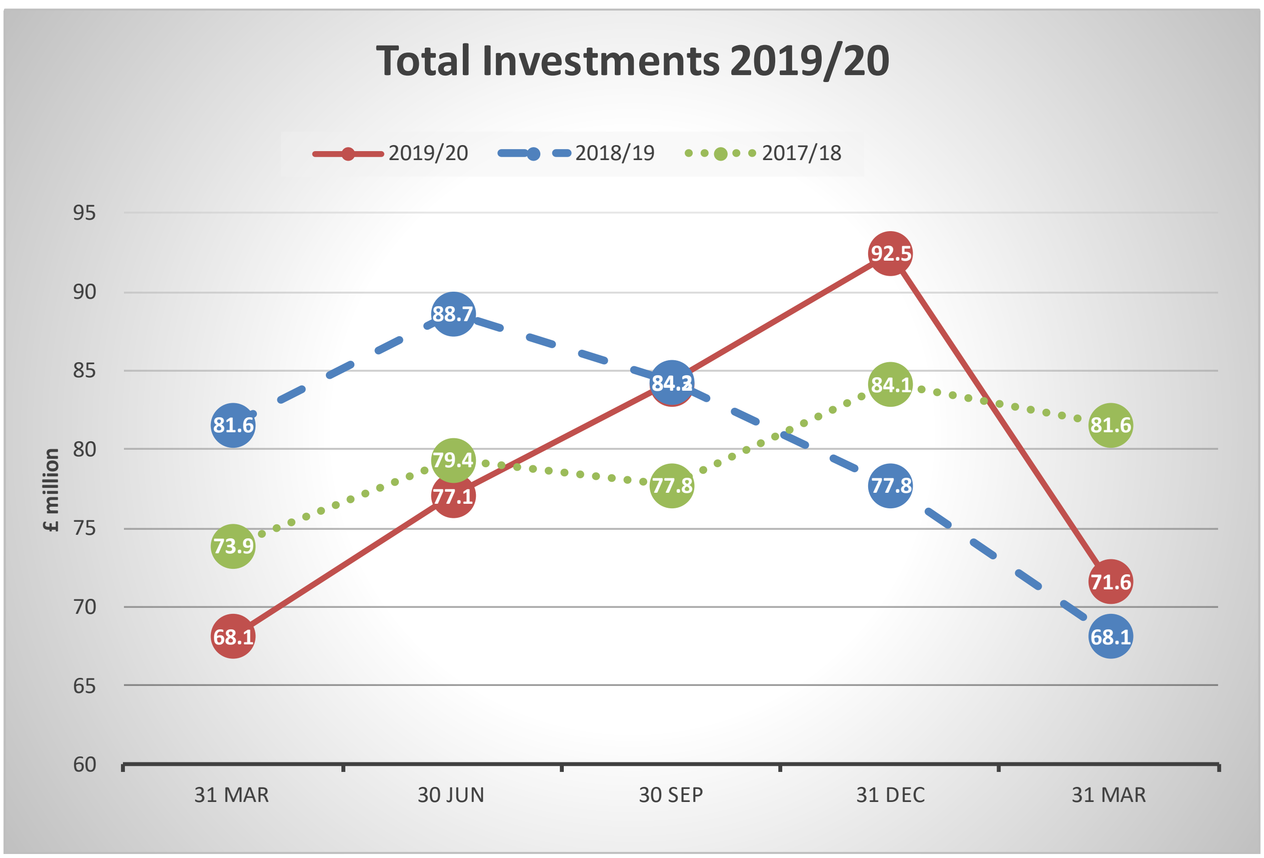
Year	**Interest Received £'000**	**Interest Rate Achieved %**
2018/19 Actual	642.5	0.79%
2019/20 Original	472.3	0.80%
2019/20 Latest	669.8	0.90%
2019/20 Actual	737.6	0.93%

8.10. An analysis of the overall investments of the Council as at 31 March 2020, split between in-house and externally managed, is shown in the table below, with the previous half-year figures shown for comparison purposes:

Fund	Closing Balance 31 Mar 20 £'000	Closing Balance 30 Sept 19 £'000
Money Markets incl. CD's & Bonds	36,158	41,900
Money Market Funds	18,425	29,786
Business Reserve Accounts incl. Call Accounts	11,541	6,551
Total In House Investments	**66,124**	**78,237**
Corporate Equity Funds (nominal)	6,000	6,000
Total Investments	**72,124**	**84,237**

8.11. The performance of the corporate equity funds was discussed in paragraphs 4.5 to 4.7 above.

8.12. The graph below shows how the total of the Council's investments varies through the year according to its cash flows, comparing 2019/20 (red solid line) with the previous two years (2018/19 blue dashes, 2017/18 green dots). It shows that during the first quarter of the financial year (April to June) the Council's investments were below previous years but continued to increase until the final quarter, when capital expenditure and other cash flows exceeded normal flows in from Council Tax and NNDR. The impact on cash from COVID-19 was not felt much during 2019/20 but will have significant effects as 2021/21 progresses beyond quarter one of 2020/21.



9. Equity Funds

9.1. The two equity funds commenced in April 2017, each with a £3m nominal balance. Paragraphs 4.5 to 4.7 show the returns for 2019/20. The half-year treasury management report to this meeting has more details on these funds in section 11.

Fund	Value of Fund 31 Mar 20 £'000
Royal London UK Equity Fund	2,552.8
Columbia Threadneedle UK Equity Income Fund	2,568.7
Total Equity Funds	**5,121.5**

9.2. For comparison purposes, the total value of both funds at 31 March 2019 were £6.233m and at 30 September 2019 were £6.540m.

9.3. History has shown that these funds may present volatile returns over the short-term, as witnessed by the last few months, but in the long-term they provide returns greater than many other investment instruments. Also, equity funds are perceived to be less risky and more liquid that other similar pooled investment vehicles, such as property funds.

9.4. The inclusion of corporate equity funds in the Council's Investment Strategy was on the basis that these funds should be held for at least five years and to 'cash-out' early may have a significant financial cost, which will need to be monitored over the next couple of years.

10. Performance measurement

10.1. In addition to the in-house local benchmarks referred to in this document the Council participates in the Link Group Investment Benchmarking Club. This benchmarks the investment returns and also the maturity and credit risk inherent in the portfolio. The Council is part of a local group which consists of district and county councils and this Council's performance over the past year is reflected in the tables below:

Table A - Weighted Average Rate of Return (WARoR)

	WDC WARoR %	Local Group WARoR %	Link Asset Services Model WARoR %	Performance against Link Asset Services Model Band
June Quarter	0.91	0.90	0.92	Inline
September Quarter	0.94	0.87	0.89	Above
December Quarter	0.86	0.87	0.87	Inline
March Quarter	0.83	0.67	0.75	Above
Average for Year	**0.89**	**0.83**	**0.86**	

10.2. It can be seen that the Council's average return was slightly above Link Group model portfolio rate of return and the local group, based on the risk in its portfolio. However, this has to be assessed against the slightly higher credit risk taken in this Council's portfolio, as shown below.

Table B - Weighted Average Credit Risk

	WDC	Local Group
June Quarter	2.46	2.72
September Quarter	2.85	2.85
December Quarter	2.66	2.65
March Quarter	3.15	2.50
Average for Year	**2.78**	**2.68**

10.3. This benchmark measures the average credit risk in the portfolio according to the institutions invested in and corresponds to the duration limits in Link Group's suggested credit methodology using a sliding scale of 1 to 7 where 1 indicates the least risk of default.

11. External treasury management advisers

11.1. Link Group continues to provide our Treasury Management Advisory service.

APPENDIX B

Glossary of Treasury Management related terms

LAS: Link Asset Services, Treasury Solutions – the Council's treasury management advisers.

CE: Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: Capital Financing Requirement - the Council's annual underlying borrowing need to finance capital expenditure and a measure of the Council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

COVID-19: a highly infectious respiratory disease caused by a new coronavirus. The disease was discovered in China in December 2019 and then spread around the world to become a pandemic, causing an unprecedented public health crisis and major economic impacts.

CPI: Consumer Price Index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: The Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: The Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: Gross Domestic Product – a measure of the growth and total size of the economy.

G7: The group of seven countries that form an informal bloc of industrialised democracies - United States, Canada, France, Germany, Italy, Japan, and United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: Gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: Housing Revenue Account.

IFRS: International Financial Reporting Standard.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LIBID: The London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the **LIBOR** (an offered, hence "ask" rate, the rate at which a bank will lend).

LIBOR: The London InterBank Offered Rate is the interest rate at which banks offer to lend funds (wholesale money) to one another in the international interbank market. It is a key benchmark rate that reflects how much it costs banks to borrow from each other but is being increasingly replaced by SONIA.

MHCLG: The Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

MPC: The Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: Minimum Revenue Provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: Quantitative Easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: The Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: Sterling Over Night Index Average is the effective reference for overnight indexed swaps for unsecured transactions in the Sterling market. The SONIA itself is a risk-free rate. Unlike LIBOR it is backward looking measure.

TMSS: The annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full Council before the start of each financial year.

VRP: A Voluntary Revenue Provision to repay debt, in the annual budget, which is additional to the annual MRP charge (see above definition).

WARWICK DISTRICT COUNCIL	**Finance & Audit Scrutiny Committee 19 August 2020**	**Agenda Item No. 7**

Title	Review of Work Programme and Forward Plan & Comments from the Executive
For further information about this report please contact	Graham Leach 01926 456114 or committee@warwickdc.gov.uk
Wards of the District directly affected	N/A
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	
Background Papers	N/A
This report is produced for Scrutiny meetings for governance purposes. It is part of the process for ensuring that the Council is held to account for the decisions it makes or may make.	

1. **Summary**

1.1 This report informs the Committee of its work programme for 2020/2021 Municipal Year (Appendix 1) and of the current Forward Plan.

2. **Recommendation**

2.1 Members consider the work programme attached as Appendix 1 to the report.

2.2 The Committee to identify any Executive items on the Forward Plan which it wishes to have an input before the Executive makes its decision; and

2.3 The Committee to consider their workload for the coming months, specifically how they can accommodate the work within their scheduled meetings.

3. **Reasons for the Recommendation**

3.1 The work programme as attached at Appendix 1 to the report should be updated at each meeting to accurately reflect the workload of the Committee.

3.2 Two of the five main roles of overview and scrutiny in local government are to undertake pre-decision scrutiny of Executive decisions and to feed into policy development.

3.3 If the Committee has an interest in a future decision to be made by the Executive, or policy to be implemented, it is within the Committee's remit to feed into the process.

3.4 The Forward Plan is actually the future work programme for the Executive. If a non-executive Member highlighted a decision(s) which is to be taken by the Executive which they would like to be involved in, that Member(s) could then provide useful background to the Committee when the report is submitted to the Executive and they are passing comment on it.

4. Background

4.1 The five main roles of overview and scrutiny in local government are: holding to account; performance management; policy review; policy development; and external scrutiny.

4.2 The pre-decision scrutiny of Executive decisions falls within the role of 'holding to account'. To feed into the pre-decision scrutiny of Executive decisions, the Committee needs to examine the Council's Forward Plan and identify items which it would like to have an impact upon.

4.3 The Council's Forward Plan is published on a monthly basis and sets out the key decisions to be taken by the Council in the next twelve months. The Council only has a statutory duty to publish key decisions to be taken in the next four months. However, the Forward Plan was expanded to a twelve-month period to give a clearer picture of how and when the Council will be making important decisions.

4.4 A key decision is a decision which has a significant impact or effect on two or more wards and/or a budgetary effect of £50,000 or more.

4.5 The Forward Plan also identifies non-key decisions to be made by the Council in the next twelve months, and the Committee, if it wishes, may also pre-scrutinise these decisions.

4.6 There may also be policies identified on the Forward Plan, either as key or non-key decisions, which the Committee could pre-scrutinise and have an impact upon how these are formulated.

4.7 The Committee should be mindful that any work it wishes to undertake would need to be undertaken without the need to change the timescales as set out within the Forward Plan.

4.8 At each meeting, the Committee will consider their work programme and make amendments where necessary, and also make comments on specific Executive items, where notice has been given by 9am on the day of the Finance & Audit Scrutiny Committee meeting. The Committee will also receive a report detailing the response from the Executive, on the comments the Committee made on the Executive agenda in the previous cycle.

4.9 The Forward Plan is considered at each meeting and allows the Committee to look at future items and become involved in those Executive decisions to be taken, if members so wish.

4.10 As part of the scrutiny process, the Committee is not considering the whole of the Executive agenda.

4.11 On the day of publication of the Executive agenda, all Councillors are sent an e-mail asking them to contact Committee Services, by 9.00am on the day of the Committee meeting to advise which Executive items they would like the Committee to consider.

4.13 If the Committee made a comment on an Executive report a response will be provided to the Committee at its next meeting. In reviewing these responses, Committee can identify any issues for which they would like a progress report. A future report, for example on how the decision has been implemented, would then be submitted to the Committee at an agreed date which would then be incorporated within the Work Programme.

Appendix 1

Finance and Audit Scrutiny Committee
WORK PROGRAMME

19 August 2020

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
TM Half Year Review (October to March 2020)	Audit	Written report followed by Q&A	Richard Wilson / Cllr Hales
Treasury Management Annual report	Audit	Written report followed by Q&A	Richard Wilson / Cllr Hales

30 September 2020

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
External Audit Findings Report	Audit	Written report followed by Q&A	Mike Snow / Cllr Hales
Statement of Accounts 2019/20	Audit	Written report followed by Q&A	Andrew Rollins / Cllr Hales
IA Quarter 1 Progress Report	Audit	Written report followed by Q&A	Richard Barr / Cllr Hales
Anti-Fraud and Corruption Statement	Audit	Written report followed by Q&A	Richard Barr /Cllr Hales
Procurement Strategy half year update	Scrutiny	Written report followed by Q&A	Becky Reading / Cllr Hales
AGS Quarter 1 Action Plan Report	Audit	Written report followed by Q&A	Richard Barr / Andrew Day

Appendix 1

11 November 2020

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
NFI Update	Audit	Written report followed by Q&A	Richard Barr / Cllr Hales
Corporate Fraud Update	Audit	Written report followed by Q&A	Andrew Wyatt / Cllr Hales
TM Half Year Review	Audit	Written report followed by Q&A	Richard Wilson /Cllr Hales
Use of Parent Companies Update Report	Audit	Written report followed by Q&A	Mike Snow / Cllr Hales

9 December 2020

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
Internal Audit Quarter 2 Progress Report	Audit	Written report followed by Q&A	Richard Barr / Cllr Hales
AGS Quarter 2 Action Plan Report	Audit	Written report followed by Q&A	Richard Barr / Cllr Day

Appendix 1

10 February 2021

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor

17 March 2021

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
IA Quarter 3 Progress Report	Audit	Written report followed by Q&A	Richard Barr / Cllr Hales
AGS Quarter 3 Action Plan Report	Audit	Written report followed by Q&A	Richard Barr / Cllr Day
IA Strategic Plan (2021/22 to 2023/24 plan)	Audit	Written report followed by Q&A	Richard Barr / Cllr Hales

21 April 2021

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
Procurement full year review	Scrutiny	Written report followed by Q&A	Becky Reading / Cllr Hales