WARWICK DISTRICT COUNCIL

Finance & Audit Scrutiny Committee
Wednesday 11 August 2021

A meeting of the above Committee will be held in the Town Hall, Royal Leamington Spa on Wednesday 11 August 2021, at 6.00pm and available for the public to watch via the Warwick District Council YouTube channel.

Councillor J Nicholls (Chair)

Councillor M Ashford	Councillor G Illingworth
Councillor I Davison	Councillor M Luckhurst
Councillor R Dickson	Councillor N Murphy
Councillor J Grey	Councillor S Syson
Councillor T Heath	Councillor J Tracey

Emergency Procedure

At the commencement of the meeting, the emergency procedure for the Town Hall will be announced.

Agenda
Part A – General

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**

To confirm the minutes of the meeting held on 7 July 2021 **(To follow)**

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Part B – Audit Items

4. **Annual Treasury Management Report 2020/21**

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

5. **Treasury Management Activity Report for the period 1 October 2020 to 31 March 2021**

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

Part C – Scrutiny Items

6. **Update on the Joint Work with SDC**

   To consider a report from the Chief Executive.
   (Pages 1 to 5 and Appendices 1 & 2)

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

   To consider a report from Civic & Committee Services **(Pages 1 to 9)**

8. **Cabinet Agenda (Non-Confidential Items and Reports) – Thursday 12 August 2021**

   To consider the non-confidential items on the Cabinet 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 morning after Group meetings.
   (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. **Cabinet Agenda (Confidential Items and Reports) – Thursday 12 August 2021**

    To consider the confidential items on the Cabinet 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 morning after Group meetings.
    (Circulated separately)

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Agenda Item 4

Finance and Audit Scrutiny
Date of meeting: 11th August 2021

Title: Annual Treasury Management Report 2020/21
Lead Officer: Richard Wilson, Principal Accountant (Capital & Treasury) 01926 456801 or email richard.wilson@warwickdc.gov.uk
Portfolio Holder: Cllr Richard Hales & Cllr Mary Noone
Public report / Confidential report Public – not confidential
Wards of the District directly affected: All

Contrary to the policy framework: No
Contrary to the budgetary framework: No
Key Decision: Yes
Included within the Forward Plan: Yes Ref # 1233
Equality Impact Assessment Undertaken: No - not relevant
Consultation & Community Engagement:
Final Decision: No
Accessibility checked: Yes

Officer/Councillor Approval

Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	16/07/21	Andrew Jones
Head of Service	15/07/21	Mike Snow
CMT	16/07/21	
Section 151 Officer	15/07/21	Mike Snow
Monitoring Officer	16/07/21	Andrew Jones
Finance	21/07/21	Richard Wilson
Portfolio Holder(s)	22/07/21	Cllr Richard Hales & Cllr Mary Noone

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 2020/21. 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 2020/21 and is attached as Appendix A

2. Recommendation

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 2020/21.

3. Reasons for the Recommendations

3.1. The Treasury Management Strategy for 2020/21 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 2020/21 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)
- a mid-year (minimum) treasury update report (Finance & Audit Scrutiny 11/11/2020)
- 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 2020/21, 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 the above treasury management reports by the Finance & Audit Scrutiny Committee before they were reported to the full Council.

3.6. 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.

3.7. The report comments, where appropriate, on the Council's actual performance against what was forecast in the 2020/21 Treasury Management Strategy 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.

3.8. The report consists of the following Appendices:

Appendix A - Annual Treasury Management Report 2020/21
Appendix B – Glossary of Terms.

4. Policy Framework

4.1. Fit For the Future (FFF)

4.1.1. 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.

4.1.2. The FFF Strategy has three strands – People, Services and Money and each has an external and internal element to it, the details of which can be found on the Council's website The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

4.2. FFF Strands

4.2.1. External impacts of proposals

The Treasury Management function is an underpinning activity that 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, so that the Council can meet its financial obligations through a well-managed cash flow. This protects services and benefits the Council's customers and other stakeholders.

People - Health, Homes, Communities – Treasury Management indirectly enables financial resources to be ready for the Council to meet the following intended outcomes: Improved health for all; Housing needs for all met; Impressive cultural and sports activities; Cohesive and active communities.

Services - Green, Clean, Safe – Treasury Management is a support function towards to overall achievement of the Council's intended outcomes: 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. In terms of becoming a net-zero carbon organisation, the Council aims to disinvest the equity funds from any carbon-related organisations at the earliest opportunity – and no later than the end of 2025 - that the current economic conditions allow, and seek new 'green' investment opportunities that meet the overarching Treasury Management framework that the Council must operate within.

Money - Infrastructure, Enterprise, Employment – Treasury Management is a fundamental part of effective money management and indirectly aids the following intended outcomes: Dynamic and diverse local economy; Vibrant town centres; Improved performance/productivity of local economy; Increased employment and income levels.

4.2.2. **Internal impacts of the proposals**

The Treasury Management function enables the Council to meet its vision, primarily through having suitably qualified and experienced staff deliver the service in accordance with the Council's Treasury Management Practices and the national framework that local government operates.

People - Effective Staff –All staff are properly trained; All staff have the appropriate tools; All staff are engaged, empowered and supported and that the right people are in the right job with the right skills and right behaviours. Staff have access to the Council's treasury management advisers, the Link Group, who provide additional support and training to staff and members.

Services - Maintain or Improve Services – Treasury Management indirectly helps with the following intended outcomes: Focusing on our customers' needs; Continuously improve our processes and Increase the digital provision of services.

Money - Firm Financial Footing over the Longer Term - Treasury Management is a fundamental part of effective both short and long term money management and indirectly aids the following intended outcomes: Better return/use of our assets; Full Cost accounting; Continued cost management; Maximise income earning opportunities and Seek best value for money.

4.3. **Supporting Strategies**

4.3.1. 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) maximises financial stability in order for the Council to operate effectively.

4.4. **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies including the recommendation to divest from direct ownership of fossil fuels companies or commingled funds that include fossil fuel public equities and corporate bonds by *no later than* 2025, in pursuance of the Council's Climate Emergency Declaration.

4.5. **Impact Assessments**

There are no impacts of new or significant policy changes proposed in respect of equalities.

5. Budgetary Framework

5.1. The Treasury Management Strategy has a significant impact on the Council's budget through its objective of maximising investment income and minimising interest payable whilst ensuring the security and liquidity of financial resources.

5.2. The Council relies on interest received to fund the services it provides. The gross interest received in 2020/21, including non-Treasury Management interest, was £748,200. The interest paid to the HRA on its balances was £225,000, with a net of £523,200 retained by the General Fund. The table below compares this with budgeted figures:

	Original 2020/21 Budget £'000	Latest 2020/21 Budget £'000	2020/21 Actual £'000
Gross investment interest	945	602	748
less HRA allocation	-437	-155	-225
Net interest to General Fund	**508**	**447**	**523**

5.3. The reasons for the increase against the latest budget are a combination of higher than expected returns on investments, and 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 of £4.766m are unchanged from previous financial years and are charged directly to the HRA. The expected borrowing for new HRA capital expenditure had not been drawn down as at 31 March 2021. The £12 million PWLB loan taken during 2019/20 is charged to the General Fund and the full year interest costs are £220,800.

6. Risk Management

6.1. The Council maintained a cautious approach, as advocated by the regulatory framework, given experience from the 2008 financial crisis and the COVID-19 pandemic, with investments subject to low counterparty risk considerations, with relatively low returns compared to borrowing rates.

6.2. Investing the Council's funds unavoidably creates some risk, as would simply leaving the funds in a bank account. Treasury Management 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. Although not used in 2020/21, Corporate Bonds and Floating Rate Notes (FRNs) 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. Again, these were not used during 2020/21.

6.6. While Corporate Equity Funds can help to ensure capital security in real (as opposed to nominal) terms, they can risk 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’. However, 2020/21 experienced a significant recovery for both equity funds, demonstrating that this type of investment must be regarded as a relatively long-term commitment to smooth out movements such as those seen over the last 18 months, 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. Further details are contained in Appendix A.

7. Alternative Option(s) 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 will seek to divest from fossil fuels at the earliest opportunity; no later than the end of 2025, and ideally by the end of 2022. The previous heavy losses that the General Fund would have incurred from divestment from these Funds at 31 March 2020 are not currently an issue at the time of writing due to the current valuations of the funds. The limiting factor is now staff capacity around other key priorities, including the new finance system, the audit of the 2020/21 Statement of Accounts and work in support of the Warwick/Stratford Councils alignment.

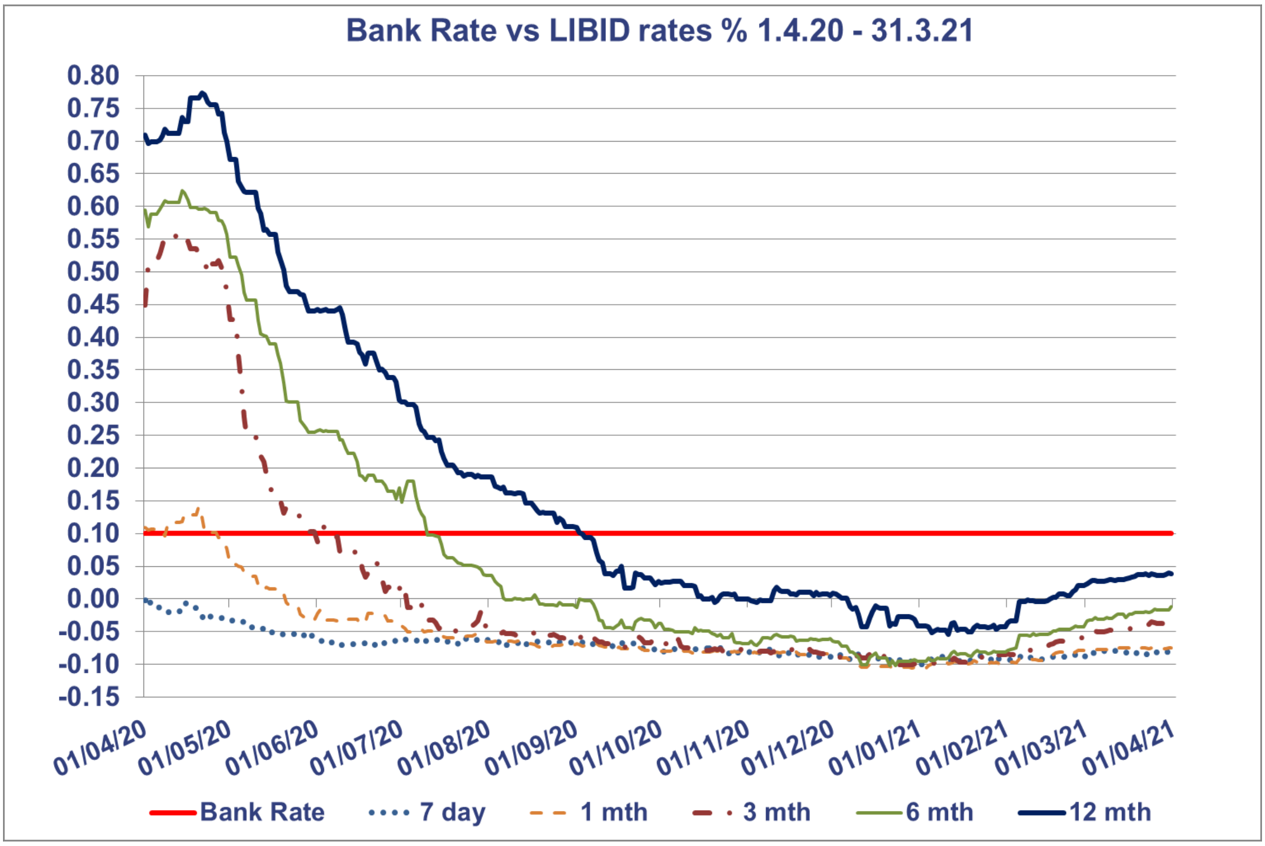
7.3. The Council may consider varying its investment vehicles or counterparty limits; however this would alter the potential credit and liquidity risks.

2020/21 Annual Treasury Management Report

1. Investment strategy and control of interest rate risk

1.1. Investment returns, which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%.

1.2. This forecast was invalidated by the COVID-19 pandemic bursting onto the scene in March 2020, which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted. The tables below shows rate movements during the year:



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	-	0.14	0.56	0.62	0.77
High Date	1/4/20	2/4/20	20/4/20	8/4/20	14/4/20	21/4/20
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	1/4/20	31/12/20	29/12/20	23/12/20	21/12/20	11/1/21
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	-	0.10	0.25	0.66	0.73	0.83

1.3. With taking a cautious approach to investing, the Council is 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 2008 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 more able 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 the last financial year 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. This must be balanced against potential interest rate increases, which could cause higher interest costs once long-term loans are taken.

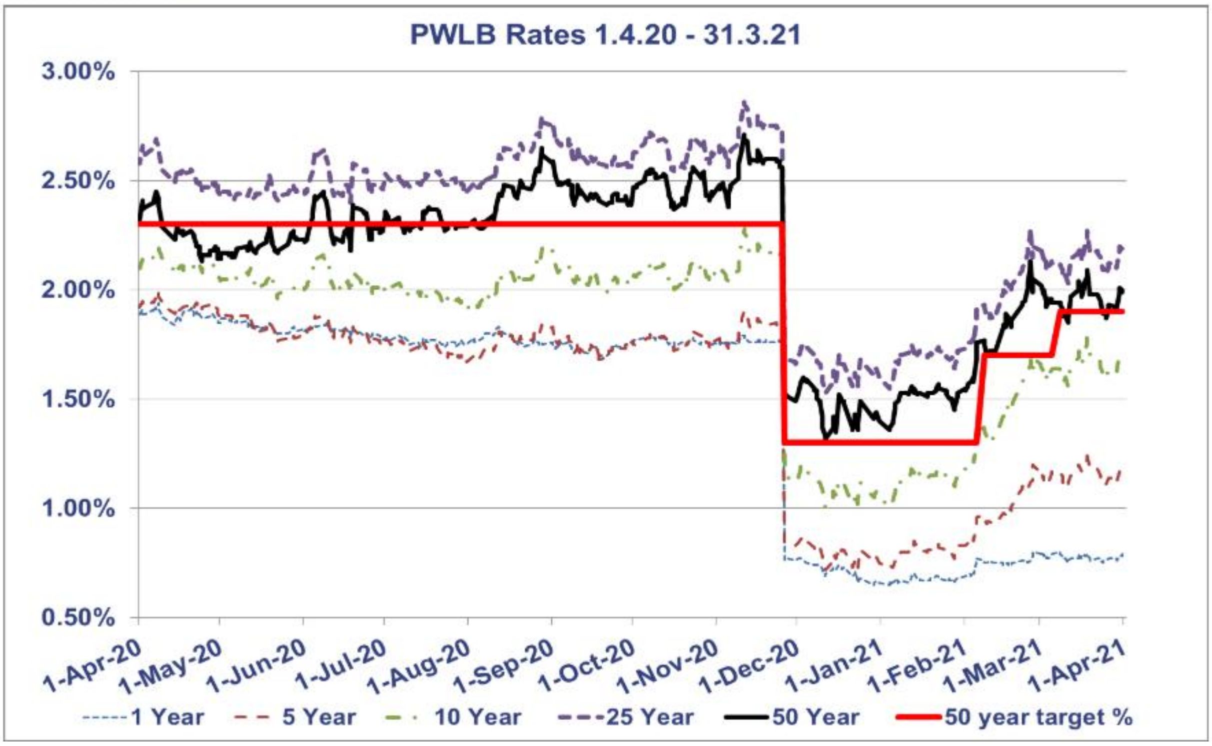
2.3. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure 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 2020/21 advice stated that there was a limited risk of a significant change in long and short term rates than expected. Therefore, it was decided to postpone the draw down of further long-term General Fund or HRA, to minimise these additional debt holding costs.

2.5. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Group Interest Rate View 11.8.20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
6 Month LIBID	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
12 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	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. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and 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. Over the last two years we have seen many bond yields up to 10 years in the Eurozone turn negative, on expectations that the EU would struggle to get growth rates and inflation up from low levels. 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.

2.7. Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

2.8. At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

2.9. HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9 October 2019, adding an additional 1% margin over gilts to all PWLB period rates That increase was then, at least partially, reversed for some forms of borrowing on 11 March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of 'assets for yield' in its three year capital programme. The new margins over gilt yields are as follows:

- **PWLB Standard Rate:** gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate:** gilt plus 80 basis points (G+80bps)
- **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)

2.10. There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% until September 2023 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

3. Borrowing Outturn

3.1. **Borrowing** – Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year. 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 expected 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 £4.986m interest in cash terms, of which £4.766m was charged to the HRA, relating 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 25 March 2020. 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 an increase of £11.689 million (16.7%):

Balance Sheet Resources	31/3/20 £'000	31/3/21 £'000	Movement £'000
Balances (GF, Collection Fund)	1,174	-5,250	-6,424
Balances (HRA)	7,983	7,507	-476
Earmarked reserves / other balances[$]	47,872	67,309	19,437
Provisions	5,656	4,235	-1,421
Capital Receipts Reserve	7,257	7,830	573
Total	**69,942**	**81,631**	**11,689**

[$] - see paragraph 8.13 for more information

4.4. **Investments held by the Council**

- The Council maintained an average balance of £75.5m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.47%.
- The comparable performance indicator is the average 7-day and up to 3-months LIBID rate, which was 0.17%.
- This compares with a latest budget assumption of £82.1m investment balances earning an average rate of 0.54%.
- Investment income excluding externally managed funds and non-treasury management interest was £523,200, compared to a latest budget of £447,200.
- During 2020/21 the Council made investments of £245.826m and had repayments of £264.114m, a net reduction of £18.288m.

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	23.5%	18.2%
Royal London	3,000	22.3%	18.2%
Total	**6,000**	**22.9%**	**18.2%**

4.6. The budget assumption on the average investment balances of £6.0m was a 3.75% dividend investment return and the actual return was 3.77%. However, in a reversal of the 2019/20 position, this was been dwarfed by unrealised capital gains of £1.3m (excluding dividends), as shown below, offsetting the even larger on-paper 'loss' for 2019/20:

Fund Manager	Balance at 31/3/20 £'000	Dividend 20/21 £'000	Gain £'000	Balance at 31/3/21 £'000
Columbia Threadneedle	2,569	96	692	3,357
Royal London	2,553	97	634	3,284
Total	**5,122**	**193**	**1,326**	**6,641**

4.7. Due to the statutory override in place (see paragraph 5.2 below) this 'gain' or 'loss' in capital value does not have to be charged to revenue in the year, shielding the Council Tax charge from short-term fluctuations, 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 2021 was 4.9% for Columbia Threadneedle and 6.5% for Royal London; for reference at 31 March 2020 the respective figures were 4.9% and 8.6%.

5. Other Issues

5.1. **IFRS 9** – The introduction of the 2020/21 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 gain credited in 2020/21 was £1,309,549, reducing the cumulative 'loss' at 31 March 2021 to £94,585.

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 2020/21 the Council made new long-term loans for capital purposes of £350,000. Details of these loans and the due diligence taken is outlined in the Statement of Accounts 2020/21; 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. Paragraph 2.9 above outlines the Government's response to its consultation on PWLB lending to local government, preventing a council deemed to be borrowing 'Debt For Yield' (i.e. in order to make a *commercial* return) over its 3-year capital programme ,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). Given the Council's deferred and pending borrowing requirements, this is a significant consideration.

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 £44.760m and how this was financed.

Capital expenditure	**2019/20 Actual £'000**	**2020/21 Budget £'000**	**2020/21 Actual £'000**
General Fund	7,671	17,279	11,275
HRA	20,183	37,277	33,135
Commercial activities* / non-financial investments (long-term loans to third parties)	530	350	350
Total (A)	**28,384**	**54,906**	**44,760**

* The Council has not made any 'commercial activities' where yield is the primary purpose

Financing of capital expenditure	2019/20 Actual £'000	2020/21 Budget £'000	2020/21 Actual £'000
Capital receipts	3,641	1,895	815
Capital grants and contributions	5,537	11,458	5,215
Reserves	18,367	14,395	9,528
Revenue contributions	298	336	422
Subtotal (B)	**27,843**	**28,084**	**15,980**
Net borrowing need for the year (A – B)	**541**	**26,822**	**28,780**

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 2020/21 outturn against the budget and previous year's budget:

Prudential Indicators (1)	2019/20 Actual £'000	2020/21 Budget £'000	2020/21 Actual £'000
Authorised Limit for External Debt			
Borrowing	192,728	283,907	283,907
Other Long term Liabilities	30	1,012	1,012
Total	**192,758**	**284,919**	**284,919**
Operational Boundary for External Debt			
Borrowing	173,728	261,907	261,907
Other Long term Liabilities	30	1,012	1,012
Total	**173,758**	**262,919**	**262,919**
Actual External Debt at Year End			
Long Term Borrowing	148,157	175,639	148,157
Long Term Liabilities	30	30	12
Total	**148,187**	**175,669**	**148,169**

7.2. Due to the delay in some capital expenditure and the deferral of existing borrowing requirements, actual external debt did not increase during the year and did not exceed either the Authorised Limit or the Operational Boundary.

Prudential Indicators (2)	2019/20 Actual £'000	2020/21 Budget £'000	2020/21 Actual £'000
Actual Capital Expenditure for Year			
General Fund	8,201	17,629	11,625
Housing Revenue Account	20,183	37,277	33,135
Overall	**28,384**	**54,906**	**44,760**
Capital Financing Requirement			
General Fund	20,676	88,802	23,836
Housing Revenue Account	135,738	158,952	161,160
Total CFR	**156,414**	**247,754**	**184,996**
Gross borrowing position	148,187	175,669	148,169
Under (-) / over funding of CFR	-8,227	-72,085	-36,827

7.3. The under funding of £36.827m represents borrowing for capital expenditure already incurred that has not yet been taken, relying on 'internal borrowing'.

Prudential Indicators (3)	2019/20 Actual %	2020/21 Budget %	2020/21 Actual %
Financing Costs as a % of Net Revenue Stream			
General Fund	-1.87%	0.81%	-0.31%
Housing Revenue Account	38.40%	42.01%	39.01%
Overall	**24.85%**	**24.16%**	**17.53%**

7.4. As no new borrowing took place in the year the actual financing costs were below budget and only slightly higher than for the previous financial year.

7.5. 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 indicators shown above.

7.6. 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 2020/21	Fixed		Variable	
Period	**Upper**	**Lower**	**Upper**	**Lower**
Under 12 months	20%	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

7.7. The final indicator monitors the amount invested for periods longer than 365 days which in 2020/21 was set at 70% of the investment portfolio subject to a maximum of £30 million at any one time. During 2020/21 the Council entered into no investments for 365 days or over, assuring compliance with the indicator.

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 2020/21 Annual Investment Strategy was approved in March 2020.

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 2020/21. 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 detailed breakdown):

Vehicle	**Return** (annualised) **£'000**	**Benchmark** (annualised) **£'000**	**Perform -ance £'000**
Money Markets	9.2	7.8	1.5
Money Market Funds	15.3	28.8	-13.5
Call Accounts	0.6	1.5	-0.9
Total	**25.2**	**38.1**	**-12.9**

8.3. **Money Market Investments**: the outperformance below was in the period up to 6 months, mostly where we had locked into longer rates before the COVID-19 crisis struck.

Period	**Investment Return** (annualised)	**LIBID Benchmark** (annualised)	**Out/(under) performance**
Up to 7 days			
Annual performance	-	0.05%	n/a
Annual interest	£0	£0	£0
Over 7 days & up to 3 months			
Annual performance	0.38%	0.17%	0.21%
Annual interest	£3,710	£1,678	£2,032
Over 3 months & up to 6 months			
Annual performance	0.39%	0.19%	0.20%
Annual interest	£36,929	£17,758	£19,171
Over 6 months to 365 days			
Annual performance	0.23%	0.34%	-0.11%
Annual interest	£20,676	£30,197	-£9,521
366 days and Over			
Annual performance	-	-	n/a
Annual interest	£0	£0	£0
Total Interest For Year	**£61,315**	**£49,633**	**£11,682**

8.4. **Money Market Funds**: 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).

8.5. 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.

8.6. 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	0.06%	0.08%	-0.02%
Annual interest	£3,250	£4,933	-£1,683
Goldman Sachs			
Annual performance	0.09%	0.08%	0.01%
Annual interest	£520	£471	£49
Invesco			
Annual performance	0.11%	0.08%	0.03%
Annual interest	£8,140	£5,448	£2,692
Standard Life			
Annual performance	0.13%	0.08%	0.05%
Annual interest	£13,078	£7,683	£5,395
Federated Constant Net Asset Value (CNAV)			
Annual performance	0.15%	0.08%	0.07%
Annual interest	£4,800	£2,565	£2,235
Federated Variable Net Asset Value (VNAV)			
Annual performance	0.27%	0.08%	0.19%
Annual interest	£16,438	£4,745	£11,693
Royal London Cash Plus Account (VNAV)			
Annual performance	1.23%	0.08%	1.15%
Annual interest	£74,859	£4,778	£70,081
Total Interest For Year	**£121,085**	**£30,623**	**£90,462**

8.7. 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.

8.8. **Call Accounts**: The Council operates two Call accounts with HSBC and Svenska Handelsbanken. In the case of the HSBC account interest is no longer paid but it does offer a relatively low risk place for surplus balances. 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	-	0.07%	-0.07%
Value of interest earned in year	£0	£127	-£127
Svenska Handelsbanken Account			
Rate for year	0.07%	0.07%	-
Value of interest earned in year	£684	£1,447	-£763
Total Interest For Year	**£684**	**£1,574**	**-£890**

8.9. The Annual Investment Strategy (Appendix B of the Treasury Management Strategy 2020/21) anticipated that the Council would have an average investment balance of £66.9m during the year. The actual average investment balance was £75.5m due, in part, to lower HRA capital expenditure than anticipated and additional Government grants.

8.10. Paragraph 3.11 of the Annual Investment Strategy makes reference to a 70% maximum long term investments holding for 'non-specified' investments, with a cap of £30m. Based on the average investment balance of £75.5m, a maximum of £30.0m 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 30% of its portfolio in short term (365 days or less) investments.

In-House Investment Returns:

8.11. The Annual Investment Strategy, approved in March 2020, anticipated that the in-house portfolio would achieve a 0.76% return for 2020/21. The actual rate was 0.69%, as shown below:

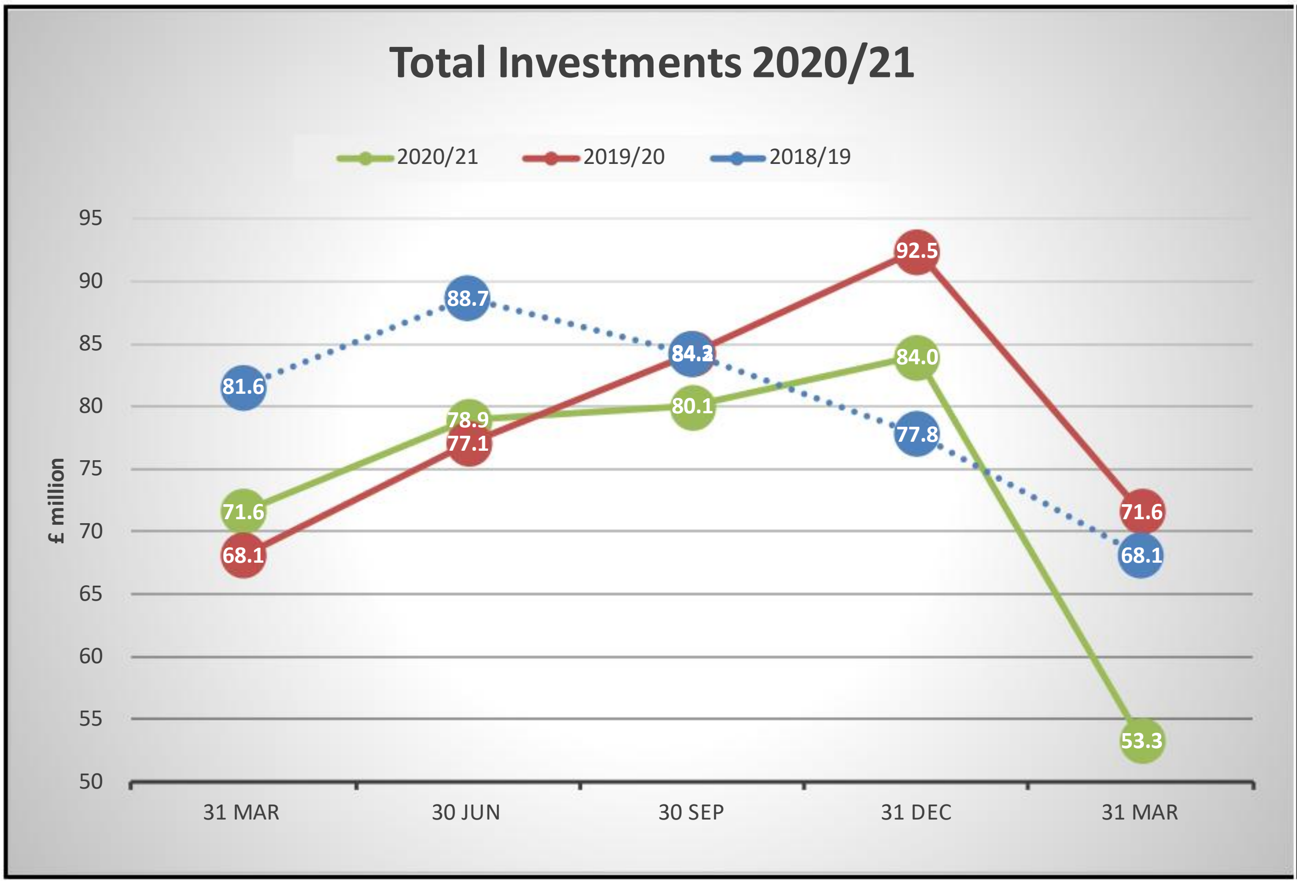
Year	Interest Received £'000	Interest Rate Achieved %
2019/20 Actual	737.6	0.93%
2020/21 Original	508.1	0.76%
2020/21 Latest	447.2	0.54%
2020/21 Outturn	523.2	0.69%

8.12. An analysis of the overall investments of the Council as at 31 March 2021, 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 21 £'000	Closing Balance 30 Sept 20 £'000
Money Markets	33,000	35,503
Money Market Funds	12,334	35,561
Business Reserve Accounts incl. Call Accounts	2,003	3,000
Total In House Investments	**47,337**	**74,064**
Corporate Equity Funds (nominal)	6,000	6,000
Total Investments	**53,337**	**80,064**

8.13. The performance of the corporate equity funds was discussed in paragraphs 4.5 to 4.8 above.

8.14. The graph below shows how the total of the Council's investments varies through the year according to its cash flows, comparing 2020/21 (green solid line) with the previous two years (2019/20 red solid, 2018/19 blue dots). It shows that during the first quarter of the financial year (April to June) the Council's investments were above 2019/20 but then below that year's values, falling significantly in the last quarter of 2020/21, when capital expenditure, especially HRA purchase, excelerated and exceeded routine flows in from Council Tax, NNDR and COVID-19 related Government grants. In terms of the latter, the Council does have larger than usual balances being carried forward in the Business Rate Retention Volatility Reserve for these, and it is expected that these will be depleted over the next couple of years, putting additional pressures on cash balances. Some of the depletion in balances will be addressed when loans from the PWLB are taken, to replace 'internal borrowing'.



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 2020/21. The half-year treasury management report to this meeting has more details on these funds in section 11.

Fund	Value of Fund 31 Mar 21 £'000	Value of Fund 31 Mar 20 £'000
Royal London UK Equity Fund	3,284.0	2,552.8
Columbia Threadneedle UK Equity Income Fund	3,356.8	2,568.7
Total Equity Funds	**6,640.8**	**5,121.5**

9.2. For comparison purposes, the total value of funds at 30 September 2020 was £5.507m.

9.3. History has shown that these funds may present volatile returns over the short-term, as witnessed by the last 18 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. To 'cash-out' early to meet the Climate Change Emergency Declaration may have a significant financial cost if financial markets suffer another reversal of fortune, which will need to be monitored. More details are in paragraph 5.2 above.

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	0.72	0.53	0.51	Above
September Quarter	0.44	0.37	0.31	Above
December Quarter	0.27	0.26	0.21	Above
March Quarter	0.13	0.36	0.18	Inline
Average for Year	**0.39**	**0.38**	**0.30**	

10.2. Table A shows that the Council's average return was above Link Group model portfolio rate of return and comparable with the local group, based on the risk in its portfolio. However, this has to be assessed against the slightly lower average credit risk taken in this Council's portfolio, as shown below.

Table B - Weighted Average Credit Risk

	WDC	Local Group
June Quarter	2.59	2.34
September Quarter	2.51	2.46
December Quarter	1.96	2.28
March Quarter	2.33	2.50
Average for Year	**2.35**	**2.40**

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.

CNAV: Constant Net Asset Value refers to funds that use amortised cost accounting to value all of their assets. They aim to maintain a Net Asset Value (NAV), or value of a share of the fund, at £1 (or currency equivalent) unless mark-to-market pricing of underlying assets moves outside of stipulated boundaries, and calculate their price to 2 decimal places, known as 'penny rounding'. Typical examples of such funds are government Money Market Funds.

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.

Financial Instruments Revaluation Reserve: IFRS 9 'Financial Instruments – earmarking of gains not available to fund services' specifies that balances in the General Fund (or HRA balance) relating to unrealised, or volatile, gains from financial instruments classified as 'fair value through profit or loss' should be earmarked and not regarded as available to fund services. The Financial Instruments Revaluation Reserve (FIRR) holds the ciuumulative value of such gains or losses.

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.

FTSE: The Financial Times Stock Exchange, now known as FTSE Russell Group, is a British financial organization that specializes in providing index offerings for the global financial markets Informally known as the "Footsie".

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 Inter Bank 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 Inter Bank 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 in the UK is expected to be replaced by SONIA. Outside the London markey this is referred to as IBOR.

LVNAV: Low Volatility Net Asset Value (LVNAV) Money Market Funds are short-term MMFs. Funds are primarily invested in money market instruments, deposits and other short-term assets. Units in the fund are purchased or redeemed at a constant price so long as the value of the underlying assets do not deviate by more than 0.2% (20bps) from par (i.e. 1.00).

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.

VNAV: While CNAV and LVNAV funds use amortised cost accounting to value most or all of their assets, Variable Net Asset Value (VNAV) funds use mark-to-market pricing, meaning the unit price will change in light of changes to mark-to-market valuation of underlying assets, and dealing prices for VNAV funds are rounded to four decimal places. All funds except select types of Money Market Funds are priced on this basis.

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

Agenda Item 5

Finance and Audit Scrutiny
Date of meeting: 11th August 2021

Title: Treasury Management Activity Report for the period 1 Oct 2020 to 31 March 2021
Lead Officer: Karen Allison, Assistant Accountant, karen.allison@warwickdc.gov.uk, 01926 456334
Portfolio Holder: Cllr Richard Hales & Cllr Mary Noone
Public report / Confidential report Public – not confidential
Wards of the District directly affected: All

Contrary to the policy framework: No
Contrary to the budgetary framework: No
Key Decision: No
Included within the Forward Plan: Yes Ref # 1234
Equality Impact Assessment Undertaken: No-not relevant
Consultation & Community Engagement:
Final Decision:
Accessibility checked:

Officer/Councillor Approval

Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	16/07/21	Andrew Jones
Head of Service	15/07/21	Mike Snow
CMT		
Section 151 Officer	15/07/21	Mike Snow
Monitoring Officer	16/07/21	Andrew Jones
Finance	21/07/21	Karen Allison/Richard Wilson
Portfolio Holder(s)	22/07/21	Cllr Richard Hales & Cllr Mary Noone

1. Summary

1.1 This report details the Council’s Treasury Management performance for the period 1 October 2020 to 31 March 2021.

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 2020/21 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 in accordance with the Treasury Management Code of Practice.

4. Policy Framework

4.1 Fit for the Future (FFF)

4.1.1. 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.

4.1.2. The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it, the details of which can be found on the Council’s website The table below illustrates the impact of this proposal if any in relation to the Council’s FFF Strategy.

4.2 FFF Strands

4.2.1. External impacts of proposals

The Treasury Management function is an underpinning activity that 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, so that the Council can meet its financial obligations through a well-managed cash flow. This protects services and benefits the Council’s customers and other stakeholders.

People - Health, Homes, Communities – Treasury Management indirectly enables financial resources to be ready for the Council to meet the following intended outcomes: Improved health for all; Housing needs for all met; Impressive cultural and sports activities; Cohesive and active communities.

Services - Green, Clean, Safe – Treasury Management is a support function towards to overall achievement of the Council’s intended outcomes: 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. In terms of becoming a net-zero carbon organisation, the Council aims to disinvest the equity funds from any carbon-related organisations at the earliest opportunity – and no later than the end of 2023 - that the current economic conditions allow, and seek new 'green' investment opportunities that meet the overarching Treasury Management framework that the Council must operate within.

Money- Infrastructure, Enterprise, Employment – Treasury Management is a fundamental part of effective money management and indirectly aids the following intended outcomes: Dynamic and diverse local economy; Vibrant town centres; Improved performance/productivity of local economy; Increased employment and income levels.

4.2.2. **Internal impacts of the proposals**

The Treasury Management function enables the Council to meet its vision, primarily through having suitably qualified and experienced staff deliver the service in accordance with the Council's Treasury Management Practices and the national framework that local government operates.

People - Effective Staff –All staff are properly trained; All staff have the appropriate tools; All staff are engaged, empowered and supported and that the right people are in the right job with the right skills and right behaviours. Staff have access to the Council's treasury management advisers, the Link Group, who provide additional support and training to staff and members.

Services - Maintain or Improve Services – Treasury Management indirectly helps with the following intended outcomes: Focusing on our customers' needs; Continuously improve our processes and Increase the digital provision of services.

Money - Firm Financial Footing over the Longer Term - Treasury Management is a fundamental part of effective both short and long term money management and indirectly aids the following intended outcomes: Better return/use of our assets; Full Cost accounting; Continued cost management; Maximise income earning opportunities and Seek best value for money.

4.3 **Supporting Strategies**

4.3.1. 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) maximises financial stability in order for the Council to operate effectively.

4.4 **Changes to Existing Policies**

4.4.1. The Treasury Management function is in accordance with existing policies (set out in the Treasury Management Practices) and national regulatory framework.

4.5 **Impact Assessments**

4.5.1. There are no impacts of new or significant policy changes proposed in respect of Equalities.

5. Budgetary Framework

5.1. Treasury Management can have a 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.

5.2. The Council is reliant on interest received to help fund the services it provides. The actual investment interest in 2020/21 compared with the original and latest budgets is shown in the following table:

	Original 2020/21 Budget £'000	Latest 2020/21 Budget £'000	Actual 2020/21 Budget £'000
Gross Investment Interest	945	602	748
less HRA allocation	-437	-155	-225
Net interest to General Fund	**508**	**447**	**523**

5.3. Further details are contained in the Annual 2020/21 Treasury Management report.

6. Risks

6.1. Continued uncertainty in the aftermath of the 2008 financial crisis, brought into even sharper focus by the COVID-19 pandemic, has promoted a cautious approach, whereby investments are now dominated by low counterparty risk considerations, with 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's accepted that longer duration investments increase the security risk within the portfolio, however this is inevitable 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) – when used -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 reduce risk in the portfolio 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. 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 is mitigated by ensuring the investments are held for a sufficiently long period. In addition, mitigation is achieved by having a spread of funds with differing risk appetites. "Stop loss” limits (whereby if the value in the fund goes below a defined limit, the holdings in that fund will be sold) reduce risk by limiting losses. Finally, a volatility reserve has been created - a proportion of the annual return on the funds will be credited to this reserve and then when required can be released to revenue either to 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 six months and is, therefore, a statement of fact.

8. Background

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

9. Interest Rate Environment

The major influence on the Council’s investments is the Bank Rate. While it remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

9.1. The Council’s Treasury Management Advisors, Link Asset Services, provided the following forecast on 8 March 2021 for future Bank Rates.

Qtr Ending	Mar 2021	June 2021	Sept 2021	Dec 2021	Mar 2022	Jun 2022	Sept 2022	Dec 2022	Mar 2023	Jun 2023	Sept 2023
Current Forecast as at March 2021:											
Bank Rate %	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Forecast as at January 2020 (when Original Budgets were set)**:**											
Bank Rate %	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25	n/a	n/a

9.2. The forecast as at January 2020 is shown for comparison purposes as this forecast was used in calculating the original budgets.

9.3. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2020/21 was approved by Council on 20 May 2020. 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 because 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

10.1. Core Investments

10.1.1 During 2020/21 to date, the in-house function has invested core cash funds in fixed term deposits and notice accounts in the Money Markets. Table 1 in Appendix A illustrates the performance of the in-house function during this second half year for each category normally invested in.

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

10.1.3 During October to March nine core investments matured. One of which for £4 million was turned into cashflow. In the periods 7 days to 3 months and 3 months to 6 months no investments were made. In period 6 months to 1 year the one investment outperformed.

10.1.4 Given that Bank Rate remains at 0.10% and counterparty security is of the utmost importance over return of yield, the level of performance achieved in this first half year continues to be satisfactory within the new economic reality.

10.2. Cash Flow Derived Funds & Accounts

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

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

10.2.3 As with the Money Market investments in paragraph 10.1.1, the LIBID benchmark which in this case is the 7-day rate, has been increased by a margin of 0.0625% and it can be seen from table 2 in Appendix A that the second half year underperformed due to poor interest rates. However, the total interest for the year out-performance of the benchmark remains satisfactory.

10.2.4 The Council continued to concentrate its investments in the highest performing funds: Federated (variable and low volatility net asset value funds), Aberdeen Standard, Invesco, Federated and Royal London Cash Plus.

10.2.5 During the second half of 2020/21 the Council earned £15,307 realised interest on its Money Market Fund investments at an average rate of 0.35% and the average balance in the funds during the period was £39,200,900.

10.3. **Call Accounts**

10.3.1 As with the Money Market investments the 7-day LIBID benchmark is increased by a margin of 0.0625%.

10.3.2 The Council earned £640 interest on its call accounts in the second half year at an average rate of 0.05% and the average balance in the funds during the period was £1,467,600.

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

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets £	9	8	1
Money Market Funds	15	29	(14)
Call A/c's £	1	2	(1)
Total £	**25**	**39**	**-14**

10.3.4 It should be noted that the total investment return of £25,000 shown in the table above will not all be received in 2020/21 as it is an annualised figure and will include interest relating to 2019/20 and 2021/22.

10.3.5 An analysis of the overall in-house investments held by the Council at the end of March 2021 is shown in the following table:

(The previous half year is shown for comparison)

Type of Investment	Closing Balance @ 31 March 2021 £'000	Closing Balance @ 30 September 2020 £'000
Money Markets incl. CD's & Bonds	33,000	35,503
Money Market Funds	12,334	35,561
Business Reserve Accounts incl. Call Accounts	2,003	3,000
Total In House Investments	**47,337**	**74,064**
Corporate Equity Funds	6,000	6,000
Total Investments	**53,337**	**80,064**

11. Corporate Equity Funds

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

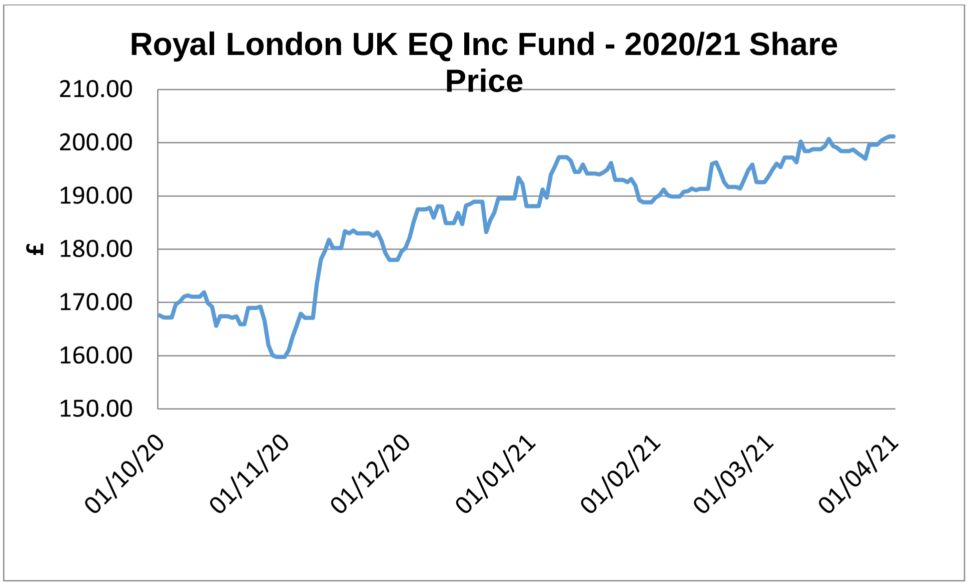
Fund	Value of Fund @ 31 March 2021 £'000	Value of Fund @ 30 September 2020 £'000	Variation in 1st half year £'000
Royal London UK Equity Fund	3,284	2,705	579
Columbia Threadneedle UK Equity Income Fund	3,357	2,803	554
TOTAL	**6,641**	**5,508**	**1,133**

11.2. It can be seen from the table above that both funds had a positive variation in value from October 2020 to March 2021, despite volatility in the markets.

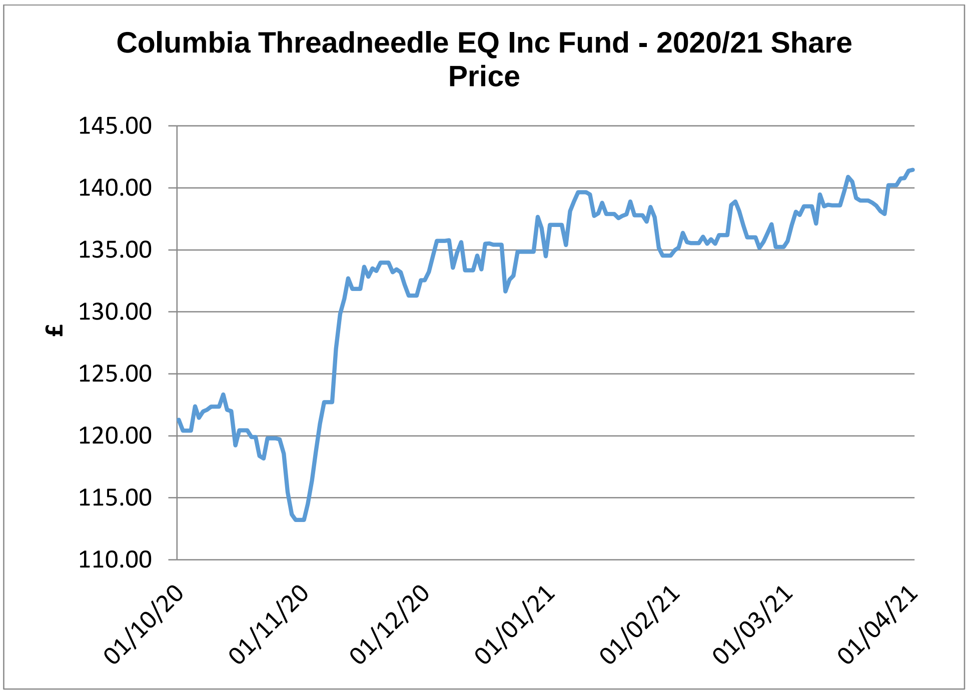
11.3. The table below gives a breakdown of income and capital elements of growth.

Period	Capital Element	Income Element	Total growth	Capital Element	Income Element	Total growth
Royal London Asset Management	**£'000s**	**£'000s**	**£'000s**	**%**	**%**	**%**
3 months (Jan 2021 to March 2021)	190.2	23.6	213.8	5.8	0.7	6.5
3 months (Oct 2020 to December 2020)	339.4	26.2	365.6	11.1	0.9	12
6 months (Oct 2020 to March 2021)	529.6	49.8	579.4	16.9	1.6	18.5
Since inception 04.04.2017	-222.9	506.9	284	-7.4	16.9	9.5
Columbia Threadneedle						
3 months (Jan 2021 to March 2021)	335	24.5	359.5	10.6	0.77	11.3
3 months (Oct 2020 to December 2020)	187.5	23.8	211.3	5.6	0.71	6.3
6 months (Oct 2020 to March 2021)	522.5	48.3	570.8	15.6	1.44	17
Since inception 13.04.2017	356.80	449.70	806.5	10.6	13.4	24

11.4. Royal London UK Equity Fund was behind competitor funds in the fourth quarter to December 2020 but ahead of the FTSE All Share index. Performance benefitted from a number of stocks including McCarthy & Stone, WH Smith, ITV, Paragon and Signature Aviation. The fund's performance was negatively impacted by several stocks such as Dunelm, Hargreaves, Lansdown, IG Group, Segro and Pennon Group. During the first quarter to March 2021 the fund was ahead of both competitor funds and FTSE All Share Index. Positive contributors to performance were among the biggest detractors to 2020 performance such as Restaurant Group and WH Smith. It can be seen from the graph below that share prices began to rise again in November 2020 after a short-term dip towards end of October 2020.



11.5. Columbia Threadneedle Equity Fund had a similar pattern in share price. Its performance fluctuated each month between underperforming to peer group and FTSE in October 2020 to outperforming in both areas in March 2021. Underperformers included AstraZeneca, Imperial Brands, Tate & Lyle, Rentokil, BP, 3i, Barclays and Electrocomponents. Outperformers included Rentokil, Imperial Brands, Pearson, Johnson Matthey, Electrocomponents, BT, Wincanton and Rank Group.



11.6. These investments are classed as long-term investments and share prices can fluctuate. Disposals of shares needs to be done over a phased period in order to minimise capital losses.

12. Counterparty Credit Ratings

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

12.2. 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 2020/21 Counterparty lending list.

13. Benchmarking

13.1. With regard to the Link Asset Services Treasury Management Benchmarking Club, the Council is part of a local group comprising both District and County Councils and the results are published quarterly. Analysis of the results for the third quarter show that the Council's Weighted Average Rate of Return (WARoR) on its investments at 0.44% was above Link's model portfolio.

13.2. The result for the fourth quarter was 0.13% WARoR which was within Link's model portfolio band range.

13.3. A comparison between Warwick District Council and the benchmarking group reveals that during the both quarters the Council's WARoR and the weighted average risk were higher.

14. Borrowing

14.1. During the half year, there was no long term borrowing activity other than to pay the first half year interest instalment on the £136.157 million PWLB borrowing for the HRA Self Financing settlement which amounted to £2.383 million and also interest of £110,400 on the £12 million PWLB borrowing taken out in September 2019.

14.2. During the half year it was not necessary to undertake any Money Market borrowing to fund cash flow deficits, with any deficits being managed within the Council's £50,000 overdraft facility. The interest rate on this facility is 2.93% 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 half year there was no overdraft interest.

15. Prudential Indicators

15.1. The 2020/21 Treasury Management Strategy included a few 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.

16. 2021/22 Treasury Management Strategy.

16.1. Whilst security of the funds will be paramount, it is intended that the Council will continue to achieve the best returns possible but within Environment, Social and Governance (“ESG” – aka “ethical”) criteria, where possible. Details were included within the Treasury Management report in February 2021.

APPENDIX A

Investment Performance Analysis

Table 1 – Summary Performance

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
No Investments			
Over 7 days & Up to 3 months			
April to September 2020	0.38%	0.17%	0.21%
Interest earned 1st half year £	3,710	1,678	2,032
October to March 2021--no investments			
Rate for year	0.38%	0.17%	0.21%
Value of Interest earned in Year	3,710	1,678	2,032
Over 3 months & Up to 6 months			
April to September 2020	0.77%	0.27%	0.50%
Interest earned 1st half year £	31,889	11,308	20,581
October to March 2021	0.10%	0.12%	-0.02%
Interest earned 2nd half year £	5,040	6,450	-1,410
Rate for year	0.40%	0.19%	0.21%
Value of Interest earned in Year	36,929	17,758	19,171
Over 6 months to 365 days			
April to September 2020	0.24%	0.41%	-0.17%
Interest earned 1st half year £	16,488	28,891	-12,403
October to March 2021	0.21%	0.07%	0.14%
Interest earned 2nd half year £	4,188	1,306	2,882
Rate for year	0.23%	0.34%	-0.11%
Value of Interest earned in Year	20,676	30,197	-9,521
1 year and over			
No Investments			
TOTAL INTEREST FIRST HALF YEAR £	**52,087**	**41,877**	**10,210**
TOTAL INTEREST SECOND HALF YEAR £	**9,228**	**7,756**	**1,472**
TOTAL INTEREST FOR YEAR £	**61,315**	**49,633**	**11,682**

Table 2 - Cash Flow Derived Funds & Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche (CNAV)			
April to September 2020	0.12%	0.01%	0.11%
Interest earned 1st half year £	3,010	224	2,786
October to March 2021	0.01%	0.15%	-0.14%
Interest earned 2nd half year £	240	4,709	-4,469
Rate for year	0.06%	0.08%	-0.02%
Value of Interest earned in Year	3,250	4,933	-1,683
Goldman Sachs (CNAV)			
April to September 2020	0.18%	0.01%	0.17%
Interest earned 1st half year £	502	26	476
October to March 2021	0.01%	0.15%	-0.14%
Interest earned 2nd half year £	18	445	-427
Rate for year	0.09%	0.08%	0.01%
Value of Interest earned in Year	520	471	49
Invesco (CNAV)			
April to September 2020	0.18%	0.01%	0.17%
Interest earned 1st half year £	7,768	394	7,374
October to March 2021	0.01%	0.15%	-0.14%
Interest earned 2nd half year £	372	5,054	-4,682
Rate for year	0.11%	0.08%	0.03%
Value of Interest earned in Year	8,140	5,448	2,692
Aberdeen Standard (LVNAV)			
April to September 2020	0.24%	0.01%	0.23%
Interest earned 1st half year £	11,779	455	11,324
October to March 2021	0.03%	0.15%	-0.12%
Interest earned 2nd half year £	1,299	7,228	-5,929
Rate for year	0.13%	0.08%	0.05%
Value of Interest earned in Year	13,078	7,683	5,395
Federated Constant Net Asset Value (CNAV)			
April to September 2020	0.26%	0.01%	0.25%
Interest earned 1st half year £	4,233	149	4,084
October to March 2021	0.03%	0.15%	-0.12%
Interest earned 2nd half year £	567	2,416	-1,849
Rate for year	0.15%	0.08%	0.07%
Value of Interest earned in Year	4,800	2,565	2,235
Federated Cash Plus Account (VNAV)			
April to September 2020	0.42%	0.01%	0.41%
Interest earned 1st half year £	12,470	273	12,197
October to March 2021	0.13%	0.15%	-0.02%
Interest earned 2nd half year £	3,968	4,472	-504
Rate for year	0.27%	0.08%	0.19%

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Value of Interest earned in Year	16,438	4,745	11,693
Royal London Cash Plus Account (VNAV)			
April to September 2020	0.58%	0.01%	0.57%
Interest earned 1st half year £	66,016	278	65,738
October to March 2021	0.29%	0.15%	0.14%
Interest earned 2nd half year £	8,843	4,500	4,343
Rate for year	1.23%	0.08%	1.15%
Value of Interest earned in Year	74,859	4,778	70,081
TOTAL INTEREST FIRST HALF YEAR £	**105,778**	**1,799**	**103,979**
TOTAL INTEREST SECOND HALF YEAR £	**15,307**	**28,824**	**-13,517**
TOTAL INTEREST FOR YEAR £	**121,085**	**30,623**	**90,462**

Table 3 – Call Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2020	0.00%	0.01%	-0.01%
Interest earned 1st half year £	0	39	-39
October to March 2021	0.00%	0.15%	-0.15%
Interest earned 2nd half year £	0	88	-88
Rate for year	0.00%	0.07%	-0.07%
Value of Interest earned in Year	0	127	-127
Svenska Handelsbanken Account			
April to September 2020	0.42%	0.01%	0.41%
Interest earned 1st half year £	44	1	43
October to March 2021	0.07%	0.15%	-0.08%
Interest earned 2nd half year £	640	1,446	-806
Rate for year	0.07%	0.07%	0.00%
Value of Interest earned in Year	684	1,447	-763
TOTAL INTEREST FIRST HALF YEAR £	**44**	**40**	**4**
TOTAL INTEREST SECOND HALF YEAR £	**640**	**1,534**	**-894**
TOTAL INTEREST FOR YEAR £	**684**	**1,574**	**-890**

APPENDIX B

Counterparty Rating at Time of Investment

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
WDC Minimum	(Fitch)	**A**	**n/a**	
Local Authority		**n/a**	**n/a**	
Brentwood Borough Council	£2,500,000	n/a	n/a	181
Maidstone Borough Council	£2,000,000	n/a	n/a	182
Blaenau Gwent Council	£3,000,000	n/a	n/a	181
Thurrock Council	£3,000,000	n/a	n/a	181
North Lanarkshire Council	£2,000,000	n/a	n/a	364
Money Market Funds (Investment amount is average principal in fund during half year)				
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+			
Deutsche	£5,624,226	Fund retained its rating throughout half year		liquid
Goldman Sachs	£602,242	Fund retained its rating throughout half year		liquid
Invesco	£7,724,427	Fund retained its rating throughout half year		liquid
Federated	£9,317,221	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£9,954,364	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£6,000,000	Fund retained its rating throughout half year		liquid
<u>Call Accounts</u>				
WDC Minimum	(Fitch)	**A+**		**F1**
HSBC Business Deposit Account	£481,940	Counterparty retained its rating throughout period AA- long term,F1+ short term.		liquid
Svenska Handelsbanken	£985,655	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid
Lloyds 95 Day Notice A/c	£1,000,000	A+		liquid

APPENDIX C

Link Asset Services Commentary on the Current Economic Background

1.1 UK

Coronavirus. The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.

Monetary Policy Committee. Cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern to the MPC.

Government support. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

1.2 USA

The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

1.3 EU

Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. The ECB did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB is able to maintain this level of support.

1.4 China

After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

1.5 Japan

Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

1.6 World growth

World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

APPENDIX D

Warwick District Council Standard Lending List as at June 2021

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, £7m if L/term rating minimum A+,£5m 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 Repo's 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 Min	Security/ Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £7m if L/term rating minimum A+,£5m 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 (AA+)		
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	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 Abp	Nordea Bank Denmark* Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
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)		
ABN AMRO Bank N.V		
Bank Nederlandse Gemeenten		
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)		
ING Bank NV		
QATAR (AA-)		
Qatar National Bank		
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)		
First Abu Dhabi Bank PJSC		
UNITED KINGDOM (AA-)		
Abbey National Treasury Services plc		
Al Rayan Bank Plc		
Barclays Bank UK plc(RFB)		
Goldman Sachs International Bank		
Handelsbanken Plc		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
HSBC Bank plc (NRFB)	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	Yes
HSBC UK Bank Plc (RFB)		
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
Lloyds Bank plc (RFB)		
National Bank of Kuwait (International) plc		
National Westminster Bank PLC (RFB)		
NatWest Markets Plc (NRFB)		
Royal Bank Of Scotland (RFB)		
Santander UK plc		
Standard Chartered Bank		
Sumitomo Mitsui Banking Corporation Europe Ltd		
UBS Ltd		
UNITED STATES OF AMERICA (AAA)		
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 • Leeds • Yorkshire • Skipton	F1		UK Sovereign	£2m	365 days
Building societies – assets > £500m (Category C) • Principality • West Bromwich • Newcastle (Fitch removed ratings 7.9.16) • Nottingham • Cumberland • National Counties • Progressive • Cambridge • Newbury • Leek United • Monmouthshire • Saffron • Furness • Hinckley & Rugby • Ipswich • Darlington • Marsden				£1m	3 months

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

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
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	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Corporate bonds - category 2		A		£9m	2 years
Corporate bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 2		A		£9m	2 years
Covered bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Bonds - Supranational / Multi Lateral Development Banks European Community European Investment Bank African Development Bank Asian Development Bank Council of Europe Development Bank European Bank for Reconstruction & Development Inter-American Development Bank International Bank of Reconstruction & Development *Or* any other Supranational/Multi-Lateral Development Bank meeting criteria.	AAA / Govt Guarantee			£5m	365 days
Floating Rate Notes - category 1		A		£4m	364 days
		A+		£6m	
		AA - & ABOVE		£7m	
Floating Rate Notes - category 2		A		£9m	364 days
Floating Rate Notes - category 3		A		£4m	364 days
		A+		£5m	
		AA - & ABOVE		£6m	
Eligible Bank Bills	n/a		Determined by EFM	£5m	364 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
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 eg: 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

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

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

Agenda Item 6

Finance & Audit Scrutiny Committee
11 August 2021

Title: Update on Joint Work with SDC
Lead : Chris Elliott
Portfolio Holder: Andrew Day
Public report
Wards of the District directly affected: All

Contrary to the policy framework: No
Contrary to the budgetary framework: No
Key Decision: No
Included within the Forward Plan: No
Equality Impact Assessment Undertaken: No
Consultation & Community Engagement: No
Final Decision: No
Accessibility checked: Yes

Officer/Councillor Approval

Officer Approval	Date	Name
Chief Executive	30/7/2021	Chris Elliott
Transformation Programme Manager	30/7/2021	Tim Oruye
CMT	30/7/2021	Chris Elliott, Andrew Jones, Dave Barber
Section 151 Officer	30/7/2021	Mike Snow
Monitoring Officer	30/7/2021	Andrew Jones
Finance	30/7/2021	Andrew Rollins
Portfolio Holder(s)	30/7/2021	Andrew Day

1. Summary

1.1. It was agreed at the last meeting of the Overview and Scrutiny Committee and of the Finance and Audit Committee that a report would be brought to each meeting to set out the progress of the work being done to enable effective Scrutiny of the proposals.

2. Recommendations

2.1 That the contents of the report and appendices are noted and any comments arising are presented to the Cabinet of both Councils and the JASG.

3. Reasons for the Recommendations

3.1. This report re iterates the vision agreed by both Councils and the reasons for undertaking this approach; sets out work done to date; the next steps; the key benefits; and the key milestones and intended overall outcome.

3.2. Vision – both SDC and WDC at their respective Full Councils agreed the following vision:

To create a single statutory South Warwickshire Council covering all of the activities currently carried out by Stratford on Avon District Council and Warwick District Council by 1st April 2024.

3.3. Reasons for undertaking this approach:

- Both Councils have significant financial pressures
- Both Councils wish to continue to provide valued services to residents/businesses/local communities and improve them if we can
- The two Councils have a good track record of partnership
- There is a shared economic geography between the two Councils
- There is a shared sense of community between the two Councils' areas
- There is a very strong political relationship in place
- The two Councils are within the same County Council area.

3.4. Work done to date (including ongoing work) includes:

- Deloitte Report commissioned and agreed by both setting out the high level business case for the creation of a single South Warwickshire Council
- Vision stated above (para 3.2) agreed by both Councils
- The Cabinet portfolios for both Councils are fully aligned
- Jointly Tendering for the Refuse and Recycling Contracts
- Developing jointly a South Warwickshire Local Plan
- Developing a joint Regulatory Services Enforcement Policy
- Developing a South Warwickshire Economic Strategy
- Agreed a shared of ambitions regarding the Climate Emergency
- Joint Staff/HR policies agreed
- Agreed and have appointed a Transformation Programme Manager
- Established a governance regime via the creation of an officer Programme Board and the Councillor led Joint Arrangements Steering Group (Reports and Notes of meeting available on the Working Together

Hub) which has met twice to date (see attached governance structure chart)
- Work on due diligence financially undertaken by LGA consultant and reported to JASG
- Regular meetings with Unison (both branches) on a fortnightly basis
- Communication Hub for all Staff and Councillors of both Councils established – South Warwickshire Together Hub
- Leaders and CEOs meet fortnightly
- Joint Management Team operational from 2nd August with Head of Place and Economy to be appointed on 4th August (see attached structure) – (2 vacancies immediately saved)
- Discussions have started with the Government regarding the creation of a single South Warwickshire Council
- Agreed paper for public consultation proposals (see attached schedule)
- Sharing experience and likewise gaining experience from joint work of other Councils including those who have merged and those who are also considering the same step

3.5. The next steps include the following:

- Start of public consultation on proposal from end of August/beginning of September – expected to end early November time
- Programme of Service Integration being developed with criteria to help shape it being undertaken – expected to be ready for September
- Both Councils to consider the decision to make a formal application to merge the two organisations to create a single South Warwickshire Council – on Monday 13th December

3.6. The expected benefits include:

- Delivery of significant net savings as envisaged in the Medium-Term Financial Strategy
- Enhanced partnership working
- Increased presence, influence, and strategic voice
- Increased service resilience
- Improved customer experience – residents and business
- Strengthened workforce opportunities arising from a larger workforce

3.7. The key milestones are:

- Agreement to the business case to be submitted to Government on 13th December 2021
- Approval granted by the Secretary of State within a year of the submission date
- Shadow Council in existence from April 2023 – elections inc. those of Parish deferred for a year
- All services merged by ~~January~~ March 2024 having started the process in ~~September~~ October 2021
- New Council comes into life on 1st April 2024
- Elections to new Council in May 2024

3.8. The overall outcome will be that a new South Warwickshire Council which has a sustainable financial foundation and so is able to deliver better, transformed, and relevant services for the residents, businesses, and communities of the area.

4. Policy Framework

4.1. Fit for the Future (FFF)

4.1.1. 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.

4.1.2. The FFF Strategy has 3 strands, People, Services and Money, and each has an external and internal element to it, the details of which can be found on the Council's website. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

4.2. FFF Strands

4.2.1 External impacts of proposal(s)

People - Health, Homes, Communities - The report will have no direct impact for the community at this stage, but the overall programme will assist with the ability to continue to provide services.

Services - Green, Clean, Safe – As above.

Money- Infrastructure, Enterprise, Employment – As above.

4.2.2. Internal impacts of the proposal(s)

People - **Effective Staff** – The joint work will offer better protection to staff than the alternatives and by being part of a larger workforce it will offer more opportunities for training and progress.

Services - Maintain or Improve Services – The joint work is intended to enable the two Councils to maintain or improve their services.

Money - Firm Financial Footing over the Longer Term – It is intended that the work does provide for a firm financial footing over the longer term.

4.3. **Supporting Strategies& Changes to Existing Policies** – The joint work will impact on the two Council's policies across the piece. Part of the Programme of work will be to bring the policies of the two Councils into line over the period to 2024 and in some cases beyond that.

4.4. Impact Assessments

None relevant at this stage.

5. Budgetary Framework

5.1. This report does not impact on the budgetary framework or budget, but the subject matter of the report will have an impact.

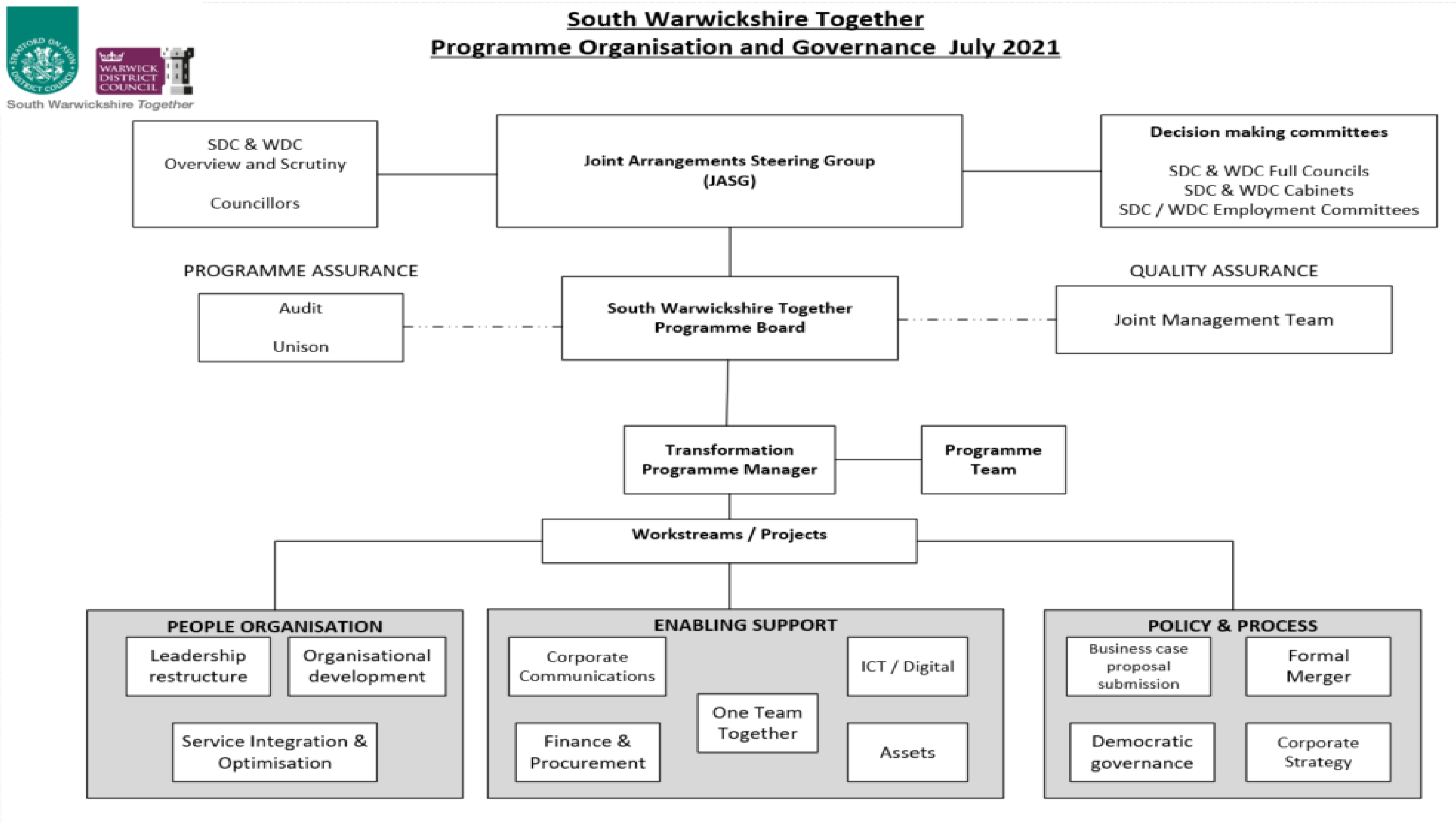
6. Risks

6.1. A risk register for the joint work is being developed and should be available for scrutiny at the next meeting of these Committees.

7. Alternative Option(s) considered

7.1. None relevant at this stage.

Programme Organisation and Governance Chart



CURRENT TIMETABLE FOR CONSULTATION

Following 19.7.21 meeting amended dates now shown and additional actions added. Subject to change.

Action	Date
Meet Consultation Institute and feedback to both Chief Executives	Wednesday 21 July
Draw up the supporting information for the consultation, including answers to Q & A to go on website	Monday 26 July to Friday 13 August
First draft of background information to WDC Design	Wednesday 18 August
Briefing to Members on consultation	Wednesday 1 September
Sign off online questionnaire and telephone survey	Wednesday 1 September
Publication of background information on the potential options, including a possible video, Q & A, pdf document similar in style to East Suffolk/West Suffolk	Thursday 2 September
Sign off content for focus groups	Friday 3 September
Start the online questionnaire available to all	Monday 6 September
Resident telephone interviews are undertaken	Monday 13 September for 5 weeks
Stakeholders – informal engagement with the major organisations in the districts. Possibility of written responses to ORS	6 September to 25 October
Undertake either 4 or 6 residents focus groups and focus groups with parish/town councils, community/voluntary sector, businesses	Monday 13 September to Tuesday 5 October
Undertake an in-house staff survey	Mid-September to Mid-October
Close online questionnaire available to all after 7 week period	Monday 25 October
Research agency begin analysis of the quantitative results and pulling together all the qualitative feedback from the groups. However before 22 November, results from the quantitative element will be available	Monday 25 October to Monday 22 November
SDC and WDC Cabinets meet on same day	Monday 6 December
SDC and WDC Councils meet on same day to decide whether to submit final business case to government	Monday 13 December

Engagement elements to add in:

- Open meetings with residents either in person or as a team's meeting (4? in total)
- Briefing sessions with parish/town councils by the Chief Executives online. Members to brief parish councils at their meetings.

Agenda Item 7

Finance and Audit Scrutiny Committee
11 August 2021

Title: Review of Work Programme and Forward Plan & Comments from the Executive
Lead Officer: Graham Leach
(T. 01926 456114 or E. committee@warwickdc.gov.uk)
Portfolio Holder: Not Applicable
Public report
Wards of the District directly affected: N/A
Accessibility checked: yes

1. Summary

1.1. This report informs the Committee of its work programme for 2021/2022 Municipal Year (Appendix 1) and of the current Forward Plan.

2. Recommendation

2.1. The Committee to consider the work programme attached as Appendix 1 to the report and make any changes as required.

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

2.3. The Committee to consider its workload for the coming months, specifically how it 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 Cabinet decisions and to feed into policy development.

3.3. If the Committee has an interest in a future decision to be made by the Cabinet, 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 Cabinet. If a non-cabinet Member highlighted a decision(s) which is to be taken by the Cabinet 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 Cabinet 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 Cabinet decisions falls within the role of 'holding to account'. To feed into the pre-decision scrutiny of Cabinet 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. 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.

4.4. 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. 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.

4.5. 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.

4.6. At each meeting, the Committee will consider their work programme and make amendments where necessary, and also make comments on specific Cabinet 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 Cabinet, on the comments the Committee made on the Cabinet agenda in the previous cycle.

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

4.8. At each meeting, the Committee will consider their work programme and make amendments where necessary, and also make comments on specific Cabinet items, where notice has been given by 9am on morning after Group meetings. The Committee will also receive a report detailing the response from the Cabinet, on the comments the Committee made on the Cabinet agenda in the previous cycle

4.9. If the Committee made a comment on a Cabinet report, a response will be provided to the Committee at its next meeting (Appendix 2). In reviewing these responses, the Committee can identify any issues for which it 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.

Finance and Audit Scrutiny Committee

WORK PROGRAMME

11 August 2021

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
Treasury Management Annual Report & TM Half Year Review (October to March 2021)	Audit	Written report followed by Q&A	Richard Wilson and Councillor Noone
Treasury Management Activity Report for the period 1 October 2020 to 31 March 2021	Audit	Written report followed by Q&A	Richard Wilson and Councillor Noone
Risk Management Annual Report	Scrutiny	See Cabinet Agenda	Richard Barr and Councillor Day
Budget Review Quarter 1	Scrutiny	See Cabinet Agenda	Andrew Rollins and Councillor Noone
Final accounts 2020/2021	Scrutiny	See Cabinet Agenda	Andrew Rollins and Councillor Noone

22 September 2021

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
External Audit Findings Report	Audit	Written report followed by Q&A	Mike Snow and Councillor Noone
Statement of Accounts 2020/2021	Audit	Written report followed by Q&A	Andrew Rollins and Councillor Noone
IA Quarter 1 Progress Report	Audit	Written report followed by Q&A	Richard Barr and Councillor Noone
Annual Governance Statement Quarter 1 Action Plan Report	Audit	Written report followed by Q&A	Richard Barr and Councillor Day

3 November 2021

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
National Fraud Initiative Update	Audit	Written report followed by Q&A	Richard Barr and Councillor Noone
Treasury Management Half Year Review	Audit	Written report followed by Q&A	Richard Wilson and Councillor Noone
Use of Parent Companies Update Report	Audit	Written report followed by Q&A	Mike Snow and Councillor Noone
Review of Significant Risk Register	Scrutiny	Written report followed by Q&A	Richard Barr and Councillor Day

15 December 2021

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor

9 February 2022

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor

9 March 2022

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
IA Quarter 3 Progress Report	Audit	Written report followed by Q&A	Richard Barr and Councillor Noone
AGS Quarter 3 Action Plan Report	Audit	Written report followed by Q&A	Richard Barr and Councillor Noone
IA Strategic Plan (2022/22 3to 2024/25 plan)	Audit	Written report followed by Q&A	Richard Barr and Councillor Noone
External Review of Internal Audit Report	Audit	Written report followed by Q&A	Richard Barr and Councillor Noone

13 April 2022

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor

Date to be confirmed

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
A follow up report looking into the progress made by Just-Inspire in terms of their recovery	Audit	Written report followed by Q&A	Rose Winship/David Guilding

Response from the meeting of the Cabinet on the F&A Committee's Comments

7. Significant Business Risk Register

The Committee considered this report because it formed part of the core governance of the Council and part of the Committee's work programme.

The Committee asked the Cabinet to update Risk 8 to remove the details regarding the work on the commercial investment strategy to reflect the change in Risk 6.

The Committee noted that in the next update it was likely to include a specific risk in reference to the proposed merger with Stratford-on-Avon District Council.

Cabinet Response:

The recommendations in the report were approved.

12. Future High Street Funds

The Committee considered this report because of the significant funds involved.

The Committee supported the recommendations in the report.

Cabinet Response:

The recommendations in the report were approved.

13. Financial Support – Everyone Active Leisure Contract

The Committee considered this report because of the value involved and the significant public interest in this contract.

The Committee recommended that the wording within recommendation 2.4 was amended to correct the accounting year to 2021/22 and that the decision only be made in principle subject to a further report that would come forward in the autumn and would reflect further discussions with Everyone Active in the light of its updated financial projections following the easing of Covid restrictions and any other relevant factors.

The Committee noted the latest understanding was that all restrictions would end on 19 July and that officers were continuing to work with Everyone Active to confirm their programme.

Cabinet Response:

Councillor Bartlett thanked the Finance & Audit Scrutiny Committee for the good assessment of the paper and good rigour around the recommendations. Following the discussion with the Chair of the Finance & Audit Scrutiny Committee, he stated that an amendment to recommendation 2.4 had been made to ensure the proportionality of the concession waver matched the current state of play, to read:

"2.4 Agree that the EA concession fee due to the Council for 2021/22 is waived in proportion to the point in the financial year when WDC is satisfied that no further subsidy is required by EA and a concession fee, however small, can be paid by EA to WDC. The consequent funding shortfall of up to £1.25mill will be met from the Government's Income Compensation Scheme (est £165k) and the provision included in the Budget provided for potential non-recovery of income within the Budget".

Councillor Bartlett proposed the report as laid out, and subject to the amendment to recommendation 2.4.

14. Costs of Proposals of Joint Senior Management Team

The Committee considered this report because of the impact on the Medium Term Financial Strategy and the need for robust scrutiny of the changes because of the wider public interest.

The Committee noted the quarter 1 budget update would come to August Cabinet and would set out the progress in respect of the MTFS and the agreed savings being achieved.

Cabinet Response:

Councillor Day thanked the Committee and Group Leaders for their comments. He also commended the Chief Executive for the amount of work that had gone on in engaging with Heads of Service, and the goodwill involved had been extraordinary. He then proposed the report as laid out.