

Finance & Audit Scrutiny Committee

Wednesday 11 November 2020

A meeting of the above Committee will be held remotely on Wednesday 11 November 2020, at 6.00pm and available for the public to watch via the Warwick District Council [YouTube channel](#).

Councillor Nicholls (Chair)

Councillor L Bartlett

Councillor J Dearing

Councillor R Dickson

Councillor J Grey

Councillor T Heath

Councillor G Illingworth

Councillor M Luckhurst

Councillor S Syson

Councillor J Tracey

Councillor T Wright

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 30 September 2020

(To follow)

Part B – Audit Items

4. **Treasury Management Activity Report for the period 1 April 2020 to 30 September 2020**

To consider a report from Finance

(Pages 1 to 24)

5. **Managing Securities in Council Contracts Update Report**

To consider a report from Finance

(Pages 1 to 7)

Part C – Scrutiny Items

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

To consider a report from Civic & Committee Services

(Pages 1 to 7)

- Appendix 1 – Work Programme
- Appendix 2 – Internal Audit Progress Report
- Appendix 3 – Criteria for call in to Scrutiny Committees

7. **Executive Agenda (Non-Confidential Items and Reports) – Tuesday 17 November 2020**

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

(Circulated Separately)

8. **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.

9. **Executive Agenda (Confidential Items and Reports) – Tuesday 17 November 2020**

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

(Circulated separately)

Published Tuesday 3 November 2020

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Finance and Audit Scrutiny Committee

Minutes of the remote meeting held on Wednesday 30 September 2020 at 6.00pm, which was broadcast live via the Council's YouTube Channel.

Present: Councillor Nicholls (Chair); Councillors: Bartlett, J Dearing, R Dickson, Grey, Heath, Illingworth, Syson, Tracy and Wright.

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

20. **Apologies and Substitutes**

- (a) apologies for absence were received from Councillor Luckhurst; and
- (b) there were no substitutes.

21. **Declarations of Interest**

There were no declarations of interest made.

22. **Minutes**

The minutes of the meeting held on 19 August 2020 were taken as read and signed by the Chair as a correct record, subject to a minor correction to the final paragraph to replace the words "for managing to a very performance" and replacing with "delivering a very good performance".

23. **Annual Governance Statement 2019/20 Action Plan: Review of Progress**

The Committee received a report from Finance that detailed progress made in addressing the governance issues facing the Council that were set out in its Annual Governance Statement 2019/20.

Resolved that the progress being made in addressing the Significant Governance Issues pertaining to the Annual Governance Statement 2019/20, be noted.

24. **Internal Audit Quarter 1 2020/21 Progress Report**

The Committee received a report from Finance that advised on progress in achieving the Internal Audit Plan 2020/21, summarised the audit work completed in the first quarter and provided assurance that action had been taken by managers in respect of the issues raised by Internal Audit.

Councillors had a responsibility for corporate governance, of which internal audit formed a key part.

The Committee was operating, in effect, as an audit committee in the context of receiving and acting upon the report. Guidance on the role and responsibilities of audit committees was available from a number of sources. That which related to audit committees' relationship with internal

audit and in particular the type and content of reports they should receive from internal audit was summarised in Appendix 1 to the report.

Just one audit had been completed in the first quarter of 2020/21. This lack of progress was due to the Coronavirus pandemic necessitating in Internal Audit staff being assigned to other tasks, in particular, processing and checking business grant applications and payments, as well as helping out at the Shielding Hub. The impact of this on the Audit Plan was explained in a separate report on the agenda.

An addendum to the report was circulated after the publication of the agenda. This included a revised Appendix 2 that corrected the original calculations within the original Appendix, and an updated Appendix 4 that provided the previously outstanding responses.

These updates were further to the previous responses. Members were advised that this was indicative of the pressures caused by the pandemic that this was the first report provided to Committee with so many outstanding responses. CMT would be re-iterating the need for timely provision of updates to all relevant managers in this critical area of work and, as previously indicated, it would be useful for Members to note that a late addendum was less than ideal as that would reinforce the message on the need for effective governance in this area of work.

Resolved that the report and appendix be noted.

25. **Revised Internal Audit Plan for 2020/21**

The Committee considered a report from Finance that presented revisions to the Internal Audit Plan for 2020/21. The updating of the original Plan was necessary due to the consequences of the Coronavirus Pandemic.

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

The original Internal Audit Plan for 2020/21 was approved by SMT on 17 February 2020 and by the Finance and Audit Scrutiny Committee in May 2020, after the Committee meetings were suspended in March and April 2020.

The onset of the Coronavirus pandemic, impacting on the Council from March, had meant that the Internal Audit Plan had to be revised. There were two principal reasons for this – Internal audit staff being assigned to other tasks and less efficient working arrangements.

In response to the Coronavirus Pandemic, Internal Audit staff had been and continued to be assigned to various other tasks - some of an audit or investigatory nature, others completely unrelated to auditing or investigating. The former included pre and post payment checks of business grants. The latter included working at the Shielding Hub in Whitnash, established to deliver provisions to people needing to shield.

Current working arrangements were not as productive as those in place before the pandemic. The loss of direct contact with auditees and the lack of a presence at Riverside House were not conducive to auditing efficiently.

Inferior working arrangements (primarily accommodation, furniture and IT equipment) had been factors affecting productivity, as had been the absence of colleagues which impeded the quick resolution of queries, especially important for less experienced staff.

The current working arrangements were anticipated to continue for at least the short term and the revised Plan took this into account.

To help inform the changes required to the Audit Plan, Service Area Managers were requested to complete a short survey. Completion of the survey enabled the highlighting of changes to services and to the control environment in which the services operated. In the absence of any responses to this request for information, Internal Audit had to use its own judgement to update the Plan. Two main factors were taken into account in **deciding which assignments should remain in this year's Audit Plan and** which could be deferred - the assessment from the previous audit and the length of time since the activity was last audited.

Appendix 1 to the report set out all the original planned audits for 2020/21 analysing the current status of each audit, the original target days, the actual number of days spent to date (up to 16 August 2020), the remaining number of days and the proposed number of days for the revised Plan. There was a **'notes' column that recorded** some basic information about each assignment – in particular, whether it was to be completed (or was completed) or whether it was to be deferred.

The appendix detailed other activities undertaken by the Internal Audit team under the same headings as detailed above. This helped to show where time had been spent and why it was no longer possible to complete all the original planned audits.

The revised Internal Audit Plan was approved by SMT on 7 September 2020.

The Committee took the opportunity to thank the Audit & Risk Manager for the detailed work and planning that had been taken into account in revising the plan and the additional work the team had taken on.

There was a concern over the deferment of the cyber security audit which the Monitoring Officer agreed to review and feed back to the Committee.

There were concerns about how achievable the plan was and the Committee felt there was a need for them to monitor this. Therefore, Members agreed that the Audit & Risk Manager should provide them with a short assurance statement, as part of the work plan, for each of their meetings this municipal year.

Resolved that

- (1) the revised Internal Audit Plan for 2020/21 be approved; and
- (2) the Audit & risk Manager provide a short update/assurance on progress as part of the work plan for each meeting this municipal year.

26. **Anti-Fraud and Corruption Statement 2020/21**

The Committee considered a report from Finance that sought approval of the Anti-Fraud and Corruption Statement.

The Statement provided a **record of the Council's policies and objectives** in regard to countering fraud and corruption and was set out as Appendix A to the report.

There were a number of ongoing actions that were being undertaken in order to prevent, deter and detect fraud and corruption and these were set out in Appendix B to the report.

The Statement had been reviewed to ensure that it remained relevant given the way that the Council operated and it had been compared with a number of other strategies including those of the other Warwickshire councils. The Statement was broadly similar in content to the others examined and no changes were considered necessary as part of this review.

Resolved that

- (1) the Anti-Fraud and Corruption Statement, be approved; and.
- (2) the ongoing actions to prevent, deter and detect fraud and corruption, be noted.

27. **Corporate Fraud Investigation Performance report 2019/20**

The Committee considered a report from Finance that detailed the performance of the Corporate Fraud Investigation team for 2019/20.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. Counter-fraud measures formed a key part of each of those elements and so Members of an audit committee required assurance on anti-fraud and corruption activity.

Resolved that the report, including its appendices, be noted and, where appropriate, approved.

28. **Statement of Accounts and Audit Findings report**

The Committee considered a report from Finance that presented the 2019/20 Audited Statement of Accounts and the **External Auditor's Audit Findings Report**.

The draft 2019/20 Statement of Accounts were published on the 18 June 2020. As previously reported, due to the Covid-19 crisis, the statutory deadline for this had moved from 31 May to 31 August. The accounts had **subsequently been subject to audit by Grant Thornton, the Council's**

external auditors. The date for the audited accounts to be signed off had also been put back by four months from 31 July to 30 November.

The Audit Findings Report, from Grant Thornton, explained that the audit of the accounts had gone well in the circumstances. The report explained how there had been some problems in carrying out some elements of the audit using remote working but, despite this, the Accountants and Auditors had worked together to complete the audit.

There had been one significant adjustment to the draft accounts. This related to Assets under Construction being revalued before being brought into use, rather than at historic cost as per the Accounting Code. This did impact on the Comprehensive Income and Expenditure Statement (decreases expenditure) and Balance Sheet (increases asset value) but did **not impact upon the Council's usable financial resources.**

There had been some minor changes to the accounts, agreed with Grant Thornton, these mostly being presentational. More details of these were set out in Appendix C of the Grant Thornton Report.

There were two misstatements within the accounts for which it was proposed not to adjust the accounts. These were in relation to Property Plant and Equipment (PP&E) and Net Pension Liability.

The value of PP&E per the financial statements was £501,725k. The value of assets per the underlying asset register was £501,775k, a difference of £50k. Given the value of the total assets within the balance sheet was over £0.5bn, this difference was not deemed significant for the purpose of the accounts. Officers would ensure this difference was investigated and corrected for the 2020/21 Accounts.

The Council had received a revised pension report from the actuaries to reflect the actual return on plan assets for the year to 31 March 2020. The impact of this would be a revised estimated net pension liability of £40.476m, a reduction in the liability of £415k. As the estimated pensions liabilities were expected to arise over a significant timescale (c20 years), and would be recovered with future pension contributions, it had been agreed not to adjust for these later figures.

Further to the completion of the draft accounts, the accountants had established that £281,400 earmarked reserves were wrongly charged to the General Fund instead of the Housing Revenue Account. This had been adjusted within the final Statements, in agreement with the auditors. This, in conjunction with some other minor adjustments, meant that the General Fund had an additional £316,000 resources. Consideration of the use of this would be addressed within a future Budget report. For the Housing Revenue Account, this change, in conjunction with some other minor adjustments, meant the contribution to the HRA Capital Investment Reserve had reduced from £4.090m to £3.762m.

The audit of the accounts was now virtually complete, with the Audit Findings Report from the external auditors having been issued (attached to the report). Consequently, Members were asked to approve both the letter of representation and the Audited Statement of Accounts.

Unfortunately, Grant Thornton would not be able to issue their final audit Statement and so sign off the Accounts until the Warwickshire County Council Accounts had been signed off. This was because of the District Council accounts being reliant on the pensions fund figures within the WCC Accounts. The WCC accounts were expected to be signed off during October.

Should the final work by Grant Thornton require any further changes to the **Council's Statement of Accounts**, it was recommended that these be agreed by the Chairman of the Finance and Audit Scrutiny Committee.

A review of the closedown and production of the 2019/20 Accounts was due to commence in October 2020. This would focus on some of the areas that presented a significant challenge as a result of the move to remote working, and address the issues outlined in the Audit Findings Report.

Having the audited accounts signed off well ahead of the November deadline in the current environment was a major achievement. This had entailed hard work by the Accountancy Team, officers across the Council and also from the external auditors. The close working from all involved had been important in enabling the Council to get to this position. It was understood that the Council was in a far better position than many local authorities.

In response to questions from the Committee, it was confirmed that the Council had serviceable reserves in the region of £23million.

Resolved that

- (1) the 2019/20 Audit Findings Report, be noted;
- (2) the letter of representation, be approved;
- (3) the 2019/20 Audited Statement of Accounts, with the changes having been made as detailed in the report, be approved;
- (4) the Chairman of Finance and Audit Scrutiny be authorised to agree any minor final changes to the accounts if required from the final work of the external auditors; and
- (5) officers across the Council be thanked for their work in completing this work well ahead of the scheduled deadline.

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

The Committee considered a report from Democratic Services that informed the Committee of its work programme for 2020/2021 Municipal Year (Appendix 1) and of the current Forward Plan.

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.

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

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

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

Resolved that the report be noted.

30. **Executive Agenda (Non-Confidential Items and Reports) – 1 October 2020**

The Committee considered the following non-confidential item which would be discussed at the meeting of the Executive on 1 October 2020.

Item 3 Risk Management Annual Report 2019/20 and Strategy

The Finance & Audit Scrutiny Committee was satisfied with the proposals as set out in the report.

(The meeting ended at 7.36pm)

CHAIR

11 November 2020



Agenda Item 4

Finance and Audit Scrutiny Committee 11 November 2020

Title: Treasury Management Activity Report for the period 1 April 2020 to 30 September 2020

Lead Officer: Karen Allison, Assistant Accountant,
karen.allison@warwickdc.gov.uk, 01926 456334

Portfolio Holder: Cllr Richard Hales

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: No

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	28.10.2020	Andrew Jones
Head of Service	28.10.2020	Mike Snow
CMT		
Section 151 Officer	28.10.2020	Mike Snow
Monitoring Officer	28.10.2020	Andrew Jones
Finance	27.10.2020	Karen Allison/Richard Wilson
Portfolio Holder(s)	28.10.2020	Cllr Richard Hales

1. Summary

- 1.1 This report details the Council's Treasury Management performance for the period 1 April 2020 to 30 September 2020.

2. Recommendations

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

3. Reasons for the Recommendation

- 3.1 The Council's 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 latest (revised / post COVID-19) estimate for investment interest in 2020/21 is being revised during the budget setting process and is not available in time for this report so for this report it remains the same as the original:

	Latest 2020/21 Budget £'000	Original 2020/21 Budget £'000	Actual 2019/20 Budget £'000
Gross Investment Interest	944.6	944.6	1,718
<i>/less</i> HRA allocation	-436.5	-436.5	-490
Net interest to General Fund	508.1	508.1	1,228

*Note- the 2020/21 figure for net interest to General Fund includes £17,700 of deferred capital receipts interest and long-term debtor loans of £233,600.

- 5.3. Initial estimates made for the Medium Term Financial Strategy for the impact of Covid-19 was that the overall reduction in the Gross Investment Interest would be in the order of £500,000, with £300,000 being borne by the Housing Revenue Account (HRA) and the net reduction to the General Fund being £200,000.
- 5.4. **The interest paid to the HRA is based on the HRA's equated balances** for the year and the interest rate earned on relevant investments. The reduction from the original budget is mainly due to increased capital spending reducing the equated balances, with a smaller impact of the Base Rate not increasing, as had been expected, on interest rates.

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. The Treasury Management Strategy for 2021/22 will consider the options available to the Council following the seismic changes during 2020.

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

- 9.1. The major influence on the Council's investments is the Bank Rate. The Monetary Policy Committee (MPC) voted to keep the bank rate of 0.10% on 16 September 2020, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good. The Council's Treasury Management Advisors, Link Asset Services, provided the following forecast on 11 August 2020 for future Bank Rates.

Qtr Ending	Sept 2020	Dec 2020	Mar 2021	June 2021	Sept 2021	Dec 2021	Mar 2022	Jun 2022	Sept 2022	Dec 2022	Mar 2023
Current Forecast as at October 2020:											
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 %	0.75	0.75	1.00	1.25	1.00	1.00	1.00	1.25	1.25	1.25	1.25

- 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 as a result of frequent changes to Banking Institutions' credit ratings, to ensure that it does not lend to those institutions identified as being at risk. A copy of the current lending list is shown as Appendix D.

10. Investment Performance

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 first half year for each category normally invested in.

- 10.1.2 All the LIBID rates in the table and referred to below include a margin of 0.0625% to give the Benchmark.
- 10.1.3 During April to September eleven core investments matured. In the periods 7 days to 3 months and 3 months to 6 months the Council out-performed against the Benchmark. An underperformance for period 6 months to 1 year was due to a 9 month investment made on 30 September 2020 to Plymouth City Council as that was the best available rate on the day.
- 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 Government grants of over £33 million in relation to COVID-19 were also placed in the Money Market Funds in April 2020 until such time they were required to be paid out to businesses.
- 10.2.4 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 total interest out-performance of the benchmark remains satisfactory.
- 10.2.5 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.
- 10.2.6 During the first half of 2020/21 the Council earned £105,700 realised interest on its Money Market Fund investments at an average rate of 0.54% and the average balance in the funds during the period was £39,427,000.

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 £44 interest on its call accounts in the first half year at an average rate of 0.41% and the average balance in the funds during the period was £865,000.
- 10.3.3 The following table brings together the investments made in the various investment vehicles during the first half year to give an overall picture of the investment return:

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets £	54	42	12
Money Market Funds	106	2	104
Call A/c's £	-	-	-
Total £	160	44	116

10.3.4 It should be noted that the total investment return of £160,000 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 September 2020 is shown in the following table:

(The balance at 31 March 2020 is shown for comparison)

Type of Investment	Closing Balance @ 30 September 2020 £'000	Closing Balance @ 31 March 2020 £'000
Money Markets incl. CD's & Bonds	35,503	42,500
Money Market Funds	35,561	18,125
Business Reserve Accounts incl. Call Accounts	3,000	5,000
Total In-House Investments	74,064	65,625
Corporate Equity Funds	6,000	6,000
Total Investments	80,064	71,625

11. Corporate Equity Funds

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

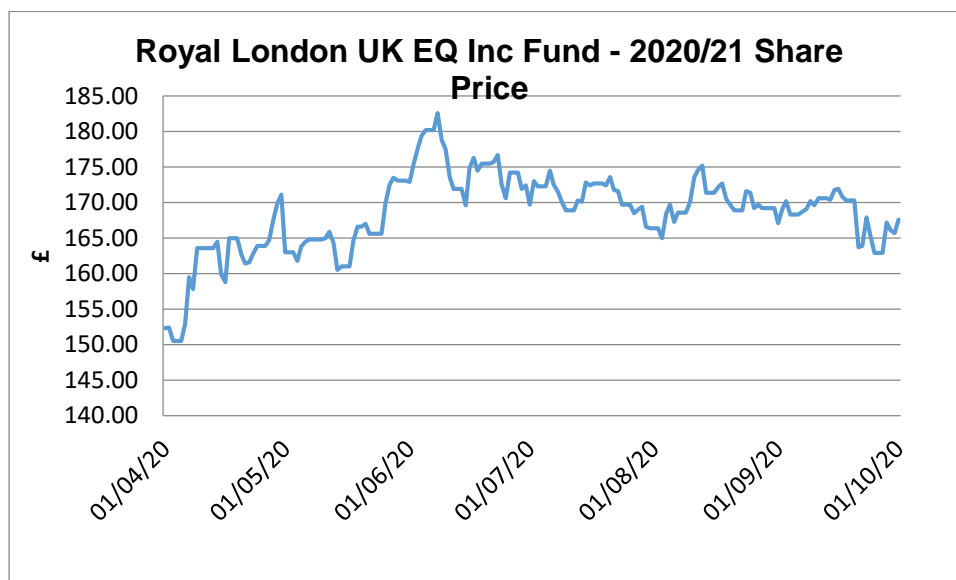
Fund	Value of Fund @ 30 September 2020 £'000	Value of Fund @ 31 March 2020 £'000	Variation in 1st half year £'000
Royal London UK Equity Fund	2,705	2,553	152
Columbia Threadneedle UK Equity Income Fund	2,803	2,569	234
TOTAL	5,508	5,122	386

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

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

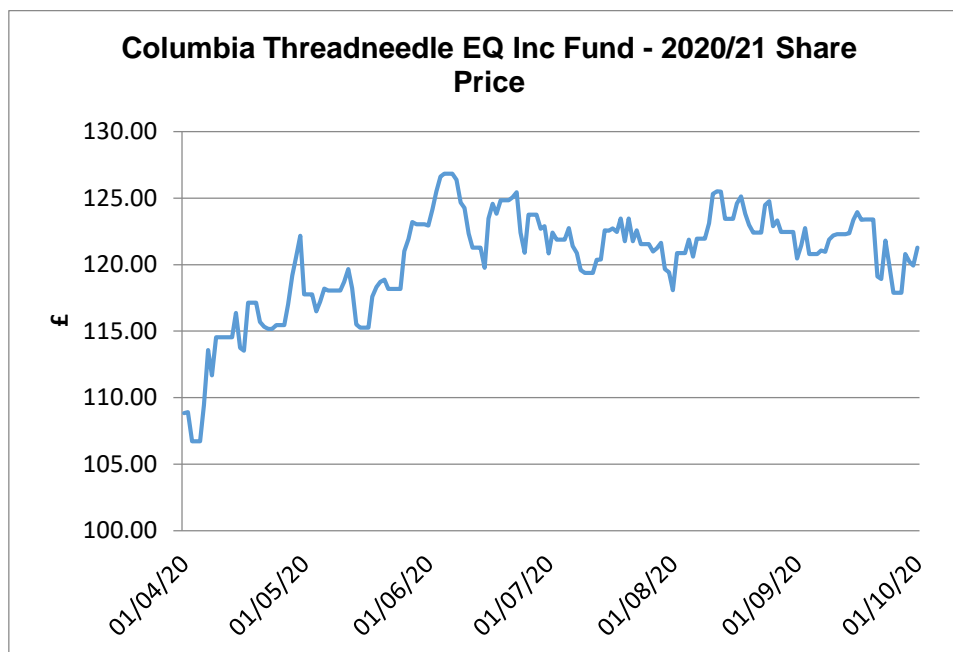
Period	Capital Element £'000	Income Element £'000	Total growth £'000	Capital Element %	Income Element %	Total growth %
Royal London Asset Management						
3 months (April 2020 to June 2020)	229.7	31.5	261.2	8	1.2	9.2
3 months (July 2020 to September 2020)	-125.2	15.8	-109.4	-4.6	0.6	-4
6 months (April 2020 to September 2020)	104.5	47.3	151.8	3.4	1.8	5.5
Since inception 13.04.2017	-682.4	387	-295.4	-22.7	12.9	-9.8
Columbia Threadneedle						
3 months (April 2020 to June 2020)	280.6	25.3	305.9	10.9	1	11.9
3 months (July 2020 to September 2020)	-41.8	22.2	-19.6	-1.5	0.8	-0.7
6 months (April 2020 to September 2020)	233.8	47.5	281.3	9.1	1.9	11
Since inception 13.04.2017	-197.40	401.40	204	-6.6	16.4	9.8

- 11.4. Royal London UK Equity Fund was behind competitor funds in the first quarter to June 2020 but ahead of the FTSE All Share index. Performance benefitted from a number of stocks including Dunelm, IG Group and Signature Aviation. **The fund's performance was negatively impacted by several stocks such as**BAE Systems, Spectris, WH Smith, Close Brothers and Marshalls. During the second quarter to September 2020 the fund was in line with competitor funds but behind with the FTSE All Share Index. Positive contributors to performance were 3i Group, Dunelm, IMI and Segro. Stocks such as Informa, Stobart Group and Imperial Brands detracted from performance. It can be seen from the graph below that share prices began to rise again in April 2020 but continued along a volatile path.



- 11.5. Columbia Threadneedle Equity Fund had a similar pattern in share price. It was slightly behind its peer group and the FTSE All-Share during the period to June 2020 but retained its year-to-date gains over both benchmarks. The underperformance against the peer group was due to unfavourable sector positioning. In particular, the overweight in healthcare detracted in a weak month for these stocks. Outperformers included Pearson, Oxford Instruments and Electrocomponents. For the second quarter, the fund outperformed its

peer group and the FTSE All-Share. Notable contributors included Electrocomponents and AstraZeneca.



- 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 first 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 first 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 first quarter show that the Council's Weighted Average Rate of Return (WARoR) on its investments at 0.72% was above **Link's model portfolio**.
- 13.2. The result for the September quarter was 0.44% WARoR which was above **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 overdraft interest of £147.

15. Prudential Indicators

- 15.1. The 2020/21 Treasury Management Strategy included a number of Prudential Indicators within which the Council must operate. The two major ones are the Authorised Limit and Operational Boundary for borrowing purposes. It is confirmed that during the half year neither indicator has been exceeded.

16. 2021/22 Treasury Management Strategy.

- 16.1. Work will commence in the current quarter on preparing the 2021/22 Treasury Management and Investment Strategies.
- 16.2. 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 will be included within the forthcoming 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
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
Over 6 months to 365 days			
April to September 2020	0.26%	0.41%	-0.15%
Interest earned 1st half year £	18,302	28,891	-10,589
1 year and over			
No Investments			
TOTAL INTEREST FIRST HALF YEAR £	53,901	41,877	12,024

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 £	2,924	221	2,703
Goldman Sachs (CNAV)			
April to September 2020	0.18%	0.01%	0.17%
Interest earned 1st half year £	502	26	476
Invesco (CNAV)			
April to September 2020	0.18%	0.01%	0.17%
Interest earned 1st half year £	7,768	394	7,374
Aberdeen Standard (LVNAV)			
April to September 2020	0.24%	0.01%	0.23%
Interest earned 1st half year £	11,779	455	11,324
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
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
Royal London Cash Plus Account (VNAV)			
April to September 2020	0.58%	0.01%	0.57%

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Interest earned 1st half year £	66,016	278	65,738
TOTAL INTEREST FIRST HALF YEAR £	105,692	1,796	103,896

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
Svenska Handelsbanken Account			
April to September 2020	0.42%	0.01%	0.41%
Interest earned 1st half year £	44	1	43
TOTAL INTEREST FIRST HALF YEAR £	44	40	4

APPENDIX B**Counterparty Rating at Time of Investment**

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
WDC Minimum	(Fitch)			
Building Societies		n/a	n/a	
Newcastle Building Society	£1,000,000	n/a	n/a	90
National Counties	£1,000,000	n/a	n/a	89
West Bromwich Building Society	£1,000,000	n/a	n/a	89
WDC Minimum	(Fitch)	A	n/a	
Banks				
Close Brothers	£2,000,000	A	F1	100
Close Brothers	£2,000,000	A	F1	182
Local Authority		n/a	n/a	
Plymouth City Council	£5,000,000	n/a	n/a	273
Thurrock Council	£3,000,000	n/a	n/a	212
Thurrock Council	£2,000,000	n/a	n/a	276
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	£4,883,809	Fund retained its rating throughout half year		liquid
Goldman Sachs	£601,284	Fund retained its rating throughout half year		liquid
Invesco	£8,598,896	Fund retained its rating throughout half year		liquid
Federated	£9,000,000	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£9,919,781	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£6,000,000	Fund retained its rating throughout half year		liquid
Call Accounts				
WDC Minimum	(Fitch)	A+		F1
HSBC Business Deposit Account	£842,724	Counterparty retained its rating throughout period AA- long term,F1+ short term.		liquid
Svenska Handelsbanken	£0	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid
Lloyds 95 Day Notice A/c	£2,000,000	A+		liquid
Lloyds 95 Day Notice A/c	£3,000,000	A+		liquid
Santander 95 Day Notice A/c	£6,500,000	A+		liquid

Link Asset Services Commentary on the Current Economic Background

1.1 UK

As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August (and subsequently 16th September). It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.

The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy).

Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some **circumstances, it would be "less effective as a tool to stimulate the economy"** at this time when banks are worried about future loan losses. It also has **"other instruments available", including QE and the use of forward guidance.**

The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue **until the "turn of the year"**. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the **MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to** downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers.

However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year.

Admittedly, the Chancellor announced in late September a second six month package from 1 November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less

generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid-September.

Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

One key addition to the Bank's forward guidance 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

The Financial Policy Committee (FPC) report on 6th August revised down **their expected credit losses for the banking sector to "somewhat less than £80bn".** It stated that in its assessment **"banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection".** The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

1.2 USA

The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of **getting caught in a deflationary "trap" like Japan.** It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after

the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central **government fiscal policy**. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

1.3 EU

The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

1.4 China

After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

1.5 Japan

There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

1.6 World growth

Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem 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 October 2020

Banks

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

Investment / Counterparty type:	S/term	L/term minimum	Security / Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £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-genossenschaftsbank)		

BANK NAME	OTHER BANKS IN GROUP (* = Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
Landesbanken Hessen-Thuringen 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		
Coöperatieve 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		
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 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 <ul style="list-style-type: none"> • Coventry • Nationwide • Leeds • Yorkshire • Skipton 	F1		UK Sovereign	£2m	365 days
Building societies – assets > £500m (Category C) <ul style="list-style-type: none"> • 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.

Other Counterparties

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	£9m	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)	AAA _m / Aaa- mf/AAA _m mf			£10m	liquid
Money Market Fund (VNAV)	AAA _f S1 / Aaa-bf/ AAA/V1			£6m	liquid
Corporate bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA		£6m	
		- & ABOVE			
Corporate bonds - category 2		A		£9m	2 years
Corporate bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA		£6m	
		- & ABOVE			
Covered bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA		£6m	
		- & ABOVE			
Covered bonds - category 2		A		£9m	2 years
Covered bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA		£6m	
		- & ABOVE			
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		£7m	
		- & ABOVE			
Floating Rate Notes - category 2		A		£9m	364 days
Floating Rate Notes - category 3		A		£4m	364 days
		A+		£5m	
		AA		£6m	
		- & ABOVE			
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

Finance and Audit Scrutiny Committee
11 November 2020

Title: Managing Securities in Council Contracts Update Report

Lead Officer: Mike Snow

Portfolio Holder: Cllr Richard Hales

Public report

Wards of the District directly affected: N/A

Contrary to the policy framework: No

Contrary to the budgetary framework: No

Key Decision: No

Included within the Forward Plan: N/A

Equality Impact Assessment Undertaken: No

Consultation & Community Engagement: N/A

Final Decision: N/A

Accessibility checked:

Officer/Councillor Approval

Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	26/10/2020	Andrew Jones
Head of Service	26/10/2020	Mike Snow
CMT	26/10/2020	CMT
Section 151 Officer	26/10/2020	Mike Snow
Monitoring Officer	26/10/2020	Andrew Jones
Finance	26/10/2020	Rebecca Reading
Portfolio Holder(s)	26/10/2020	Richard Hales

1. Summary

- 1.1 This report provides an update to members on the progress being taken in managing securities within contracts following the report to Finance and Audit Scrutiny Committee in November 2018. The last update report was reported in November 2019.

2 Recommendation

- 2.1 Finance and Audit Scrutiny Committee should note the actions being taken within Appendix 1 in respect of the Managing Securities audit reported to the Committee in March 2018.

3 Reasons for the Recommendation

- 3.1 Following the difficulties encountered three years ago when one of the **Council's contractors ceased** to trade, a review was undertaken by the **Council's Internal Audit Section entitled "The Assigning of Parent Company Guarantees and Other Types of Securities to Council Contracts"**. This review was reported to this Committee in March 2018.
- 3.2 Reports on the progress in implementing the recommendations within that report were reported to the Committee in November 2018 and 2019. This report presents a further update on those recommendations. The recommendations and progress to date is detailed in Appendix 1.
- 3.3 The Appendix shows that significant progress has been made since the original report in March 2018. The notable changes are:
- The financial standings of all contractors is now actively monitored using **"Credit Safe"**.
 - Credit checks continue to be carried out for new contracts and renewals, now using Credit Check.
 - In addition to Credit Check, the Accountants will review contractors for high value or high risk contracts.
 - Contract Management Training is being rolled out; this includes a section on securities.
 - Alongside the update to the Code of Procurement Practice, supporting guidance is available to officers.
 - WCC Legal services have advised upon and assisted with updating the guidance and new contract templates.
 - Further reviews of the Procurement function are proposed, including a **review by Internal Audit of the Council's approach to contract management**.

4. Policy Framework

4.1. Fit for the Future (FFF)

- 4.1.1. 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 detail 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

Services - Green, Clean, Safe

Money- Infrastructure, Enterprise, Employment

Although there are no direct policy implications, a strong and effective governance framework will be a major factor in helping to achieve the above outcomes.

4.2.2. **Internal impacts of the proposal(s)**

People - Effective Staff

Services - Maintain or Improve Services

Money - Firm Financial Footing over the Longer Term

Although there are no direct policy implications, a strong and effective governance framework will be a major factor in helping to achieve the above outcomes.

4.3. **Supporting Strategies**

4.3.1. Each strand of the FFF Strategy has several supporting strategies. The work discussed within this report can be argued to support all of the Council's strategies.

4.4. **Changes to Existing Policies**

No changes to existing strategies are proposed.

4.5. **Impact Assessments**

4.5.1. No applicable.

5. Budgetary Framework

5.1. Although there are no direct budgetary implications arising from this report, an effective Budgetary Framework is a key element of corporate governance. An effective control framework ensures that the Authority manages its resources and achieves its objectives economically, efficiently and effectively

6. Risks

6.1 There are various risks associated with contract management and these not being addressed satisfactorily. The consequences will be additional expenditure and deterioration in the reputation of the Council.

7. Alternative Option(s) considered

- 7.1 This report is not concerned with recommending a particular option in preference to others so this section is not applicable.

Appendix 1

Progress in Implementing Internal Audit Recommendations

(Each recommendation is numbered and in italics followed by a statement of progress as at November 2020)

- 1 *Guidance on the use of PCGs and other types of securities should be reviewed with a view to ensuring that it is appropriate and sufficient to assist services during the procurement process, in particular when compiling the Invitation to Tender documentation and when establishing contracts with successful tenderers.*

Progress November 2020:

Guidance has been produced by WCC Procurement in conjunction with WCC Legal. This is available to staff on the intranet within the Procurement section.

- 2 *More specifically, guidance on the use of PCGs and other types of securities should be incorporated within the documentation provided by the Procurement Team to aid services during the procurement process.*

Progress November 2020:

The Procurement Initiation Document includes consideration of guarantees and points officers to the guidance on the intranet.

- 3 *Because of its importance to the Council, driven by such factors as the reputation of the Council and the sums involved, contract management training should be run at regular intervals for relevant employees and not just as one-offs. Staff should be trained not only in the Council's practices and procedures but also provided with general contract management training on such matters as the different types of securities that are available and the basis for selection.*

Progress November 2020:

Contract Management Awareness training was combined with Procurement Awareness training in November 2019 and with support from the Procurement Board, was made mandatory for all Contracts Owners and SMT to attend. Currently 6 training sessions have been run with a final session scheduled for December 2020.

Informal training continues to be given by the Procurement Team on a one to one basis in respect of Procurement Initiation and Tender Evaluation, where contract management is discussed.

- 4 *There should be due emphasis within contract management training programmes on the importance of monitoring the delivery of contracts after they have been established.*

Progress November 2020:

This has been incorporated into the training (formal and informal). The training concentrates on the principles of contract management and contract manager responsibilities, including the importance of specifications and KPIs.

- 5 *Contract registers should record, for each contract, whether the contract has had a security assigned to it and, if so, what form of security is in place. Any other relevant information pertaining to securities should also be recorded on the contract registers.*

Progress November 2020:

Register now includes a column to provide details of securities in place.

- 6 *Finance should establish a designated officer within its service that is able to provide an appropriate level of financial input on contracts. This officer should, for example, be trained to carry out financial checks e.g. perform credit checks on tenderers, pre-contract, and monitor the financial performance of contractors, after the contract has commenced. Such support should be systematic and proactive, not needing to be requested by the contracting service. (This facility, had it been in place, would have identified the problem with the parent company of Mack Trading, enabling the Council to have taken remedial action before it was too late.)*

Progress November 2020:

The Authority subscribes to "Credit Safe" for all company checks. As part of the functionality, "alerts" have been created for all companies within the Contract Register, and parent companies where guarantees exist. If the alerts notify a change to the credit rating, this is notified to the relevant contract manager and Accountancy.

Tender evaluation financial checks are carried out on all tenderers over £25,000 using Credit Safe. The Accountants will review in greater detail the status of companies that score less than 50 on credit safe, or all companies for contracts over the supplies and services OJEU level (c£180k). Checks are carried out for all contractors on the Contract Register.

- 7 *After the reorganisation of the Procurement function, the County's Procurement Team should be asked to assess the Council's procurement arrangements, including the guidance currently provided to services when procuring services and entering into contracts with a view to bringing practices at the Council in line with those at the County. This is particularly the case in respect of legal documentation.*

Progress November 2020:

- The Code of Procurement Practice has been reviewed (led by WCC), updated and agreed by Council.
- Contract templates are in place from WCC Legal.
- The Contract Management framework has been reviewed/rationalised/updated on the intranet.
- Procurement/Legal have organised regular meetings to support joint working.
- Procurement Team continue to review and update all Council procurement templates. The pre-procurement commissioning templates have been completed. Documentation is planned to be updated to reflect the Climate Emergency declaration.

- 8 *The Council should consider the commissioning of a wider review by a specialist of its contract management arrangements to ensure that it is meeting best practice in its arrangements. This should take place after the reorganisation of the Procurement function, and after the 'internal' review recommended in 7 above, so that the new arrangements with the County form part of the review.*

Progress November 2020:

The partnership with WCC Procurement has been agreed to continue to 31 March 2023. Within the Internal Audit Strategic Plan, an internal audit review of contract management was recently carried out, with a substantial assurance awarded. Details of this audit will be included in the second quarter Internal Audit report, due to come to Finance and Audit Scrutiny Committee in December.

Finance and Audit Scrutiny Committee 11 November 2020

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 2020/2021 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 Executive items on the Forward Plan which it wishes to have an input before the Executive makes its decision;
- 2.3. The Committee to consider its workload for the coming months, specifically how it can accommodate the work within their scheduled meetings;
- 2.4. The Committee notes the progress on the Audit Plan as set out at Appendix 2; and
- 2.5. The Committee to consider the proposed criteria for discussing Executive items at Scrutiny Committees as attached at Appendix 3 to the report, with a view to agreeing its trial use up to March 2021.

3. Reasons for the Recommendation

- 3.1. The work programme as attached at Appendix 1 to the report should be updated at each meeting to accurately reflect the workload of the Committee.
- 3.2. Two of the five main roles of overview and scrutiny in local government are to undertake pre-decision scrutiny of Executive decisions and to feed into policy development.
- 3.3. If the Committee has an interest in a future decision to be made by the **Executive, or policy to be implemented, it is within the Committee's remit to feed into the process.**

- 3.4. The Forward Plan is actually the future work programme for the Executive. If a non-executive Member highlighted a decision(s) which is to be taken by the Executive which they would like to be involved in, that Member(s) could then provide useful background to the Committee when the report is submitted to the Executive and they are passing comment on it.
- 3.5. At its meeting in September, the Committee asked for an update at each meeting on the revised Audit Plan so they are aware of progress. This has been appended to this report for information.
- 3.6. At the Joint Scrutiny Committee earlier this year, a small Group of Councillors (Davison, Grey, Milton, Nicholls and Margrave) agreed to draft a process for considering Executive items at Scrutiny. This work has resulted in the process attached at Appendix 3 to the report, which has been shared with all Councillors and tested ahead of this meeting. The proposal would be to put this in place and review at the March 2021 meeting before formally requesting Council adds this to the scrutiny procedure rules.

4. Background

- 4.1. The five main roles of overview and scrutiny in local government are: holding to account; performance management; policy review; policy development; and external scrutiny.
- 4.2. The pre-decision scrutiny of Executive decisions falls within the role of **'holding to account'**. To feed into the pre-decision scrutiny of Executive decisions, the Committee needs to examine the Council's Forward Plan and identify items which it would like to have an impact upon.
- 4.3. **The Council's Forward Plan is published on a monthly basis and sets out** the key decisions to be taken by the Council in the next twelve months. The Council only has a statutory duty to publish key decisions to be taken in the next four months. However, the Forward Plan was expanded to a twelve-month period to give a clearer picture of how and when the Council will be making important decisions.
- 4.4. A key decision is a decision which has a significant impact or effect on two or more wards and/or a budgetary effect of £50,000 or more.
- 4.5. The Forward Plan also identifies non-key decisions to be made by the Council in the next twelve months, and the Committee, if it wishes, may also pre-scrutinise these decisions.
- 4.6. There may also be policies identified on the Forward Plan, either as key or non-key decisions, which the Committee could pre-scrutinise and have an impact upon how these are formulated.
- 4.7. The Committee should be mindful that any work it wishes to undertake would need to be undertaken without the need to change the timescales as set out within the Forward Plan.

- 4.8. At each meeting, the Committee will consider their work programme and make amendments where necessary, and also make comments on specific Executive items, where notice has been given by 9am on the day of the Finance & Audit Scrutiny Committee meeting. The Committee will also receive a report detailing the response from the Executive, on the comments the Committee made on the Executive agenda in the previous cycle.
- 4.9. The Forward Plan is considered at each meeting and allows the Committee to look at future items and become involved in those Executive decisions to be taken, if members so wish.
- 4.10. As part of the scrutiny process, the Committee is not considering the whole of the Executive agenda.
- 4.11. On the day of publication of the Executive agenda, all Councillors are sent an e-mail asking them to contact Committee Services, by 9.00am on the day of the Committee meeting to advise which Executive items they would like the Committee to consider.
- 4.12. If the Committee made a comment on an Executive report, a response will be provided to the Committee at its next meeting. In reviewing these responses, 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 November 2020

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

9 December 2020

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

Appendix 1**10 February 2021**

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor

17 March 2021

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

21 April 2021

Title	Audit Item or Scrutiny Item	Format	Lead Officer/ Councillor
Update on Health & Community Protection and Finance Systems Replacements	Scrutiny	Written report followed by Q&A This procurement and project management assurance	Keith Eales Councillors Hales and Falp

To: Finance and Audit Scrutiny Committee - 11 Nov 2020

From: Audit and Risk Manager

Subject: Interim Internal Audit Progress Report

Introduction

At the Finance and Audit Committee meeting of 30 September, Members, concerned for the impact of the Coronavirus Pandemic on Internal Audit's ability to complete the Audit Plan, asked for interim updates on progress.

It was agreed that these updates would mirror an oral presentation in terms of style, format and content.

Latest Update

The team has been able to make good progress on assignments in the last couple of months. This has been the result of:

- A significant reduction in involvement by the team in corporate Covid-related work, enabling the team to focus on audit assignments.
- Team members getting more accustomed to remote working and improved IT equipment being provided.
- Auditees being similarly more accustomed to working remotely and consequently being more receptive to audits.
- A reminder from senior management to managers to support assignments being carried out.
- The new appointee within the team developing his skills and knowledge so as to be able to undertake assignments more efficiently.

In short, I believe we are on track for completing the revised Audit Plan.

At the last meeting I reported a concern that, due to pressures on the ICT function, the Cyber Security audit review would have to be deferred and/or the scope curtailed. It has since been agreed with the Deputy Chief Executive that this audit will be undertaken during February and March with no reduction in its scope and objectives.

The usual detailed quarterly report on progress will be next provided to the Committee on 9 December.

Richard Barr
Audit and Risk Manager
November 2020.

Criteria for call in of Executive Reports to Scrutiny Committees

This process is about the pre-scrutiny of reports to be considered by the Executive and not the Call in procedure if members are dissatisfied with the Executive Decision (under Council Procedure Rule 21).

1. We encourage all members to ask questions about issues that either affect residents or in which they have an interest. Scrutiny is not the only way to do this and members should feel free to raise questions with portfolio holders at any time.
2. Scrutiny committees will consider issues that have due significance with reference to the following criteria:
 - a) The number residents impacted and the significance of that impact
 - b) The amount of spend involved
 - c) It concerns a strategic priority of the Council or key project
3. Scrutiny committees should only consider items where there is a tangible reason to do so. This should broadly fit into one of the following criteria:
 - a) Where there are concerns about the basis for a recommendation e.g. the data that had led to the recommendation is deficient, or new data or information deemed material to forming a view on the item has been provided too late for a written question and answer to be circulated before the meeting, or members are aware of contradictory evidence.
 - b) There is an alternative policy, development or direction which needs to be explored.
4. Reasons for any request for scrutiny to consider an item should be clearly stated based on the approach outlined above.