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# Agenda


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**Date: 17 January 2020**
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**A MEETING OF THE**

# Joint Audit and Governance Committee

**WILL BE HELD ON MONDAY 27 JANUARY 2020 AT 6.30 PM**
**MEETING ROOM 1, 135 EASTERN AVENUE, MILTON PARK, MILTON, OX14 4SB**

**Members of the Committee:**

| South Oxfordshire District Council | Vale of White Horse District Council |
| --- | --- |
| Mocky Khan (Co-Chair) | Simon Howell (Co-Chair) |
| Peter Dragonetti | Eric de la Harpe |
| George Levy | Amos Duveen |
| Jane Murphy | Andy Foulsham |

**Preferred Substitutes:**

| South Oxfordshire District Council | Vale of White Horse District Council |
| --- | --- |
| *David Bartholomew* | *Nathan Boyd* |
| *Sam Casey-Rerhaye* | *Samantha Bowring* |
| *Sarah Gray* | *Andy Cooke* |
| *Victoria Haval* | *Alison Jenner* |
| *Axel Macdonald* | *Janet Shelley* |
| *Jo Robb* | *Elaine Ware* |
| *Anne-Marie Simpson* | |
| *Alan Thompson* | |
| *Ian White* | |
| *Celia Wilson* | |

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## 1 Apologies for absence

To record apologies for absence and the attendance of substitute members.

## 2 Minutes (Pages 4 - 8)

To adopt and sign as a correct record the minutes of the committee meeting held on 14 October 2019.

## 3 Declarations of interest

To receive any declarations of disclosable pecuniary interests in respect of items on the agenda for this meeting.

## 4 Urgent business and chairman's announcements

To receive notification of any matters which the chairman determines should be considered as urgent business and the special circumstances which have made the matters urgent, and to receive any announcements from the chairman.

## 5 Public participation

To receive any questions or statements from members of the public that have registered to speak.

## 6 Internal audit activity report - third quarter 2019/20 (Pages 9 - 23)

To consider the internal audit manager’s report.

## 7 Internal audit management report - third quarter 2019/20 (Pages 24 - 31)

To consider the internal audit manager’s report.

## 8 External auditor's audit results report 2018/19

To consider the report of the external auditor (to follow).

## 9 Statement of Accounts 2018/19

To consider the head of finance’s report (to follow).

## 10 Letter of Representation to the external auditor - South Oxfordshire

**RECOMMENDED**: to agree that the co-chairman from South Oxfordshire District Council signs the letter of representation to the external auditor (to follow).

## 11 Letter of Representation to the external auditor - Vale of White Horse

**RECOMMENDED**: to agree that the co-chairman from Vale of White Horse District Council signs the letter of representation to the external auditor (to follow).

## 12 Annual Audit Letter 2018/19

To consider the Annual Audit Letter 2018/19 from EY, the councils' external auditor (to follow).

## 13 Treasury management mid-year monitoring 2019/20 (Pages 32 - 46)

To consider the head of finance's report.

## 14 Treasury management and investment strategy 2020/21 - South Oxfordshire (Pages 47 - 79)

To consider the head of finance's report.

## 15 Treasury management and investment strategy 2020/21 - Vale of White Horse (Pages 80 - 112)

To consider the head of finance's report.

## 16 Work Programme (Pages 113 - 116)

To review the Audit and Governance Work Programme (attached).

## 17 Exclusion of the public

To consider whether to exclude members of the press and public from the meeting for the following item of business under Part 1 of Schedule 12A Section 100A(4) of the Local Government Act 1972 and as amended by the Local Government (Access to Information) (Variation) Order 2006 on the grounds that:

(i) it involves the likely disclosure of exempt information as defined in paragraphs 1-7 Part 1 of Schedule 12A of the Act, and

(ii) the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

## 18 Governance Update: work hours, work practices and councillor training

To consider the chief executive's report (to follow).

MARGARET REED

Head of Legal and Democratic

# Minutes

Listening Learning Leading

OF A MEETING OF THE

# Joint Audit and Governance Committee

## HELD ON MONDAY 14 OCTOBER 2019 AT 6.30 PM
## MEETING ROOM 1, 135 EASTERN AVENUE, MILTON PARK, MILTON, OX14 4SB

## Present

South Oxfordshire District Councillors: Peter Dragonetti, Mocky Khan (Co-Chairman acting as vice-Chairman), George Levy and Jane Murphy
Vale of White Horse District Councillors: Amos Duveen, Andy Foulsham, Eric de la Harpe and Simon Howell (Co-Chairman acting as Chairman)

## Officers

Victoria Dorman-Smith, Simon Hewings, Ron Schrieber, Richard Spraggett, Mark Stone and Gary Williams

## Also present:

South Councillors Sue Cooper and David Turner; Vale Councillor Andy Crawford.
Malcolm Haines and Kevin Suter (EY); Chris Milburn and Graham Oliver (Capita)

## 12 Minutes

**RESOLVED:** to approve the minutes of the committee meeting held on 29 July 2019 as a correct record and agree that the Chairman signs them as such.

## 13 Declarations of interest

None.

## 14 Urgent business and chairman's announcements

None.

## 15 Public participation

None.

## 16 External auditor's audit results report 2018/19

The committee considered the external auditor's audit results report for the year ending 31 March 2019. The following points were noted:

**Significant risks**
Whilst some risks of material misstatement to the financial statements and disclosures had been identified, there were no significant risks.

**Value for money**
Three significant risks had been identified:

- Implementation of the revised arrangements for the 5 Councils' contract
- Programme governance review
- Financial resilience (SODC only)

The report concluded that the councils had adequate arrangements in place.
.
**Outstanding matters**
Appendix B listed a number of items relating to the completion of the account were still outstanding. Subject to no significant issues being identified EY would issue unqualified audit reports.

The external auditor apologised for the late publication of the report and acknowledged that committee members had not had enough time to fully consider it. Should committee members have further questions they could submit them to him via the officers.

**RESOLVED**: to note the external auditor's audit results report for the year ending 31 March 2019.

## 17 Statement of Accounts 2018/19

The committee considered the latest versions of the Statement of Accounts for South Oxfordshire and Vale of White Horse for the year 2018/19. Attached as an appendix to the accounts was a schedule of changes to the accounts that had been identified by the external auditors during the course of their audit work to date.

As the external audit process was not yet complete, the committee was asked to agree a process by which, if, following the meeting, minor or significant changes to the accounts were identified.

**RESOLVED:** to

(a) approve the statement of accounts for South Oxfordshire District Council and Vale of White Horse District Council for 2018/19, as amended.

(b) agree that the statement of accounts for South Oxfordshire District Council be signed by the chairman of this meeting of the committee and by the co-chairman from South Oxfordshire District Council

(c) agree that the statement of accounts for Vale of White Horse District Council be signed by the chairman of this meeting

(d) authorise the Head of Finance to agree minor changes identified by the external auditor to the statements of accounts following this meeting, and to ask the chairman and co-chairman of this meeting to sign an amended version of the accounts if required that reflects those changes.

(e) agree, in the event of significant changes being identified by the external auditor following this meeting, that the statements of accounts be brought to a further meeting of this committee.

## 18 Annual Governance Statement 2018/19 - South Oxfordshire

The committee considered South Oxfordshire's Annual Governance Statement 2018/19. The committee approved the statement, noting that it formed part of the council's Statement of Accounts.

**RESOLVED**: to approve South Oxfordshire's Annual Governance Statement 2018/19 to form part of the Statement of Accounts.

## 19 Annual Governance Statement 2018/19 - Vale of White Horse

The committee considered Vale of White Horse's Annual Governance Statement 2018/19. The committee approved the statement, noting that it formed part of the council's Statement of Accounts.

**RESOLVED**: to approve Vale of White Horse's Annual Governance Statement 2018/19 to form part of the Statement of Accounts.

## 20 Letter of Representation to the external auditor - South Oxfordshire

Tabled at the meeting was a draft letter of representation from the co-chairman to the external auditor, EY, as part of the process in completing the Statement of Accounts.

**RESOLVED**: to agree that the co-chairman from South Oxfordshire District Council signs the letter of representation to the external auditor.

## 21 Letter of Representation to the external auditor - Vale of White Horse

Tabled at the meeting was a draft letter of representation from the co-chairman to the external auditor, EY, as part of the process in completing the Statement of Accounts.

**RESOLVED**: to agree that the co-chairman from Vale of White Horse District Council signs the letter of representation to the external auditor.

## 22 Treasury outturn 2018-19

The committee considered the head of finance's report on the treasury outturn for both South Oxfordshire and the Vale of White Horse in 2018/19.

**RECOMMENDED** to Cabinet to

(a) note the treasury management outturn report 2018/19; and

(b) that the committee is satisfied that the treasury activities have been carried out in accordance with the treasury management strategy and policy.

## 23 Internal audit activity report quarter two 2019/2020

The committee considered the internal audit manager's report on internal audit activity during the second quarter of 2019/20. This summarised the outcomes of recent audit activity.

5 audits and 2 follow up reviews had been completed during the quarter, of which one audit had received limited assurance.

**Property Management 2018/2019**

The committee considered the main findings and recommendations of the internal audit report. Property management was last subject to an internal audit review in October 2017 and all five recommendations raised in that review had not been implemented and had been restated as part of this review. In April 2018 the outsourced service had been brought back in-house.

The committee was advised that, since the service had been brought back in-house, the issues identified in the audit review were being addressed and the resources were in place to meet the review recommendations implementation dates.

**RESOLVED:** to note the internal audit activity report for the second quarter of 2019/20.

## 24 Internal audit management report quarter two 2019/2020

The committee considered the internal audit manager's management report on internal audit for the second quarter of 2019/20.

The committee was advised that it was anticipated that one of the two auditor vacancies would be filled by 21 October with recruitment for the remaining vacancy continuing into quarter three. Two agency auditors had been engaged during quarter two to assist the audit team in the completion of the 2019/20 key financial audits.

**RESOLVED:** to note the internal audit management report for the second quarter of 2019/20.

## 25 Work programme

The committee noted its work programme.

## 26 Exclusion of the public

**RESOLVED**: to exclude members of the press and public from the meeting for the following items of business under Part 1 of Schedule 12A Section 100A(4) of the Local Government Act 1972 and as amended by the Local Government (Access to Information) (Variation) Order 2006 on the grounds that:

i. it involves the likely disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 12A of the Act, and
ii. the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

## 27 Corporate Fraud and Cyber Security Risk Review

The committee considered a summary of findings from the corporate fraud and cyber risk review, commissioned by the strategic management team.

**RESOLVED:** to note the report.

# Joint Audit and Governance Committee

Report of Internal Audit Manager

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To: Joint Audit and Governance Committee

DATE: 27 January 2020

# Internal audit activity report quarter three 2019/2020

| **Recommendations** |
|---|
| That members note the content of the report |

## Purpose of report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity at both councils for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.

2 The contact officer for this report is Victoria Dorman-Smith, Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430.

## Strategic objectives

3. Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

## Background

4. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the council's objectives. It assists the councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

5. Assurance ratings given by internal audit indicate the following:

   **Full assurance:** There is a good system of internal control designed to meet the system objectives and the controls are being consistently applied.

   **Substantial assurance:** There is a sound system of internal control designed to meet the system objectives and the controls are being applied.

   **Satisfactory assurance:** There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

   **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

   **Nil assurance:** Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

6. Each recommendation is given one of the following risk ratings:

   **High Risk:** Fundamental control weakness for senior management action

   **Medium Risk:** Other control weakness for local management action

   **Low Risk:** Recommended best practice to improve overall control

## 2019/2020 audit reports

7. As at 31 December 2019, since the last audit and governance committee meeting the following audits and follow up reviews have been completed:

   **Completed Audits: 2**
   Full Assurance: 0
   Substantial Assurance: 0
   Satisfactory Assurance: 1
   Limited Assurance: 1
   Nil Assurance: 0

| | Assurance Rating | Total Recs | High Risk | No. Agreed | Medium Risk | No. Agreed | Low Risk | No. Agreed |
|---|---|---|---|---|---|---|---|---|
| **Joint** | | | | | | | | |
| Elections and Election Payments 19/20 (**appendix 1**) | Limited | **5** | 1 | 1 | 2 | 2 | 2 | 2 |
| **SODC** | | | | | | | | |
| Cornerstone 19/20 | Satisfactory | **5** | 0 | 0 | 2 | 2 | 3 | 3 |
| **VWHDC** | | | | | | | | |
| None | | | | | | | | |

**Follow Up Reviews**

| | Initial Assurance Given | No. of Recs | Implemented | Partly Implemented | Not Implemented | Ongoing | No longer applicable |
|---|---|---|---|---|---|---|---|
| **Joint** | | | | | | | |
| None | | | | | | | |
| **SODC** | | | | | | | |
| None | | | | | | | |
| **VWHDC** | | | | | | | |
| None | | | | | | | |

8. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee.

9. Members of the committee are asked to seek assurance from the internal audit reports and/or respective managers that the agreed actions have been or will be undertaken where necessary.

10. A copy of each report has been sent to the appropriate service manager, the section 151 officer and the relevant member portfolio holder. In addition, reports are now published on the councils' intranet and limited assurance reports are reviewed by the strategic management team.

11. Internal audit continues to carry out a six month follow up on all non-key financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

**Financial implications**

12. There are no financial implications attached to this report.

**Legal implications**

13. None.

**Risks**

14. Identification of risk is an integral part of all audits.

VICTORIA DORMAN-SMITH
INTERNAL AUDIT MANAGER

APPENDIX 1

# Elections and Election Payments 2019/2020

## MANAGEMENT SUMMARY

### 1. INTRODUCTION

1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to elections and election payments. The audit has been undertaken in accordance with the 2019/2020 audit plan agreed with the audit and governance committee of South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC). The audit has a priority score of 22. The audit approach is provided in the audit framework in Appendix 1.

1.2 The following areas have been covered during the course of this review to provide assurance that:

- appropriate procedures are in place for managing election payments and elections to confirm that the process is conducted in accordance with legislation.
- the roles and responsibilities are clearly explained in relation to the electoral registration, returning officer and their clerks, and presiding officers at the polling stations and the count.
- agreed schedule of fees are in place for all election payments.
- appropriate recharges are made to county council and town and parish councils for administering their elections.
- an appropriate process is in place for checking, authorising and making election payments.
- election payments are recorded, reconciled and reported.
- post-election performance reviews are undertaken, and an action plan is developed to address areas of improvement for future elections.

### 2. BACKGROUND

2.1 The returning officer is responsible for organising elections within the district including Parliamentary and European elections and forthcoming elections for police and crime commissioners. In accordance with the Representation of the People Act 1983 the cost of local elections is met from the local authority's budgets. The Electoral Commission is an independent body set up by Parliament and sets out standards and guidelines for returning officers running elections.

2.2 The May 2019 district and parish elections took place on 2 May 2019 at 203 (104 SODC and 99 VWHDC) polling stations across the districts. A total of 984 (505 SODC and VWHDC 479) elections staff, including presiding officers, poll clerks and count officers, worked during the elections.

2.3 The May 2019 European parliament election took place on 23 May 2019 at 207 (108 SODC and 99 VWHDC) polling stations across both districts. A total of 853 elections staff, including presiding officers, poll clerks and count officers, worked during the elections.

## 3. PREVIOUS AUDIT REPORTS

3.1 Elections and election payments was last subject to an internal audit review in April 2016 and seven recommendations were raised. All seven recommendations were agreed. A limited assurance opinion was issued.

3.2 Of the seven recommendations, six have been implemented and one recommendation has not been implemented but has been superseded. No recommendations have been restated as part of this review.

## 4. 2019/2020 AUDIT ASSURANCE

4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

4.2 Five recommendations have been raised in this review. One high risk, two medium risk and two low risk.

## 5. MAIN FINDINGS

### 5.1 Procedures

5.1.1 The Electoral Commission provided guidance, which was updated in July 2018, to the returning officer for the local elections and European parliament election guidance provided in April 2019, which were both held in May 2019. The guidance sets out the process that should be undertaken pre, post and during the elections. In addition, the Cabinet Office issued guidance, which focused on the claiming of expenses. As the European parliament election was called at short notice (5 April 2019), the same Cabinet Office guidance issued for the UK parliamentary general elections 2017 with supplementary guidance was used. The councils' elections team also has in place in-house procedure notes for officers who carry out election duties.

5.1.2 Per the Electoral Commission guidance, the returning officer is expected to develop a project plan and risk register for the elections and adhere to the guidance for information to include in both documents. Review of the project plans and risk registers for both local council and European parliament elections confirmed that they are appropriate and meet the requirements of the Electoral Commission, including the statutory dates in the project plan.

5.1.3 Area assurance: Full
No recommendations have been made as a result of our work in this area.

### 5.2 Roles and responsibilities

5.2.1 Roles and responsibilities for district and parish council elections and European parliamentary elections are formally documented via job descriptions. The councils have a four year elections contract in place with Idox Elections (formerly Halarose Ltd), which expires following the 2020 Police and Crime Commissioner elections.

5.2.2 Online training is provided to presiding officers, poll clerks and polling station inspectors to increase knowledge and understanding of their roles and responsibilities. There are different versions of the online training, which is tailored to the specific duties of each. Review found that for the district and parish council elections there were:

- 203 (108 SODC and 95 VWHDC) presiding officers,
- 276 (147 SODC and 129 VWHDC) poll clerks and
- 14 (seven SODC and seven VWHDC) polling station inspectors working on the district and parish elections,

Review found that for the EU parliamentary election there were:

- 206 presiding officers,
- 281 poll clerks and
- 14 polling station inspectors

Review of all 994 presiding officers, poll clerks and polling station inspectors across both elections, identified 12 (six SODC and six VWHDC) district and parish elections staff members who did not undertake the online training. It is noted that for other elections staff roles, i.e. count supervisors, count assistants, postal vote assistants, briefings were provided.

5.2.3 Area assurance: Substantial
One recommendation has been made as a result of our work in this area (Rec 1).

5.3 **Schedule of fees**

5.3.1 The scale of fees was agreed at SODC and VWHDC Council meetings on 11 October 2018 and 10 October 2018 respectively. Review of the scale of fees confirmed that they appear to be comprehensive and cover the roles and duties required in carrying out an election. It is noted that both SODC and VWHDC received funding to run the European Union (EU) elections, and returning officer agreed the fees for the elections staff.

5.3.2 A total of 984 (505 SODC and 479 VWHDC) election staff were employed at the district and parish council elections and 853 election staff were employed at the EU elections. Of the 1,837 staff employed over both May elections, a sample of 33 (11 SODC, 12 VWHDC and ten EU) election staff were reviewed and it was found that:

- 22 (eight SODC, eight VWHDC and six EU) election staff worked either as a (overnight) count supervisor, (overnight) count assistant, and/or verification assistant, of which:
  - 19 (eight SODC, five VWHDC and six EU) staff were paid incorrectly (12 overpaid and seven underpaid).
  - one SODC overnight count supervisor did not sign in or out and was paid for nine hours work.
- All 11 (four SODC, four VWHDC and three EU) presiding officers were paid in line with the agreed scale of fees for:
  - the mileage claimed;
  - collecting the ballot box;
  - undertaking online training;
  - undertaking their role as presiding officer.
- All seven (two SODC, two VWHDC and three EU) poll clerks were paid in line with the agreed scale of fees for:
  - undertaking online training;

  - undertaking their role as poll clerk.
- One VWHDC poll station inspector was paid in line with the agreed scale of fees for:
  - undertaking online training;
  - undertaking their role as poll station inspector.

5.3.3 Area assurance: Limited
Two recommendations have been made as a result of our work in this area (Recs 2 and 3).

5.4 **Recharging of costs**

5.4.1 A record is kept on the Xpress management system of all contested and uncontested parish councils in May 2019. A schedule of election costs is in place, which details the cost of the district and parish elections, and states which costs relate to the parish elections. Review of the schedule of election costs found that the costs are independently reviewed; however, internal audit found that two amounts did not agree to the invoices received. However, internal audit is satisfied that this was rectified at the time of the audit review.

5.4.2 Costs relating to parish councils are transferred to the contested parish elections cost spreadsheet and calculated to establish the amount each parish council is recharged. The contested parish elections cost spreadsheet is spilt into wards. Due to the May 2019 elections being combined between district councils and parish councils, the election costs have been divided between the two. In May 2019, there were 13 (seven SODC and six VWHDC) contested parish council elections, which were undertaken over 27 (14 SODC and 13 VWHDC) parish wards. Of the 27 wards, internal audit selected a sample of ten (five SODC and five VWHDC) wards and review confirmed that the contested parish council recharge costs were correctly calculated.

5.4.3 Invoices to recharge contested parish council election costs are raised and issued through the debtors' module on the Agresso finance system. At the time of the audit review (October 2019) invoices had not been raised as the contested parish election costs were awaiting review and approval by the democratic services manager. However, internal audit confirmed that invoices are due to be raised in January 2020. As the checks carried out on the recharge costs (see 5.4.2) identified no errors, no recommendations have been made. In addition, a review of invoices will be performed as part of the follow up audit.

5.4.4 Area assurance: Full
No recommendations have been made as a result of our work in this area.

5.5 **Checking, authorising and making election payments**

5.5.1 All election staff receive an appointment letter, which includes two forms: acceptance of appointment form and staff payment form. Both forms must be completed and returned to the councils by the date stated on forms. Review of a sample of 33 (as selected in 5.3.2) found that three EU elections staff did not complete and return either the acceptance of appointment form or staff payment form.

5.5.2 Mileage can only be claimed by the presiding officers and the polling station inspectors. The elections team check the mileage on the mileage claim form against Google maps. Of the 33 elections staff (as selected in 5.3.2), 12 (four SODC district, five VWHDC district and three EU) elections staff claimed travel expenses as their role was either presiding officer or poll station inspector. Review of the 12 elections staff found that four (one SODC district and three EU) underclaimed their travel expenses. Based on our review, no issues with the travel expenses claim process were noted.

5.5.3 Both councils' returning officer has signed a contract with Access UK Ltd for Selima (a subsidiary company) to provide the payroll service for the payments of elections staff. The agreement started in September 2018 and is due expire in December 2020. As part of the agreement, Selima make any payments to HMRC on behalf of the councils, by the required target dates.

5.5.4 The elections team download the payment report from the Xpress management system and send it to Selima for payment. Payroll documents i.e. allowance and deduction control, payroll summaries and payslips, are sent by Selima to the elections team to review and confirm that the information and amounts are appropriate. Once reviewed, the electoral services team leader and either the head of legal and democratic (district and parish) or democratic services manager (European) signs the BACS payment to authorise payment. Review of 33 elections staff (as selected in 5.3.1) confirmed that staff were paid in line with the records per Xpress.

5.5.5 Selima has developed a declaration form for completion by the councils, to confirm which elections staff members require deduction of a higher tax rate (40%). During the district and parish elections, the elections team informed Selima with the staff requiring a 40% deduction. However, as the declaration form was not completed, due to the elections team not receiving the form, Selima deducted the basic tax rate for all staff members. By the time of the European election, internal audit confirmed that the declaration form was signed and completed by the electoral services team leader. The declaration form identified 40 higher rate taxpayers working at the election. Of the 40 staff, internal audit selected a sample of ten elections staff and review confirmed that all ten staff payment forms were received, the higher rate of tax was ticked, and staff were paid correctly. As the declaration form was completed accurately and returned to Selima during the European election, no recommendations have been raised.

5.5.6 Various calculation spreadsheets are used to calculate the amounts payable for the other election costs, so that payments can apportioned and recharged appropriately between the district councils and the contested parish councils. It is noted that the parish councils are recharged for their element of the costs. Review of 10 (five SODC and five VWHDC) parish wards confirmed that the invoices supported each cost and was consistently and appropriately applied. As at October 2019, the democratic services manager had not undertaken an independent review to confirm accuracy of apportionment.

5.5.7 Area assurance: Substantial
One recommendation has been made as a result of our work in this area (Rec 4).

## 5.6 Payments are recorded, reconciled and reported

5.6.1 Payments to staff are recorded and analysed on Xpress and the councils have a contract with Selima Ltd to undertake the payroll on their behalf. Staff election payments are not processed through Agresso and are paid from the councils' bank account. The Accountancy team are notified of the amount to be credited and raise a journal against the relevant account code on the general ledger.

5.6.2 Other election payments are recorded on the schedule of election costs spreadsheet. The schedule of election costs lists the costs for the district and parish, and European parliament elections. Review of the schedule of costs confirmed that the election costs are reconciled to the general ledger and that the schedules are independently reviewed. It is noted that the accountancy team (Capita) undertake a monthly reconciliation of the councils' bank accounts against the general ledger. This will be reviewed in more detail in the 2019/2020 general ledger audit.

5.6.3 Area assurance: Full
No recommendations have been made as a result of our work in this area.

### 5.7 Post-election review

5.7.1 Upon completion of the district and parish, and European parliament elections, post-election reviews were undertaken to establish if there were any positive takeaways and/or areas for improvement. This was carried out by the elections team and the project team. In addition, feedback was sought from elections staff for consideration. It is noted that a consultant from the Association of Electoral Administrators also developed an action plan detailing area of improvement for both councils.

5.7.2 Following the post-election review, the returning officer developed a report on the delivery of the May 2019 elections. The report was accepted and approved by the Community Governance and Electoral Issues Committee on 29 October 2019 (SODC) and 22 October 2019 (VWHDC). The report highlighted seven key actions that arose from the May 2019 elections. However, an action plan has not been developed to monitor progress against key action points and to ensure that any other issues arising from the post-election reviews are implemented prior to the next elections.

5.7.3 Area assurance: Substantial
One recommendation has been made as a result of our work in this area (Rec 5).

## 6. ACKNOWLEDGEMENTS

6.1 Internal audit would like to take this opportunity to thank all staff involved for their assistance with the audit.

## 7. CATEGORISATION OF RECOMMENDATIONS

7.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

| | | |
|---|---|---|
| **High risk** | Fundamental control weakness for senior management action | **Rec 2** |
| **Medium risk** | Other control weakness for local management action | **Recs 1 and 5** |
| **Low risk** | Recommended best practice to improve overall control | **Recs 3 and 4** |

# OBSERVATIONS AND RECOMMENDATIONS

## ROLES AND RESPONSIBILITIES

### 1. Online training (Medium Risk)

| Rationale | Recommendation | Responsibility |
|---|---|---|
| <u>Best Practice</u><br>Presiding officers, poll clerks and polling station inspectors complete the online training, prior to the elections.<br><br><u>Findings</u><br>The following elections staff worked at the May 2019 elections:<br><br>*<u>District and parish councils' elections</u>*<br>• 203 (108 SODC and 95 VWHDC) presiding officers;<br>• 276 (147 SODC and 129 VWHDC) poll clerks;<br>• 14 (7 SODC and 7 VWHDC) polling station inspectors.<br><br>*<u>European parliament election</u>*<br>• 206 presiding officers;<br>• 281 poll clerks;<br>• 14 polling station inspectors.<br><br>From review of all presiding officers, poll clerks and polling station inspectors who worked at both elections, internal audit found that 11 (two SODC presiding officers, three SODC poll clerks, one VWHDC presiding officer and five VWHDC poll clerks) elections staff did not complete the online training.<br><br><u>Risk</u><br>If presiding officers, poll clerks and polling station inspectors do not complete the online training, there is a risk that staff do not carry out their duties appropriately, which may result in errors and reputational damage. | a) A reminder notice should be issued to presiding officers and poll clerks who have not completed the mandatory online training prior to the elections, reminding them of the requirement to do so in order to understand their duties.<br><br>b) The elections team should perform a review of the online training records and decide whether to consider appointing staff for election duties in the future. | Electoral Services Team Leader |
| **Management Response** | | **Implementation Due Date** |
| Recommendation is **Agreed**<br>This will be implemented for the Police and Crime Commissioner election in May 2020.<br><br>Management response: Electoral Services Team Leader | | 31 May 2020 |

## SCHEDULE OF FEES

### 2. Staff payment review (High Risk)

| Rationale | Recommendation | Responsibility |
|---|---|---|
| <u>Best Practice</u><br>Elections staff payments are calculated correctly and in line with the agreed scale of fees. | A reminder should be sent to the elections team members to thoroughly review the payroll records to ensure that | Democratic Services Manager |

| | | |
|---|---|---|
| Findings<br>In October 2018, both SODC and VWHDC Council meetings approved the elections scale of fees. The scale of fees state that staff working on the count are paid:<br>• for the first hour;<br>• for each half hour thereafter or part thereof.<br><br>The following elections staff worked at the May 2019 counts:<br><br>*District and parish councils' elections*<br>• 160 (80 SODC and 80 VWHDC) count assistants;<br>• 40 (20 SODC and 20 VWHDC) count supervisors;<br>• 164 (81 SODC and 83 VWHDC) overnight count assistants;<br>• 42 (21 SODC and 21 VWHDC) overnight count supervisors.<br><br>*European parliament election*<br>• 146 count assistants;<br>• 21 count supervisors;<br>• 149 verification assistants.<br><br>The approved scale of fees states that staff working on the count are paid for the first hour and for each half hour thereafter or part thereof. A sample of 22 (eight SODC, eight VWHDC and six European) elections staff at the count was selected and review found that 19 staff were paid incorrectly (12 were overpaid and seven were underpaid) and not in line with the agreed scale of fees.<br><br>Risk<br>If elections staff payments are not calculated correctly, there is a risk of overpayment of staff resulting in a financial loss to the councils. | the amounts due to be paid to elections staff are accurately calculated and in line with the agreed scale of fees, prior to it being sent to Selima for payment. | |

| **Management Response** | **Implementation Due Date** |
|---|---|
| Recommendation is **Agreed**<br>The scales of fees and charges agreed by the councils do not apply to the Parliamentary elections in December 2019 or the Police and Crime commissioner elections in May 2020, but the same principle will be applied to the fee structure agreed by the Acting Returning Officer/Local Returning Officer.<br><br>Management response: Democratic Services Manager | 31 January 2020 |

### 3. Signing in and out at the count (Low Risk)

| Rationale | Recommendation | Responsibility |
|---|---|---|
| Best Practice<br>Elections staff working at the count as either an assistant, supervisor or verifier, fill in the signing in and out sheet. | A notice should be issued to all elections staff on the count, as either an assistant, supervisor or verifier, to fill in the signing in and out sheet. | Electoral Services Team Leader |

| | | |
|---|---|---|
| Findings<br>A sample of 22 (eight SODC, eight VWHDC and six European) elections staff at the count was selected and review found that one overnight supervisor did not sign in or out sheet and was paid for nine hours of work. It is noted that the individual did confirm their hours via email.<br><br>Also, review of the signing in and out sheets found that the sheets were filled in by the same officer and not by the individuals working at the count.<br><br>Risk<br>If elections staff do not fill in the signing in and out sheet, there is a risk of them either not being paid or being paid incorrectly. | | |
| **Management Response** | | **Implementation Due Date** |
| Recommendation is **Agreed**<br>Count supervisors are instructed to ensure that this happens, and this will be reinforced.<br><br>Management response: Democratic Services Manager | | 31 December 2019 |

## CHECKING, AUTHORISING AND ELECTION PAYMENTS

### 4. Returning of acceptance and staff payment forms (Low Risk)

| Rationale | Recommendation | Responsibility |
|---|---|---|
| Best Practice<br>Elections staff complete and return both acceptance of appointment (Form A) staff payment (Form B) forms prior to working on the elections.<br><br>Findings<br>At both May 2019 elections, there were:<br>• 505 elections staff - SODC district and parish elections;<br>• 479 elections staff - VWHDC district and parish elections;<br>• 853 elections staff - European parliament elections.<br><br>A sample of 33 (11 SODC, 12 VWHDC and ten European) found that three European election staff did not complete and return either Form A - acceptance of appointment and Form B - staff payment and were paid for undertaking their role.<br><br>Risk<br>If elections staff do not complete and return Form A, there is a risk of the councils not receiving any formal acceptance to undertake the role resulting in a possible no show to undertake the role. | A reminder should be sent to all election staff members to complete and return both Form A - acceptance of appointment and Form B - staff payment. | Electoral Services Team Leader |

| | | |
|---|---|---|
| If elections staff do not complete and return Form B, there is a risk of staff being incorrectly taxed. | | |
| **Management Response** | | **Implementation Due Date** |
| Recommendation is **Agreed/Agreed in Principle/Not Agreed**<br>This will be done as far as possible, but Form A is not always achievable for staff appointed at short notice e.g. to replace staff who withdraw<br><br>Management response: Democratic Services Manager | | 31 May 2020 |

## POST-ELECTION PERFORMANCE REVIEW

### 5. Post-election action plan (Medium Risk)

| Rationale | Recommendation | Responsibility |
|---|---|---|
| Best Practice<br>An action plan is in place and followed to rectify any issues identified following the previous election.<br><br>Findings<br>Post-election reviews of both the district and parish councils' elections and the European parliament election were undertaken by the elections team, project team and the consultant from the Association of Electoral Administrators and issues were identified.<br><br>In October 2019, a report went to both SODC and VWHDC's Community Governance and Electoral Issues Committee and key actions were noted in the report.<br><br>An action plan was developed by the external consultant and at the time of the audit (October 2019) the elections team were working through the actions. However, an action plan has not been developed regarding the issues identified in the post-election reviews undertaken by both the elections team and the project team; nor has an action plan been developed regarding to the key actions noted in the report to the committee.<br><br>Risk<br>If an action plan is not in place to rectify any issues identified in the May 2019 elections, there is a risk that the councils will not learn from any mistakes made resulting in the same error being made in the next elections. | An action plan with implementation target dates should be developed to ensure that any issues identified from the May 2019 elections in the post-election reviews are in place prior to the next elections. | Electoral Services Team Leader |
| **Management Response** | | **Implementation Due Date** |
| Recommendation is **Agreed**<br>This will be signed off at the Gateway 3 project closure and delivery review report.<br><br>Management response: Democratic Services Manager | | 31 March 2020 |

# Joint Audit and Governance Committee

Report of Internal Audit Manager

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To: Joint Audit and Governance Committee

DATE: 27 January 2020

# Internal audit management report quarter three 2019/2020

| **Recommendation** |
|---|
| That members note the content of the report. |

**Purpose of report**

1. The purpose of this report is:

   - to report on management issues within internal audit;
   - to summarise the progress against the 2019/2020 audit plan up to 31 December 2019; and
   - to summarise the priorities for quarter four 2019/2020.

2. The contact officer for this report is Victoria Dorman-Smith, Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430.

**Strategic objectives**

3. Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

**Background**

4. The Public Sector Internal Audit Standards (PSIAS) from 1 April 2017 states that the head of internal audit should prepare a risk-based audit plan, which should outline the assignments to be carried out and the resource requirements to deliver the plan, for audit committee approval. The joint committee approved the 2019/2020 annual internal audit plan on 25 March 2019.

5. The PSIAS also states that the head of internal audit must periodically report on performance relative to the plan.

**Management issues**

6. Due to two auditor vacancies, two agency auditors were engaged for a total of 18 weeks at the beginning of quarter three to assist the audit team in the completion of the 2019/2020 key financial audits. Following continued recruitment activity in the quarter, the two vacancies were filled by Patricia Kilker and John Tredrea on 21 October 2019 and 18 November 2019 respectively. The contracts with the two agency auditors ended on 25 October 2019 and 15 November 2019.

**Progress against the 2019/2020 audit plan**

7. Progress against the approved audit plan has been calculated for the quarter and year to date and is summarised in **appendix 1** attached.

8. Performance figures to date are as follows:

| | | | Actuals by Quarter | | | |
|---|---|---|---|---|---|---|
| | **Target** | **YTD** | **Q1 19/20** | **Q2 19/20** | **Q3 19/20** | **Q4 19/20** |
| **Chargeable** (identifiable client and/or specific IA deliverable) | 75% | 69% | 70% | 72.5% | 69% | - |
| **Non-Chargeable** (corporate, not IA deliverable) | 9% | 11.5% | 10% | 14% | 16.5% | - |
| **Planned Lost** (i.e. leave) | 14% | 18% | 17.5% | 13.5% | 12.5% | - |
| **Unplanned Lost** (i.e. study, sickness) | 2% | 1.5% | 2.5% | 0% | 2% | - |

9. As at 31 December 2019 the status of audit work against the 2019/2020 audit plan is as follows:

<u>Planned</u>
Strategic, operational and financial assurance work known and approved by the joint audit and governance committee. Two planned audits (health and safety, performance management) have been delayed until at least 2020/21 for the following reasons (see **appendix 1**):

- **Health and Safety** - an external health and safety consultant has been engaged by the programmes and assurance manager during quarter three to undertake a strategic health and safety review across both councils. Therefore, the audit has been delayed until the completion of this review.
- **Performance Management** - the SODC and VWHDC corporate plans for 2020-2024 are undergoing review, hence the audit has been delayed until the plans are implemented.

| 2019/2020 | Planned | Complete | Draft | In progress | To commence |
|---|---|---|---|---|---|
| **Planned** | **24** | **6** | **3** | **8** | **5 in Q4<br>2 audits delayed** |
| Joint | 22 | 5 | 3 | 8 | 4 in Q4<br>2 audits delayed |
| SODC | 1 | 1 | 0 | 0 | 0 |
| VWHDC | 1 | 0 | 0 | 0 | 1 in Q4 |

Ad-hoc
Unplanned project work based on agreed terms of reference with the audit manager (i.e. implementation of new systems) and responsive work issued and agreed by the section 151 officer, members or senior management team (i.e. investigations).

| 2019/2020 | Requested | Complete | Draft | In progress | To commence |
|---|---|---|---|---|---|
| **Ad-hoc** | **0** | **0** | **0** | **0** | **0** |
| Joint | 0 | 0 | 0 | 0 | 0 |
| SODC | 1 | 0 | 0 | 0 | 1 |
| VWHDC | 0 | 0 | 0 | 0 | 0 |

Follow up
Work undertaken to ensure that agreed recommendations have been implemented. The number of follow-up audits is a rolling number, all internal audit reports are followed up after six months unless the area is subject to an annual review.

| 2019/2020 | Requested | Complete | Draft | In progress | To commence |
|---|---|---|---|---|---|
| **Follow up** | **0** | **0** | **0** | **0** | **5** |
| Joint | 0 | 0 | 0 | 0 | 5 |
| SODC | 0 | 0 | 0 | 0 | 0 |
| VWHDC | 0 | 0 | 0 | 0 | 0 |

**Priorities for 2019/2020 quarter four (January 2020 - March 2020)**

10. The priorities for quarter four are to:

- Complete planned audit work, in line with the 2019/2020 audit plan;
- Develop draft 2020/2021 audit plan

11. Remaining 2019/2020 planned audit work can be reviewed in **appendix 2**.

**Financial implications**

12. There are no financial implications attached to this report.

**Legal implications**

13. None.

**Risk implications**

14. Identification of risk is an integral part of all audits.

VICTORIA DORMAN-SMITH
INTERNAL AUDIT MANAGER

**PLANNED AUDIT 2019/2020** **APPENDIX 1**

| System Name<br>As at 31 December 2019 | Status | Audit Allocation | Total Days Used | Exception Issues | Audit Opinion | No. of Recs | High | No. Agreed | Medium | No. Agreed | Low | No. Agreed | Total Not Agreed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **JOINT** | | | | | | | | | | | | | |
| **Budgetary Control (16)** | **Completed** | | | | | | | | | | | | |
| SODC | | 5 | 3.0 | | **Satisfactory** | **3** | 0 | 0 | 2 | 2 | 1 | 1 | **0** |
| VWHDC | | 5 | 3.0 | | **Satisfactory** | **3** | 0 | 0 | 2 | 2 | 1 | 1 | **0** |
| **Capital Management and Accounting (22)** | **In Progress** | | | | | | | | | | | | |
| SODC | | 7 | 7.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 7 | 6.5 | | **Not yet applicable** | | | | | | | | |
| **Cornerstone (21)** | **Completed** | | | | | | | | | | | | |
| SODC | | 10 | 13.0 | | **Satisfactory** | **5** | 0 | 0 | 2 | 2 | 3 | 3 | **0** |
| VWHDC | | 0 | 0.0 | | **Satisfactory** | **5** | 0 | 0 | 2 | 2 | 3 | 3 | **0** |
| **Council Tax (24)** | **Draft Out** | | | | | | | | | | | | |
| SODC | | 10 | 20.5 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 20.5 | | **Not yet applicable** | | | | | | | | |
| **Creditor Payments (26)** | **Draft Out** | | | | | | | | | | | | |
| SODC | | 10 | 9.5 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 9.5 | | **Not yet applicable** | | | | | | | | |
| **Data Protection / GDPR (20)** | **In Progress** | | | | | | | | | | | | |
| SODC | | 7 | 3.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 7 | 3.0 | | **Not yet applicable** | | | | | | | | |
| **Development Management (20)** | **Completed** | | | | | | | | | | | | |
| SODC | | 10 | 6.0 | | **Satisfactory** | **8** | 0 | 0 | 4 | 4 | 4 | 4 | **0** |
| VWHDC | | 10 | 6.0 | | **Satisfactory** | **8** | 0 | 0 | 4 | 4 | 4 | 4 | **0** |
| **Disabled Facility Grants (16)** | **Completed** | | | | | | | | | | | | |
| SODC | | 8 | 13.0 | | **Full** | **1** | 0 | 0 | 0 | 0 | 1 | 1 | **0** |
| VWHDC | | 8 | 13.0 | | **Full** | **1** | 0 | 0 | 0 | 0 | 1 | 1 | **0** |
| **Elections and Election Payments (22)** | **Completed** | | | | | | | | | | | | |
| SODC | | 15 | 17.0 | | **Limited** | **5** | 1 | 1 | 2 | 2 | 2 | 2 | **0** |
| VWHDC | | 15 | 17.0 | | **Limited** | **5** | 1 | 1 | 2 | 2 | 2 | 2 | **0** |
| **General Ledger (23)** | **Draft Out** | | | | | | | | | | | | |
| SODC | | 10 | 10.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 10.0 | | **Not yet applicable** | | | | | | | | |
| **Health and Safety (21)** | **Audit Delayed** | | | Audit delayed pending the outcome of the strategic review of health and safety by an external consultant. | | | | | | | | | |
| SODC | | 10 | 0.0 | | | | | | | | | | |
| VWHDC | | 10 | 0.0 | | | | | | | | | | |
| **Housing Benefits and CTRS (21)** | **To Commence Q4** | | | | | | | | | | | | |
| SODC | | 15 | 0.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 15 | 0.0 | | **Not yet applicable** | | | | | | | | |
| **Information Security (Inc. Cyber Security) (21)** | **In Progress** | | | | | | | | | | | | |
| SODC | | 10 | 7.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 7.5 | | **Not yet applicable** | | | | | | | | |
| **Leisure Development (8)** | **To Commence Q4** | | | | | | | | | | | | |
| SODC | | 10 | 0.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 0.0 | | **Not yet applicable** | | | | | | | | |
| **Lone Working / Officer Security (24)** | **To Commence Q4** | | | | | | | | | | | | |
| SODC | | 7 | 2.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 7 | 2.0 | | **Not yet applicable** | | | | | | | | |
| **Mobile Home Parks (25)** | **Completed** | | | | | | | | | | | | |
| SODC | | 12 | 12.0 | | **Satisfactory** | **10** | 0 | 0 | 4 | 4 | 6 | 6 | **0** |
| VWHDC | | 12 | 12.0 | | **Satisfactory** | **10** | 0 | 0 | 4 | 4 | 6 | 6 | **0** |
| **Moorings (9)** | **To Commence Q4** | | | | | | | | | | | | |
| SODC | | 0 | 0.5 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 0.0 | | **Not yet applicable** | | | | | | | | |
| **National Non-Domestic Rates (NNDR) (22)** | **To Commence Q4** | | | | | | | | | | | | |
| SODC | | 10 | 1.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 0.5 | | **Not yet applicable** | | | | | | | | |
| **Payroll (28)** | **In Progress** | | | | | | | | | | | | |
| SODC | | 18 | 8.5 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 18 | 8.5 | | **Not yet applicable** | | | | | | | | |
| **Performance Management (17)** | **Audit Delayed** | | | Audit delayed until the SODC and VWHDC corporate plans 2020-2024 is implemented. | | | | | | | | | |
| SODC | | 8 | 0.0 | | | | | | | | | | |
| VWHDC | | 8 | 0.0 | | | | | | | | | | |
| **Pro-active Anti-Fraud Review (21)** | **In Progress** | | | | | | | | | | | | |
| SODC | | 7 | 6.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 7 | 6.0 | | **Not yet applicable** | | | | | | | | |
| **Procurement (27)** | **In Progress** | | | | | | | | | | | | |
| SODC | | 10 | 4.5 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 4.5 | | **Not yet applicable** | | | | | | | | |
| **Sundry Debtors (23)** | **In Progress** | | | | | | | | | | | | |
| SODC | | 10 | 9.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 10 | 9.0 | | **Not yet applicable** | | | | | | | | |
| **Treasury Management (21)** | **In Progress** | | | | | | | | | | | | |
| SODC | | 7 | 5.0 | | **Not yet applicable** | | | | | | | | |
| VWHDC | | 7 | 5.0 | | **Not yet applicable** | | | | | | | | |
| **SODC** | | | | | | | | | | | | | |
| **None** | | | | | | | | | | | | | |
| **VWHDC** | | | | | | | | | | | | | |
| **None** | | | | | | | | | | | | | |
| **IA PLANNED AUDIT TOTALS** | | **452** | **301.0** | **Full<br>Substantial<br>Satisfactory<br>Limited<br>Nil** | **2<br>0<br>8<br>2<br>0** | **64** | **2** | **2** | **28** | **28** | **34** | **34** | **0** |
| **SODC PLANNED AUDIT TOTALS** | | **226** | **150.5** | **Full<br>Substantial<br>Satisfactory<br>Limited<br>Nil** | **1<br>0<br>4<br>1<br>0** | **32** | **1** | **1** | **14** | **14** | **17** | **17** | **0** |
| **VWHDC PLANNED AUDIT TOTALS** | | **226** | **150.5** | **Full<br>Substantial<br>Satisfactory<br>Limited<br>Nil** | **1<br>0<br>4<br>1<br>0** | **32** | **1** | **1** | **14** | **14** | **17** | **17** | **0** |

## FOLLOW UP AUDITS 2018/2019

| System Name | Total Days Used | Original Audit Opinion Issued | Total No. of Recs Agreed | Implemented | Partly Implemented | Not Implemented | Ongoing | No Longer applicable | New recommendations |
|---|---|---|---|---|---|---|---|---|---|
| None | | | | | | | | | |
| **SODC** | | | | | | | | | |
| None | | | | | | | | | |
| **VWHDC** | | | | | | | | | |
| None | | | | | | | | | |

## FOLLOW UP AUDITS 2019/2020

| System Name | Total Days Used | Original Audit Opinion Issued | Total No. of Recs Agreed | Implemented | Partly Implemented | Not Implemented | Ongoing | No Longer applicable | New recommendations |
|---|---|---|---|---|---|---|---|---|---|
| **JOINT** | | | | | | | | | |
| None | | | | | | | | | |
| **SODC** | | | | | | | | | |
| None | | | | | | | | | |
| **VWHDC** | | | | | | | | | |
| None | | | | | | | | | |
| **IA FOLLOW UP DURING 19/20 TOTALS** | **0.0** | | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **JOINT FOLLOW UP TOTALS** | **0.0** | | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **SODC FOLLOW UP TOTALS** | **0.0** | | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **VWHDC FOLLOW UP TOTALS** | **0.0** | | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

# UNPLANNED WORK 2019/2020

## CONSULTANCY

| System Name | Status | Audit Allocation | Total Days Used | Requested By |
|---|---|---|---|---|
| **JOINT** | | | | |
| None | N/A | N/A | N/A | N/A |
| **SODC** | | | | |
| None | N/A | N/A | N/A | N/A |
| **VWHDC** | | | | |
| None | N/A | N/A | N/A | N/A |

## CONTINGENCY

| System Name | Status | Audit Allocation | Total Days Used | Requested By |
|---|---|---|---|---|
| **JOINT** | | | | |
| None | N/A | N/A | N/A | N/A |
| **SODC** | | | | |
| Planning applications investigation | In Progress | As required | 0.5 to date | Development Manager |
| **VWHDC** | | | | |
| None | N/A | N/A | N/A | N/A |

## SYSTEM DEVELOPMENT

| System Name | Status | Audit Allocation | Total Days Used | Requested By |
|---|---|---|---|---|
| **JOINT** | | | | |
| None | N/A | N/A | N/A | N/A |
| **SODC** | | | | |
| None | N/A | N/A | N/A | N/A |
| **VWHDC** | | | | |
| None | N/A | N/A | N/A | N/A |

## AD-HOC ADVICE

| System Name | Status | Audit Allocation | Total Days Used | Requested By |
|---|---|---|---|---|
| **JOINT** | | | | |
| General audit advice to service teams (incl chasing for information) | N/A | N/A | 7 | N/A |
| **SODC** | | | | |
| General audit advice to service teams (incl chasing for information) | N/A | N/A | 0 | N/A |
| **VWHDC** | | | | |
| General audit advice to service teams (incl chasing for information) | N/A | N/A | 0 | N/A |

**AUDIT PLAN SCHEDULE 2019/2020 (As at 31 December 2019)** **APPENDIX 2**

**Key:**

- Key financial audit
- Projected Start Date
- In Progress
- Draft Issued
- Complete
- No longer applicable/ revised arrangements
- Confidential

**PLANNED AUDITS**

| | PRIORITY |
|---|---|
| **JOINT** | |
| Budgetary Control | 16 |
| Capital Management & Accounting | 22 |
| Council Tax | 24 |
| Creditor Payments | 26 |
| Data Protection / GDPR | 20 |
| Development Management (Planning Applications) | 20 |
| Disabled Facility Grants | 16 |
| Elections & Election Payments | 22 |
| General Ledger | 23 |
| Health & Safety | 21 |
| Housing Benefits & Council Tax Reduction Scheme | 21 |
| Information Security (including cyber security) | 21 |
| Leisure Development | 8 |
| Lone Working / Officer Security | 24 |
| Mobile Home Parks | 25 |
| Moorings | 9 |
| NNDR | 22 |
| Payroll | 28 |
| Performance Management | 17 |
| Pro-active Anti-Fraud Review | 21 |
| Procurement | 27 |
| Sundry Debtors | 23 |
| Treasury Management | 21 |
| **SODC** | |
| Cornerstone | 21 |
| **VWHDC** | |
| None | |

**POTENTIAL AUDITS FOR 2019/2020**

Depending on the outcome of recruitment activity for the two vacant auditor posts, the following audits will be performed if there are available audit days:

| | PRIORITY |
|---|---|
| **JOINT** | |
| Land Charges | 19 |
| Assets of Community Value | 11 |
| Engineering Services (sewerage, flooding, drainage) | 8 |

**FOLLOW UP AUDITS**

| | PRIORITY |
|---|---|
| **JOINT** | |
| Brown Bins 2018/2019 | |
| Discretionary Grants 2018/2019 | |
| Insurance 2018/2019 | |
| Planning Appeals 2018/2019 | |
| Property Management 2018/2019 | |
| Risk Management 2018/2019 | |
| Street Naming & Numbering 2018/2019 | |
| Mobile Home Parks 2019/2020 | |
| Budgetary Control 2019/2020 | |
| Disabled Facility Grants 2019/2020 | |
| **SODC** | |
| None | |
| **VWHDC** | |
| None | |

**UNPLANNED AUDITS**

| | PRIORITY |
|---|---|
| **JOINT** | |
| None | |
| **SODC** | |
| Planning applications investigation | N/A |
| **VWHDC** | |
| None | |

# Joint Audit and Governance Committee

Report of Interim Head of Finance

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To: **Joint Audit and Governance Committee; Cabinet; Council**

DATE: 27 January by Joint Audit and Governance Committee
30 January (S) / 31 January (V) by Cabinet
13 February (S) / 12 February (V) by Council

# Treasury management mid-year monitoring report 2019/20

**Recommendations**

That Joint Audit and Governance Committee:

1. notes the treasury management mid-year monitoring report 2019/20.
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.
3. Supports the changes to the South counterparty limits identified in paragraphs 21 and 22 of this report

That Cabinet:

4. considers any comments from Joint Audit and Governance Committee and recommends council to approve the report.
5. (South only) recommends Council to agree the changes to the counterparty limits identified in paragraphs 21 and 22 of this report

## Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that each council's prudential indicators are

reported to their respective council mid-year (i.e.: as at 30 September). The report provides details of the treasury activities for the first six months of 2019/20 and an update on the current economic conditions with a view to the remainder of the year.

**Strategic objectives**

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

**Background**

**Treasury management**

3. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

4. The primary requirements of the Code are as follows:

    - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

    - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

    - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-Year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

    - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

    - An economic update for the first part of the 2019/20 financial year;
    - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
    - A review of the Councils' investment portfolio for 2019/20;
    - A review of the Councils' borrowing strategy for 2019/20;
    - A review of compliance with Treasury and Prudential Limits for 2019/20.

6. The first main function of the treasury management service is to ensure the councils' cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return. The Treasury Management Strategy determines to whom the council can lend, and this is the manifestation of its risk appetite.

7. The second main function of the treasury management service is to ensure funding for the Councils' capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Councils can meet their capital spending operations. This management of longer term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet risk or cost objectives.

8. Accordingly, treasury management is defined as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

9. The 2019/20 treasury management strategy was approved by each council in February 2019. This report summarises the treasury activity and performance for the first six months of 2019/20 against those prudential indicators and benchmarks set for the year. It also provides an opportunity to review and subsequently revise limits if required. Full council is required to approve this report and any amendments to the Treasury Management Strategy.

## Treasury activity

10. The mid-year performance of the two councils is summarised in the tables below[1].

| | South | Treasury investments £000 | Non treasury loan £000 | Sub Total £000 | Property investment £000 | Overall total £000 |
|---|---|---|---|---|---|---|
| 1 | Average investment balance | 147,014 | 15,000 | 162,014 | 7,838 | 169,852 |
| 2 | Budgeted investment income | 781 | 311 | 1,092 | | |
| 3 | Actual investment income | 1,139 | 309 | 1,448 | 46 | 1,494 |
| 4 | surplus/(deficit) (3) - (2) | 358 | (2) | 356 | | |
| 5 | Annualised rate of return | 1.55% | 4.12% | 1.79% | 1.17% | 1.76% |

| | Vale | Treasury investments £000 | Property investment £000 | Overall total £000 |
|---|---|---|---|---|
| 1 | Average investment balance | 71,760 | 5,683 | 77,443 |
| 2 | Budgeted investment income | 381 | | |
| 3 | Actual investment income | 577 | 107 | 684 |
| 4 | surplus/(deficit) (3) - (2) | 196 | | |
| 5 | Annualised rate of return | 1.61% | 3.77% | 1.77% |

For property, the balance shown is the fair value of investment properties as at 31 March 2019.

11. The forecast outturn position as at September 2019, based on known investments and maturities and an estimate for future earnings is shown in the table below:

| | | South Oxfordshire District Council | Vale of White Horse District Council |
|---|---|---|---|
| | Annual budget as per MTFP | £2,806,660 | £762,124 |
| | Forecast outturn | £3,115,529 | £1,042,687 |
| | Variance against budget | £308,869 | £280,563 |
| | Borrowing | Nil | Nil |

12. The Councils remain restricted regarding financial institutions meeting their investment criteria. When it is possible, investments will be placed with highly rated institutions for a longer duration with a view to increasing the weighted average maturity of the portfolio, but this has meant that overall there are less suitable counterparties available to the councils to deposit with.

13. **SODC**. The latest estimate is that income receivable on cash investments will be above budget by £308,869. This is due to higher than budgeted cash balances, and also the placing of more longer-term investments which earn higher interest rates.

14. **VWHDC.** The latest estimate is that income receivable on cash investments will be above budget by £280,563. This is for the same reasons as for SODC above.

## Performance measurement

15. A list of investments as at 30 September is shown in Appendices A1 and A2.

16. The councils’ performance against benchmarks for the first six months of the year are detailed in Appendices A3 and A4. All benchmarks have been achieved except the

long-term CCLA benchmarks which measure performance from the investment date rather than performance in the year. Performance for the year to date of 4.35 per cent is higher that the short-term benchmark of 4.27 per cent.

17. All investments set up on Vale were with approved counterparties. The average return on these investments is shown above in the table at paragraph 5. South has performed better than Vale because it holds more long-term loans at higher rates and equities as a result of its larger investment base.

18. At South, it has become apparent that there is a contradiction in the counter-party limits. One investment has been made in breach of the counterparty limits. It was made with a "A" rated organisation for two years, whereas the maximum maturity period for such an institution is one year. However, in practice the limit for an "A" rated institution should be longer than for an "A-" rated institution (as an A rated institution is stronger than an A- rated institution).

19. The current limits for such counterparties as agreed are shown below.

| Counterparty | Minimum Fitch Long term Rating (or equivalent) | Counterparty Limit £m | Max. maturity period |
|---|---|---|---|
| Institutions with a minimum rating: | F1 / A- | £15.0m | 2 years |
| Institutions with a minimum rating: | F1 / A | £15.0m | 1 year |

20. In practice this is wrong way round and it should be:

| Counterparty | Minimum Fitch Long term Rating (or equivalent) | Counterparty Limit £m | Max. maturity period |
|---|---|---|---|
| Institutions with a minimum rating: | F1 / A | £15.0m | 2 years |
| Institutions with a minimum rating: | F1 / A- | £15.0m | 1 year |

21. It is therefore recommended that South Council approve this change to the counterparty list.

22. The investment in question also made to a housing association which breached a separate limit set for housing associations which require any investment to be with an organisation rated at least A+. Officers feel that this separate limit is not required and also recommend to South Council that this limit is deleted from the counter party list.

**Treasury management limits on activity**

23. Each council is required by the Prudential Code to report on the limits set each year in their respective Treasury Management Strategies. The purpose of these limits is to ensure that the activity of the treasury functions remain within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The performance against the limits for both councils are shown in appendices B1 and B2.

## Debt activity during 2019/20

24. During the first six months of 2019/20 there has been no need for either of the councils to borrow. The Interim Head of Finance will continue to take a prudent approach to the councils' debt strategies. The prudential indicators and limits set out in appendices B1 and B2 provide the scope and flexibility for either of the councils to borrow in the short-term up to the maximum limits, if ever such a need arose within the cash flow management activities of the authority in order to achieve its service objectives.

## Interest Rate Forecast and Economic Forecast

25. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

*Quoted from link Asset Services December 2019*

| Bank Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.25% |
| Capital Economics | 0.75% | 0.75% | 0.75% | 0.50% | 0.50% | 0.50% | - | - | - | - | - | - | - | - | - |
| **5yr PWLB Rate** | **NOW** | **Dec-19** | **Mar-20** | **Jun-20** | **Sep-20** | **Dec-20** | **Mar-21** | **Jun-21** | **Sep-21** | **Dec-21** | **Mar-22** | **Jun-22** | **Sep-22** | **Dec-22** | **Mar-23** |
| Link Asset Services | 2.27% | 2.30% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.20% | 3.20% |
| Capital Economics | 2.27% | 2.40% | 2.40% | 2.40% | 2.40% | 2.40% | - | - | - | - | - | - | - | - | - |
| **10yr PWLB Rate** | **NOW** | **Dec-19** | **Mar-20** | **Jun-20** | **Sep-20** | **Dec-20** | **Mar-21** | **Jun-21** | **Sep-21** | **Dec-21** | **Mar-22** | **Jun-22** | **Sep-22** | **Dec-22** | **Mar-23** |
| Link Asset Services | 2.46% | 2.60% | 2.70% | 2.70% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.50% |
| Capital Economics | 2.46% | 2.60% | 2.60% | 2.60% | 2.60% | 2.60% | - | - | - | - | - | - | - | - | - |
| **25yr PWLB Rate** | **NOW** | **Dec-19** | **Mar-20** | **Jun-20** | **Sep-20** | **Dec-20** | **Mar-21** | **Jun-21** | **Sep-21** | **Dec-21** | **Mar-22** | **Jun-22** | **Sep-22** | **Dec-22** | **Mar-23** |
| Link Asset Services | 3.03% | 3.20% | 3.30% | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% |
| Capital Economics | 3.03% | 2.90% | 2.90% | 2.90% | 2.90% | 2.90% | - | - | - | - | - | - | - | - | - |
| **50yr PWLB Rate** | **NOW** | **Dec-19** | **Mar-20** | **Jun-20** | **Sep-20** | **Dec-20** | **Mar-21** | **Jun-21** | **Sep-21** | **Dec-21** | **Mar-22** | **Jun-22** | **Sep-22** | **Dec-22** | **Mar-23** |
| Link Asset Services | 2.87% | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% |
| Capital Economics | 2.87% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | - | - | - | - | - | - | - | - | - |

26. *It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75 per cent so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth".*

27. *Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.*

28. *The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.*

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## Financial Implications

29. These are covered in the body of the report.

## Legal implications

30. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

## Administration

31. Capita provide the Treasury Management services through its financial accounting team based in Shepton Mallet. The council still authorise daily dealings and receive regular reports from the team on current and future investments.

## Conclusion

32. This report provides details of the treasury management activities for the period 1 April 2019 to 30 September 2019 and the mid-year prudential indicators to each respective council.

33. Other than for one incident at South, Treasury activities at both councils have operated within the agreed parameters set out in their respective approved treasury management strategies.

34. This report also provides the monitoring information for joint audit and governance committee to fulfil its role of scrutinising treasury management activity at each council.

## Background papers

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA statement 17.10.18 on borrowing in advance of need and investments in commercial properties
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018
- Statutory investment guidance where it has been updated in 2018 (English local authorities)
- Statutory MRP guidance where it has been updated in 2018 (English local authorities)
- Treasury Management Investment Strategy 2019/20 (South Oxfordshire & Vale of White Horse, February 2019)

## Appendices

A1 – SODC List of investments as at 30 September 2019
A2 – VWHDC List of investments as at 30 September 2019
A3 – SODC Performance against benchmark
A4 – VWHDC Performance against benchmark
B1 – SODC Prudential Indicators
B2 – VWHDC Prudential Indicators
C1 – Note on Prudential Indicators

Appendix A1

## South Oxfordshire

| Investments as at 30 September 2019<br>Counterparty | Deposit type | Investment date | Maturity date | Remaining investment duration in days | Principal | Rate (%) |
|---|---|---|---|---|---|---|
| Cambridge BS | Fixed | 02-Oct-18 | 02-Oct-19 | 2 | 3,000,000 | 1.15% |
| Nottingham Building Society | Fixed | 22-Oct-18 | 22-Oct-19 | 22 | 1,000,000 | 1.05% |
| Progressive Building Society | Fixed | 22-Oct-18 | 22-Oct-19 | 22 | 1,000,000 | 1.08% |
| Progressive Building Society | Fixed | 02-Nov-18 | 01-Nov-19 | 32 | 2,000,000 | 1.08% |
| West Bromwich Building Society | Fixed | 06-Nov-18 | 06-Nov-19 | 37 | 2,000,000 | 1.15% |
| West Bromwich Building Society | Fixed | 08-Nov-18 | 08-Nov-19 | 39 | 2,000,000 | 1.15% |
| Cambridge BS | Fixed | 01-Nov-18 | 11-Nov-19 | 42 | 2,000,000 | 1.15% |
| Close Brothers | Fixed | 27-Nov-17 | 27-Nov-19 | 58 | 3,000,000 | 1.10% |
| Nottingham Building Society | Fixed | 14-Dec-18 | 13-Dec-19 | 74 | 3,000,000 | 1.15% |
| Goldman Sachs International Bank | Fixed | 19-Dec-18 | 18-Dec-19 | 79 | 2,000,000 | 1.24% |
| Goldman Sachs International Bank | Fixed | 07-Feb-19 | 07-Feb-20 | 130 | 2,000,000 | 1.05% |
| Nottingham Building Society | Fixed | 15-Feb-19 | 14-Feb-20 | 137 | 2,000,000 | 1.20% |
| Close Brothers | Fixed | 14-Mar-19 | 16-Mar-20 | 168 | 2,000,000 | 1.25% |
| Close Brothers | Fixed | 18-Mar-19 | 18-Mar-20 | 170 | 2,000,000 | 1.25% |
| West Bromwich Building Society | Fixed | 03-Apr-19 | 02-Apr-20 | 185 | 3,500,000 | 1.22% |
| Goldman Sachs International Bank | Fixed | 03-Apr-19 | 02-Apr-20 | 185 | 2,000,000 | 1.03% |
| Goldman Sachs International Bank | Fixed | 03-Apr-19 | 02-Apr-20 | 185 | 3,000,000 | 1.03% |
| National Counties Building Society | Fixed | 03-Apr-19 | 02-Apr-20 | 185 | 2,500,000 | 1.30% |
| Principality Building Society | Fixed | 03-Apr-19 | 02-Apr-20 | 185 | 2,000,000 | 1.20% |
| Close Brothers | Fixed | 03-Apr-19 | 03-Apr-20 | 186 | 2,000,000 | 1.25% |
| Close Brothers | Fixed | 09-Apr-19 | 09-Apr-20 | 192 | 2,000,000 | 1.25% |
| Principality Building Society | Fixed | 02-May-19 | 01-May-20 | 214 | 2,500,000 | 1.15% |
| Newcastle Building Society | Fixed | 03-May-19 | 01-May-20 | 214 | 2,000,000 | 1.22% |
| National Counties Building Society | Fixed | 03-May-19 | 01-May-20 | 214 | 1,000,000 | 1.26% |
| West Bromwich Building Society | Fixed | 15-May-19 | 14-May-20 | 227 | 2,500,000 | 1.10% |
| Principality Building Society | Fixed | 20-May-19 | 18-May-20 | 231 | 1,500,000 | 1.16% |
| National Counties Building Society | Fixed | 21-May-19 | 19-May-20 | 232 | 1,500,000 | 1.26% |
| National Counties Building Society | Fixed | 28-May-19 | 26-May-20 | 239 | 1,000,000 | 1.25% |
| Nottingham Building Society | Fixed | 28-May-19 | 26-May-20 | 239 | 1,000,000 | 1.18% |
| Saffron Building Society | Fixed | 03-Jun-19 | 02-Jun-20 | 246 | 2,500,000 | 1.17% |
| Nottingham Building Society | Fixed | 11-Jun-19 | 11-Jun-20 | 255 | 1,000,000 | 1.15% |
| Principality Building Society | Fixed | 11-Jun-19 | 11-Jun-20 | 255 | 3,000,000 | 1.15% |
| Newcastle Building Society | Fixed | 27-Jun-19 | 25-Jun-20 | 269 | 2,000,000 | 1.30% |
| Principality Building Society | Fixed | 02-Jul-19 | 01-Jul-20 | 275 | 4,000,000 | 1.10% |

## South Oxfordshire Continued

| Investments as at 30 September 2019<br>Counterparty | Deposit type | Investment date | Maturity date | Remaining investment duration in days | Principal | Rate (%) |
|---|---|---|---|---|---|---|
| Cumberland Building Society | Fixed | 03-Jul-19 | 01-Jul-20 | 275 | 3,000,000 | 1.00% |
| Principality Building Society | Fixed | 09-Jul-19 | 08-Jul-20 | 282 | 2,000,000 | 1.10% |
| Monmouthshire Building Society | Fixed | 10-Jul-19 | 09-Jul-20 | 283 | 1,000,000 | 1.20% |
| Progressive Building Society | Fixed | 16-Jul-19 | 15-Jul-20 | 289 | 2,500,000 | 1.15% |
| Monmouthshire Building Society | Fixed | 18-Jul-19 | 17-Jul-20 | 291 | 2,000,000 | 1.20% |
| Kingston upon Hull City Council | Fixed | 19-Aug-13 | 19-Aug-20 | 324 | 3,500,000 | 2.70% |
| Kingston upon Hull City Council | Fixed | 19-Aug-13 | 19-Aug-20 | 324 | 1,500,000 | 2.70% |
| Newcastle Building Society | Fixed | 30-Aug-19 | 28-Aug-20 | 333 | 2,000,000 | 1.25% |
| Newcastle Building Society | Fixed | 30-Aug-19 | 28-Aug-20 | 333 | 2,000,000 | 1.25% |
| Monmouthshire Building Society | Fixed | 17-Sep-19 | 16-Sep-20 | 352 | 3,000,000 | 1.05% |
| Newbury Builiding Society | Fixed | 27-Sep-19 | 25-Sep-20 | 361 | 2,000,000 | 1.20% |
| Santander | Call * | | | | 3,401,256 | 0.40% |
| Royal Bank of Scotland | Call * | | | | 2,343 | 0.20% |
| Royal Bank of Scotland | Call * | | | | 96,095 | 0.10% |
| Goldman Sachs | MMF * | | | | 5,985,000 | 0.68% |
| Blackrock | MMF * | | | | 690,000 | 0.67% |
| | | | | | | |
| **Total short term cash investments (<1 yr duration)** | | | | | **106,174,693** | |
| | | | | | | |
| METROPOLITAN HOUSING TRUST L | Fixed | 12-Jul-19 | 12-Jan-21 | 470 | 2,000,000 | 1.45% |
| Kingston upon Hull City Council | Fixed | 15-Jan-14 | 15-Jan-21 | 473 | 2,000,000 | 2.50% |
| Close Brothers | Fixed | 14-Mar-19 | 15-Mar-21 | 532 | 3,000,000 | 1.50% |
| Close Brothers | Fixed | 29-Mar-19 | 29-Mar-21 | 546 | 1,000,000 | 1.50% |
| Royal Bank of Scotland | Fixed | 08-Apr-19 | 08-Apr-21 | 556 | 3,000,000 | 1.75% |
| METROPOLITAN HOUSING TRUST L | Fixed | 11-Apr-19 | 12-Apr-21 | 560 | 3,000,000 | 1.70% |
| Royal Bank of Scotland | Fixed | 15-Apr-19 | 15-Apr-21 | 563 | 3,000,000 | 1.78% |
| Places for People | Fixed | 10-May-19 | 10-May-21 | 588 | 2,000,000 | 1.70% |
| Places for People | Fixed | 25-Jun-19 | 25-Jun-21 | 634 | 3,000,000 | 1.70% |
| Bury MBC | Fixed | 18-Jul-16 | 19-Jul-21 | 658 | 5,000,000 | 1.50% |
| Lloyds Bank | Fixed | 23-Jul-19 | 23-Jul-21 | 662 | 2,000,000 | 1.30% |
| Royal Bank of Scotland | Fixed | 18-Feb-19 | 20-Feb-23 | 1239 | 2,000,000 | 2.46% |
| | | | | | | |
| **Total long-term cash investments (>1 yr duration)** | | | | | **31,000,000** | |
| CCLA | Property | | | | 6,755,639 | Variable |
| Legal & General Equities | Unit Trust | | | | 12,935,023 | Variable |
| **Total Investments** | | | | | **156,865,355** | |

* Rates are variable. Returns shown represent prevailing rates at end Q2 2019.
** Above figures exclude balance outstanding from Kaupthing Singer and Friedlander and SOHA loan
***Last year total investments: £152 million

## Vale of White Horse District Council

| Investments as at 30 September 2019 | | | | | | |
|---|---|---|---|---|---|---|
| Counterparty | Deposit type | Investment date | Maturity date | Remaining investment duration in days | Principal | Rate (%) |
| Cambridge Building Society | Fixed | 02/10/2018 | 02/10/2019 | 2 | 2,000,000 | 1.15% |
| Goldman Sachs International Bank | Fixed | 29/10/2018 | 29/10/2019 | 29 | 2,000,000 | 1.24% |
| Places For People Homes Ltd | Fixed | 01/11/2018 | 31/10/2019 | 31 | 1,000,000 | 1.50% |
| Principality Building Society | Fixed | 15/11/2018 | 15/11/2019 | 46 | 1,500,000 | 1.05% |
| West Bromwich Building Society | Fixed | 15/11/2018 | 15/11/2019 | 46 | 1,500,000 | 1.15% |
| Close Brothers Ltd | Fixed | 16/11/2017 | 18/11/2019 | 49 | 2,000,000 | 1.10% |
| Fife Council | Fixed | 19/11/2018 | 18/11/2019 | 49 | 3,000,000 | 1.05% |
| Saffron Building Society | Fixed | 30/11/2018 | 29/11/2019 | 60 | 3,000,000 | 1.12% |
| Newcastle Building Society | Fixed | 05/12/2018 | 04/12/2019 | 65 | 1,500,000 | 1.15% |
| Principality Building Society | Fixed | 13/12/2018 | 13/12/2019 | 74 | 2,000,000 | 1.10% |
| Nottingham Building Society | Fixed | 03/01/2019 | 03/01/2020 | 95 | 2,000,000 | 1.15% |
| Darlington Building Society | Fixed | 17/01/2019 | 17/01/2020 | 109 | 2,000,000 | 1.25% |
| Slough Borough Council | Fixed | 21/01/2019 | 21/01/2020 | 113 | 4,000,000 | 1.10% |
| Close Brothers Ltd | Fixed | 21/01/2019 | 21/01/2020 | 113 | 4,000,000 | 1.25% |
| Lloyds Bank | Fixed | 28/01/2019 | 28/01/2020 | 120 | 10,000,000 | 1.10% |
| Newcastle Building Society | Fixed | 15/02/2019 | 14/02/2020 | 137 | 1,500,000 | 1.25% |
| Places For People Homes Ltd | Fixed | 19/02/2019 | 19/02/2020 | 142 | 2,000,000 | 1.50% |
| Close Brothers Ltd | Fixed | 05/03/2018 | 05/03/2020 | 157 | 2,000,000 | 1.35% |
| Progressive Building Society | Fixed | 26/06/2019 | 26/06/2020 | 270 | 3,000,000 | 1.22% |
| National Counties Building Society | Fixed | 26/06/2019 | 26/06/2020 | 270 | 1,000,000 | 1.25% |
| National Counties Building Society | Fixed | 29/07/2019 | 27/07/2020 | 301 | 1,000,000 | 1.26% |
| Kingston upon Hull City Council | Fixed | 19/08/2013 | 19/08/2020 | 324 | 2,000,000 | 2.70% |
| Newbury Building Society | Fixed | 09/09/2019 | 08/09/2020 | 344 | 1,000,000 | 1.20% |
| Monmouthshire Building Society | Fixed | 11/09/2019 | 10/09/2020 | 346 | 1,000,000 | 1.05% |
| National Counties Building Society | Fixed | 11/09/2019 | 10/09/2020 | 346 | 1,000,000 | 1.20% |
| Principality Building Society | Fixed | 11/09/2019 | 10/09/2020 | 346 | 3,000,000 | 1.06% |
| Skipton Building Society | Fixed | 18/09/2019 | 17/09/2020 | 353 | 2,000,000 | 0.95% |
| LGIM | MMF * | | | | 11,000,000 | 0.67% |
| Goldman Sachs | MMF * | | | | 5,810,000 | 0.68% |
| **Total short term cash investments (<1 yr duration)** | | | | | **78,810,000** | |
| Kingston upon Hull City Council | Fixed | 15/01/2014 | 15/01/2021 | 473 | 2,000,000 | 2.50% |
| Cambridgeshire County Council | Fixed | 28/02/2019 | 26/02/2021 | 515 | 2,000,000 | 1.45% |
| Southern Housing Group | Fixed | 19/03/2019 | 19/03/2021 | 536 | 5,000,000 | 1.60% |
| Metropolitan Housing Trust Ltd | Fixed | 11/04/2019 | 12/04/2021 | 560 | 2,000,000 | 1.70% |
| Places For People Homes Ltd | Fixed | 17/06/2019 | 17/06/2021 | 626 | 2,000,000 | 1.70% |
| Metropolitan Housing Trust Ltd | Fixed | 28/06/2019 | 28/06/2021 | 637 | 2,000,000 | 1.70% |
| Metropolitan Housing Trust Ltd | Fixed | 29/07/2019 | 29/07/2021 | 668 | 1,000,000 | 1.60% |
| Close Brothers Ltd | Fixed | 27/09/2019 | 27/09/2021 | 728 | 2,000,000 | 1.30% |
| **Total long-term cash investments (>1 yr duration)** | | | | | **18,000,000** | |
| CCLA | Property | | | | 2,704,646 | variable |
| **Total Investments** | | | | | **99,514,646** | |

*Last year total investments: £83 million

## South Oxfordshire District Council

| Investment returns achieved against benchmark | | | | |
|---|---|---|---|---|
| | Benchmark Return | Actual Return | Growth (Below)/above Benchmark | Benchmarks |
| Bank & Building Society deposits - internally managed | 0.63% | 1.55% | 0.92% | 3 Month LIBID |
| Equities | 2.34% | 5.88% | 3.54% | FTSE All Shares Index |

- All benchmarks managed by the treasury team were met in the first six months of the year.

### CCLA

| Annualised total return performance | | | |
|---|---|---|---|
| Performance to 28 September 2019 | 1 year | 3 years | 5 years |
| The local authorities property fund | 5.99% | 6.23% | 9.46% |
| Benchmark - IPD property index | 5.69% | 6.88% | 9.63% |

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer term performance should be used as a guide to returns achievable in the medium term.

- South invested £5 million into the fund and in the first six months of 2019/20, achieved a return of 4.35 per cent calculated as a ratio of income over the market value held as at 30 September 2019. This is not the same basis upon which the performance of the fund above is calculated.

## Vale of White Horse District Council

| Investment returns achieved against benchmark | | | | |
|---|---|---|---|---|
| | Benchmark return | Actual return | Growth (below)/above benchmark | Benchmarks |
| | % | % | % | |
| Internally managed - Bank & Building Society deposits | 0.63% | 1.61% | 0.98% | 3 month LIBID |

- All benchmarks managed by the treasury team were met in the first six months of the year.

**CCLA**

| Annualised total return performance | | | |
|---|---|---|---|
| Performance to 28 September 2019 | 1 year | 3 years | 5 years |
| The local authorities property fund | 5.99% | 6.23% | 9.46% |
| Benchmark - IPD property index | 5.69% | 6.88% | 9.63% |

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer-term performance should be used as a guide to returns achievable in the medium term.

- Vale invested £2 million into the fund and in the first six months of 2019/20, achieved a return of 4.35 per cent calculated as a ratio of income over the market value held as at 30 September 2019. This is not the same basis upon which the performance of the fund above is calculated.

## South Oxfordshire District Council

| Prudential indicators as at 30th September 2019 | | |
|---|---|---|
| | 2019/20 | Actual as at |
| | Original Estimate | 30-Sep |
| **Debt** | **£m** | **£m** |
| **Authorised limit for external debt** | | |
| Borrowing | 30 | 0 |
| Other long term liabilities | 0 | 0 |
| | **30** | **0** |
| **Operational boundary for external debt** | | |
| Borrowing | 25 | 0 |
| Other long term liabilities | 0 | 0 |
| | **25** | **0** |
| **Interest rate exposures** | | |
| Maximum fixed rate borrowing | 100% | **0** |
| Maximum variable rate borrowing | 100% | **0** |
| | | |
| **Investments** | | |
| **Interest rate exposures** | | |
| Limits on fixed interest rates | 100% | 81% |
| Limits on variable interest rates | 50 | 10 |
| | | |
| **Principal sums invested > 364 days** | | |
| Upper limit for principal sums invested >364 days | 70 | 31 |

## Vale of White Horse District Council

| Prudential indicators as at 30th September 2019 | | |
|---|---|---|
| | 2019/20 | Actual as at |
| | Original estimate | 30-Sep |
| | £m | £m |
| **Authorised limit for external debt** | | |
| Borrowing | 30 | 0 |
| Other long term liabilities | 5 | 0 |
| | **35** | **0** |
| **Operational boundary for external debt** | | |
| Borrowing | 25 | 0 |
| Other long term liabilities | 0 | 0 |
| | **25** | **0** |
| **Interest rate exposures** | | |
| Maximum fixed rate borrowing | 100% | **0** |
| Maximum variable rate borrowing | 100% | **0** |
| | | |
| **Investments** | | |
| **Interest rate exposures** | | |
| Limits on fixed interest rates | 100% | 80% |
| Limits on variable interest rates | 50 | 17 |
| | | |
| **Principal sums invested > 364 days** | | |
| Upper limit for principal sums invested >364 days | 40 | 18 |

**Prudential indicators – explanatory note**

**Debt**

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, “invest to save” projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

**Interest rate exposures**

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

**Investments**

**Interest rate exposure**

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

**Principal sums invested**

This indicator sets a limit on the level of investments that can be made for more than 364 days.

# Report to:

South Oxfordshire District Council

Listening Learning Leading

## Joint Audit and Governance Committee
## Cabinet
## Council

Report of Interim Head of Finance

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E-mail: david.turner@southoxon.gov.uk

| To: | | |
|---|---|---|
| | JOINT AUDIT AND GOVERNANCE COMMITTEE on | 27 January 2020 |
| | CABINET on | 30 January 2020 |
| | COUNCIL on | 13 February 2020 |

# Treasury Management and Investment Strategy 2020/21

**Recommendations**

That Joint Audit and Governance Committee approves each of the following key elements of this report, and recommends these to Cabinet:

1. To approve the treasury management strategy 2020/21 set out in appendix A to this report;

2. To approve the prudential indicators and limits for 2020/21 to 2022/23 as set out in, appendix A.

3. To approve the annual investment strategy 2020/21 set out in appendix A, (paragraphs 40 to 81) and the lending criteria detailed in table 5.

That Cabinet considers any comments from committee and recommends Council to approve report.

## Purpose of report

1. This report presents the council's Treasury Management Strategy (TMS) for 2020/21. This sets out how the council's treasury service will support financing of capital investment decisions, and how treasury management operates day to day. It sets out the limitations on treasury management activity informed by the prudential indicators, within which the council's treasury function must operate. The strategy is included as appendix A to the report. This report includes the three elements required by legislation as follows:

   - The **prudential indicators** required by the CIPFA Prudential Code 2017 for Capital Finance in Local Authorities and CIPFA TM code of Practice 2017;

   - The **annual investment strategy**. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments.

   - A statutory duty to approve a **minimum revenue provision** policy statement. (appendix A, paragraph 15-19).

   It is a requirement of the CIPFA Code of Practice on Treasury Management 2017 that this report is approved by full Council on an annual basis.

## Strategic objectives

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

## Background

3. Treasury management is the planning of the council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

4. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and informs long-term cash flow plans to ensure that the council can meet its capital spending obligations.

5. Treasury investments are effectively what the council does with its cash resources before it is spent on the provision of services and the funding of the capital programme. All expenditure of a capital nature is managed through the council's capital programme and is not covered by this report.

6. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.

7. The council's treasury management strategy 2020/21 is attached in appendix A. Whilst every attempt has been made to minimise the technical content of this report, it is, by its very nature and the need for compliance with associated guidance, technical in parts. A glossary of terms in appendix G should aid members understanding of some technical terms used in the report.

8. The last significant review by CIPFA of its 'Prudential code' and the 'Treasury Management Code of Practice' was in 2017 and the necessary changes to our TMS were made last year.

**Recommended changes to the treasury management strategy**

9. Council approved the 2019/20 treasury management strategy on 14 February 2019. The proposed strategy for 2020/21 has no significant changes compared to previous year.

**Financial implications and risk assessment**

10. This report and all associated policies and strategies set out clearly the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to help protect the council's finances by managing its risk exposure.

11. Base rates last rose in August 2018 from 0.5 per cent to 0.75 per cent. This was the first increase in Bank Rate above 0.5 per cent since the financial crash of 2008

12. Link Asset Services forecast that the bank base rate will not increase before March 2021, followed by increases in June 2022, before ending up at 1.25 per cent in March 2023. *Quoted from link Asset Services December 2019*

13. The table below gives an estimate of the investment income achievable for the next five years;

| **Table 1: Medium term investment income forecast** | | | | | |
|---|---|---|---|---|---|
| | 2020/21<br>£000's | 2021/22<br>£000's | 2022/23<br>£000's | 2023/24<br>£000's | 2024/25<br>£000's |
| Forecast as at December 2019 | 2,583 | 2,365 | 2,508 | 2,505 | 2,439 |

The 2020/21 budget setting report and medium term financial plan will take into account the latest projections of anticipated investment income.

**Legal implications**

14. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

15. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003 (the Act), the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

**Conclusion**

16. This report introduces the treasury management strategy and the annual investment strategy for 2020/21 which are appended to this report, together with the prudential indicators for approval to council. These documents provide the parameters within which the council's treasury management function will operate.

**Background papers**

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA statement 17.10.18 on borrowing in advance of need and investments in commercial properties
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018
- Statutory Guidance on Local Government Investments (3rd Edition)
- Statutory Guidance on Minimum Revenue Provision

**Appendices**

Appendix A Treasury Management Strategy 2020/21
Appendix B Economic Background
Appendix C Risk and performance benchmarking
Appendix D Explanation of Prudential and Treasury Indicators
Appendix E TMP1 extract
Appendix F Extension to the responsibilities of the S151 officer
Appendix G Glossary of terms

# Appendix A

## Treasury Management Strategy 2020/21

## Introduction

1. The first main function of the treasury management services is to ensure the council's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the treasury management service is the funding of the council's capital plans.

2. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

3. CIPFA defines treasury management as:

   *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

4. Revised reporting was required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities & Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is reported separately.

### Treasury Management reporting

5. The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

   a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:
      - the capital plans, (including prudential indicators);
      - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
      - the treasury management strategy, (how the investments and borrowings are managed), including treasury indicators; and
      - an investment strategy, (the parameters on how investments are to be managed).

b) A mid-year treasury management report – This is primarily a progress report and will update members on the mid-year treasury performance, amending prudential indicators as necessary, and whether any policies require revision.

c) An annual treasury report – This report reviews performance for the previous financial year and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Scrutiny**

6. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Joint Audit and Governance Committee.

**Treasury Management Strategy for 2020/21**

7. The strategy for 2020/21 covers the areas below:
   - the capital expenditure plans and the associated prudential indicators;
   - the minimum revenue provision (MRP) policy.
   - the current treasury position;
   - treasury indicators which limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - the borrowing strategy;
   - policy on borrowing in advance of need;
   - debt rescheduling;
   - the investment strategy;
   - creditworthiness policy; and
   - the policy on use of external service providers.

8. These elements cover the requirements of the Local Government Act 2003 (the Act), the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

**Councillor and officer training**

9. The CIPFA Code requires the Interim Head of Finance to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

10. Capita have been contracted to undertake the Treasury Management function since beginning of August 2016. The service is carried out by the financial accounting team which are based in Shepton Mallet. The council still authorise daily dealings and receive regular reports from the team on current and future investments.

**Capital Prudential Indicators**

11. The Council's capital expenditure plans (as detailed in the council's capital programme) are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

**Treasury management advisors**

12. The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

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

14. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, knowledge and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

**Minimum Revenue Provision (MRP) policy statement 2020/21**

15. The council's current capital programme will primarily be financed from internal resources. If borrowing is undertaken, then the council will be required by statute to set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the MRP. There will also be a requirement to set aside revenue budget for the interest payments on any borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly.

16. The council is required by regulation to approve an annual MRP policy before the start of the year to which it relates. Any in-year changes must also be submitted to the council for approval.

17. A variety of options are provided to councils for the calculation of MRP. The council has chosen the "asset life method" as being most appropriate. Using this method MRP will be based on the estimated life of the asset, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). Repayments included in annual PFI or finance leases are applied as MRP.

18. Currently, the council's MRP liability is nil. This will remain the case unless capital expenditure is financed by external or internal borrowing.

19. The Interim Head of Finance will determine the most appropriate repayment method, term of borrowing and duration of borrowing. As a general illustration, Table 1 below gives an example of the annual revenue costs associated with borrowing an amount of £2.5 million over a 50-year period, based on the current district tax base of 57,849 Band D equivalents:

| **Table 2: Example MRP and interest calculation** | |
|---|---|
| Loan Amount | £2,500,000 |
| Loan Duration | 50 Years |
| PWLB Interest | 3.38% |

| | | |
|---|---|---|
| 2020/21 Tax Base | 57,849 | |
| | £ | £ per Band D |
| MRP Element | £50,000 | 0.86 |
| Annual Interest Cost | £84,375 | 1.46 |
| **Total** | **£134,375** | **2.32** |

**Prospects for interest rate forecast and economic rate forecasts**

20. The following table gives Link Asset Services central view on expected interest rate movements out to March 2023. It should be read alongside the commentary provided below.

*Quoted by link Asset Services December 2019*

| Bank Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | **0.75%** | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.25% |
| Capital Economics | **0.75%** | 0.75% | 0.75% | 0.50% | 0.50% | 0.50% | - | - | - | - | - | - | - | - | - |

| 5yr PWLB Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | **2.27%** | 2.30% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.20% | 3.20% |
| Capital Economics | **2.27%** | 2.40% | 2.40% | 2.40% | 2.40% | 2.40% | - | - | - | - | - | - | - | - | - |

| 10yr PWLB Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | **2.46%** | 2.60% | 2.70% | 2.70% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.50% |
| Capital Economics | **2.46%** | 2.60% | 2.60% | 2.60% | 2.60% | 2.60% | - | - | - | - | - | - | - | - | - |

| 25yr PWLB Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | **3.03%** | 3.20% | 3.30% | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% |
| Capital Economics | **3.03%** | 2.90% | 2.90% | 2.90% | 2.90% | 2.90% | - | - | - | - | - | - | - | - | - |

| 50yr PWLB Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | **2.87%** | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% |
| Capital Economics | **2.87%** | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | - | - | - | - | - | - | - | - | - |

21. *It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth".*

22. *Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.*

23. *The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.*

24. *The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.*

25. *In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.*

26. *Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.*

**Treasury Limits for 2020/21 to 2022/23**

27. It is a statutory duty, under Section 3 of the Act and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the “Affordable Borrowing Limit”. The Authorised Limit is the legislative limit specified in the Act.

28. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and, that the impact upon its future council tax is ‘acceptable’.

29. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.

30. The following indicators set the parameters within which we manage the overall capital investment and treasury management functions. There are specific treasury activity limits, which aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits are set out in table 2 below.

**Cabinet is asked to recommend council to approve the limits:**

**Table 3: Prudential indicators**

| | **2019/20 Approved** | **2020/21 Estimate** | **2021/22 Estimate** | **2022/23 Estimate** |
|---|---|---|---|---|
| **Debt** | **£m** | **£m** | **£m** | **£m** |
| **Authorised limit for external debt** | | | | |
| Borrowing | 30 | 30 | 30 | 30 |
| Other long-term liabilities | 0 | 0 | 0 | 0 |
| | **30** | **30** | **30** | **30** |
| **Operational boundary for external debt** | | | | |
| Borrowing | 25 | 25 | 25 | 25 |

| | | | | |
|---|---|---|---|---|
| Other long-term liabilities | 0 | 0 | 0 | 0 |
| | **25** | **25** | **25** | **25** |
| **Interest rate exposures** | | | | |
| Maximum fixed rate borrowing | 100% | 100% | 100% | 100% |
| Maximum variable rate borrowing | 100% | 100% | 100% | 100% |
| **Investments** | | | | |
| **Interest rate exposures** | | | | |
| Limits on fixed interest rates | 100% | 100% | 100% | 100% |
| Limits on variable interest rates | 50 | 50 | 50 | 50 |
| **Total principal sums invested for periods longer than a year" i.e. +365 days** | | | | |
| Upper limit for principal sums invested +365 days | 70 | 70 | 70 | 70 |

**Current position**

17. The maturity structure of the council's investments at 30 November 2019 was as follows:

| **Table 4: maturity structure of investments:** | **Total £000's** | **% holding** |
|---|---|---|
| Call | 500 | 0% |
| Money market fund | 10,264 | 6% |
| Less than 6 months | 49,000 | 30% |
| 6 months to 1 year | 50,000 | 31% |
| 1 year + | 34,000 | 21% |
| CCLA - Property Fund | 6,831 | 4% |
| Equities | 12,775 | 8% |
| **Total investments** | **163,369** | **100%** |

** The figure for total investments shown above excludes the £15 million 20-year loan to SOHA made in 2013/14 and the balance outstanding with Kaupthing Singer & Friedlander (KSF).*

***£163 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley, business rate receipts prior to payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.*

31. The council holds as above, 88 per cent of its investments in the form of cash deposits, 82 per cent is invested for fixed terms with a fixed investment return and 6 per cent on call accounts, with the remainder held in non-cash deposits. Typically, the council restricts lending activity to UK institutions and the highest rated counterparties

32. The council's considerations for investment will remain security, liquidity and yield – in that order. Officers undertaking Treasury Management will work towards the optimum profile distribution.

**Investment performance for the year to 30 November 2019**

33. The council's budgeted investment return for 2019/20 is £2.807 million, and the actual interest received to date is shown as follows:

| Table 5: Investment interest earned by investment type | | | | |
|---|---|---|---|---|
| | | Interest Earned | | |
| **Investment type** | **Annual Budget £000's** | **Actual to date £000's** | **Annual Forecast £000's** | **Forecast Variation £000's** |
| Fixed term and call cash | 1,429 | 837 | 1,602 | **(173)** |
| SOHA | 623 | 312 | 623 | **0** |
| CCLA | 299 | 150 | 299 | **0** |
| Unit Trusts | 456 | 148 | 592 | **(136)** |
| **Total interest** | **2,807** | **1,447** | **2,683** | **(309)** |

**Borrowing Strategy 2020/21**

34. The annual treasury management strategy has to set out details of the council's borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council currently has no external debt and in general, the council will borrow for one of two purposes:

- to support cash flow in the short-term;
- To fund capital investment over the medium to long term.

35. Any borrowing undertaken will be within the scope of the boundaries given in the prudential indicators shown in Table 2, which allow for the council to borrow up to a maximum of £30 million, if such a need arose. This also allows short-term borrowing for the cash flow management activities of the authority.

36. The existing capital programme can be financed from internal resources. If additional expenditure was committed in the future a decision would have to be made at the time as to how it would be funded taking into account the prudential borrowing criteria. Any decision on borrowing will be taken by the Interim Head of Finance based on the optimum cost to the council.

37. Any borrowing for capital financing purposes will be assessed by the Head of Finance to be prudent, sustainable and affordable

38. This strategy allows the Interim Head of Finance to determine the most suitable repayment terms of any borrowing to demonstrate affordability and sustainability in the medium term financial plan if required. As a rule, the term of any borrowing will not be longer than the expected life of the capital asset being created.

**Policy on borrowing in advance of need**

39. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

40. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

**Annual investment strategy 2020/21**

41. The MHCLG and CIPFA have extended their definition of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

42. The Council’s investment policy has regard to the following: -

    - MHCLG’s Guidance on Local Government Investments (“the Guidance”)
    - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
    - CIPFA Treasury Management Guidance Notes 2018

43. The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

44. The primary aim of the council’s investment strategy is to maintain the security and liquidity of its investments; yield or return on the investment will be a secondary consideration, subject to prudent security and liquidity. The council will ensure:

    - It has sufficient liquidity in its investments to cover cash flow. For this purpose, it has set out parameters for determining the maximum periods for which funds may prudently be committed.

    - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

45. The strategy aims to provide a high degree of flexibility to take appropriate lending decisions, with a view to producing a portfolio with an even spread of maturity periods. This aim is to provide a more even and predictable investment return in the medium term.

46. The council’s Interim Head of Finance will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 5) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

**Investment types**

47. The types of investment that the council can use are summarised below. These are split under the headings of 'specified' and 'non-specified' in accordance with the statutory guidance.

**Specified investment instruments**

48. These are sterling investments of not more than one-year maturity, or those where the council has the right to be repaid within 12 months if it wishes. These would include sterling investments with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A- rated)
- Certificates of deposits issued by banks and building societies (minimum rating as above)

**Non-specified investment instruments**

49. These are any other type of investment (i.e. investments not defined as specified, above). Examples of non-specified investments include any sterling investments with:

- Supranational bonds of 1 to 10 years to maturity
- UK treasury stock (Gilts) with a maturity of 1 to 10 years
- Unrated building societies (minimum asset value £1 billion)
- Bank and building society cash deposits up to 5 years (minimum F1/A- rated)
- Deposits with UK local authorities up to 25 years to maturity
- Corporate bonds
- Pooled property, pooled bond funds and UK pooled equity funds
- Diversified Income Fund
- Multi-Asset Fund
- Ultra-Dated/Short dated bond
- Non-UCITS Retail Schemes (NURS)

**Other Non-specified investment instruments**.

50. Other non-specified investment instruments include:

- Fixed term deposits with variable rate and variable maturities

**Approach to investing**

51. The council holds approximately £111 million core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is incurred and to fund the revenue budget shortfall. In addition, the council has funds that are available on a temporary basis to invest. These are held pending payment over to another body

such as precept payments and council tax. The amount can vary between £5 million and £15 million throughout the year and should only be invested short term (under one year). Investments will be made with reference to known cash flow requirements (liquidity).

52. While rates remain historically low the council will aim to keep investments relatively short term but will continue to look for opportunities to fix lending in the medium term with highly rated institutions when possible for core cash balances. The aim is to increase the weighted average maturity of the portfolio in order to reduce maturity risk.

53. Officers will continue to provides tight controls on the investments placed. Where possible, opportunities to spread the investment risk over different types of instruments will be considered.

54. Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it will make use of the UK Government deposit account (DMADF).

55. The council has the authority to lend to other local authorities at market rates. Whilst investments with other local authorities are considered to be supported by central government, officers will consider the financial viability and sustainability of the individual local authority before any funds are advanced.

56. Further investment in property funds will be looked at in more detail for consideration. In 2013/14 the council invested £5 million in the Churches Charities and Local Authorities pooled property investment fund (CCLA).

57. Money market funds are mainly used for liquidity; they also provide security and spread portfolio risk. Officers will always monitor the council's exposure to these funds in order to manage our security risk.

58. Currently the council does not make use of an external fund manager. Whilst there are presently no plans for this situation to change, this will continue to be kept under review.

59. Bond funds can be used to diversify the portfolio, whilst maintaining an element of liquidity and security. These will be considered and reviewed as an investment possibility to spread portfolio risk.

60. One option to offer diversification in the council's investment portfolio would be to make use of Ultra Short Dated / Short Dated Bond Funds (USDBF / SDBFs). Possible use of such funds would be intended for longer term investments than with traditional money market funds (i.e. for possible investment durations of three – six months).

61. Unlike money market funds USDBF/SDBF have a variable net asset value (VNAV). This means the assets are 'marked to market' (re-valued to current market value) on a daily basis and the fund unit price adjusted accordingly. Under this calculation basis the unit price fluctuates and could, therefore, be higher or lower than the original investment when it is redeemed. Any use of the above funds would be restricted to the high-quality counterparty credit criteria as set out in Table 5 below.

62. The council does not currently make use of certificates of deposit. Consideration will be given to their use to assist diversification of the investment portfolio. Certificates of deposit have the same level of ranking and security as ordinary fixed term deposits but have the option of being traded before maturity. Certificates of deposit are bought and sold on the stock market and their price can go up or down prior to their redemption date. If held to maturity the investment will return their issue value. The council would only normally look to enter such investments on a held to maturity basis.

**Counterparty selection**

63. Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. Link Asset Services provide the council with credit rating updates from all three ratings agencies – Standard & Poors, Fitch and Moodys.

64. The council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies in evaluating investment opportunity. This is because adopting this approach could leave the council with too few counterparties for the strategy to be workable. Instead, counterparty investment limits will be set by reference to all of the assigned ratings.

65. Where counterparties fail to meet the minimum required criteria (Table 5 below) they will be omitted from the counterparty list. Any rating changes and rating watches (notification of a rating change under consideration) are provided to officers almost immediately after they occur, and this information is considered before any deal is entered into. Extreme market movements may result in a downgrade of an institution or removal from the council's lending list.

66. Additional requirements under the CIPFA Treasury Management Code require the council to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on the current credit ratings of counterparties.

67. Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with the agreement of the cabinet member responsible for finance.

**Country and sector considerations**

68. The council has determined that it will only use approved counterparties outside the UK from countries with a minimum sovereign credit rating of AAA from Fitch Ratings.

**Counterparty limits**

69. In the normal course of the council's cash flow operations it is expected that both specified and non-specified investments will be used for the control of liquidity as both categories allow for short term investments. The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified

investment category. These instruments will be used where the council's liquidity requirements are safeguarded. The council will lend to institutions that meet the following criteria:

**Table 6: Counterparty Limits**

| Counterparty | Minimum Fitch Long term Rating ( or equivalent) | Counterparty Limit £m | Max. maturity period | Maximum % of total investments |
|---|---|---|---|---|
| Institutions with a minimum rating: | F1+ / AA- | £15.0m | 4 years | 25% |
| Institutions with a minimum rating: | F1+ / A+ | £15.0m | 3 years | 25% |
| Institutions with a minimum rating: | F1 / A | £15.0m | 2 years | 30% |
| Institutions with a minimum rating: | F1 / A- | £15.0m | 1 year | 50% |
| Banks - part nationalised UK | UK sovereign | £20.0m | 4 years | 100% |
| Building societies - assets > £5bn | n/a | £10.0m | 12 months | 70% |
| Building societies - assets > £3bn | n/a | £8.0m | 12 months | 60% |
| Building societies - assets > £1bn | n/a | £6.0 m | 12 months | 50% |
| Building Societies | BBB+ | £15.0m | 12 Months | 50% |
| Local authorities, parish councils | n/a | £20.0m | 25 years | 50% |
| Money Market funds | AAA | £20.0m | liquid | 100% |
| Pooled bond fund | F1+/A+ | £5.0m | Variable | 10% |
| Pooled property fund | n/a | £10.0m | Variable | 15% |
| CCLA Diversified Income Fund | n/a | £10.0m | Variable | 15% |
| Multi - Asset Funds | n/a | £10.0m | Variable | 15% |
| Ultra-Dated/Short dated bonds | n/a | £10.0m | Variable | 15% |
| Property related Investments | n/a | £30.0m | Variable | 80% |
| Corporate Bonds | F1+/A+ | £5.0m | Variable | 10% |
| Non-UCITS Retail Scheme (NURS) | n/a | £5.0m | Variable | 50% |
| Managed Bond Funds | F1/A- | £15.0m | Variable | 15% |
| Share capital / Equities (UK) | n/a | £10.0m | Variable | 20% |
| Supranational | AAA | £10.0m | Variable | 20% |
| UK Government - gilts | UK sovereign | £15.0m | 15 years | 10% |
| UK Government - DMADF | UK sovereign | No limit | n/a | 100% |
| UK Government - Treasury Bills | UK sovereign | £15.0m | 15 years | 10% |

70. The criteria for choosing counterparties provides a sound approach to investment. Whilst councillors are asked to approve the criteria in table 5, under exceptional market conditions the interim head of finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval.

**Fund managers**

71. The council does not currently employ any external fund managers. However, in the event of such an appointment, appointees will comply with this and subsequent treasury strategies. This strategy empowers the Section 151 officer to appoint such an external manager to manage a proportion of the council's investment portfolio if

this is advantageous. Situations in which this might be advantageous include benchmarking the performance of the treasury team; benefiting from the often-extensive credit risk and economic modelling resources of external fund managers and resources necessary to hold liquid instruments for trading.

**Risk and performance benchmarks**

72. A requirement of the Code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with an explanation in the mid-year or annual report to audit and corporate governance committee. Detailed information for the assessment of risk is shown in appendix C.

73. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward looking prudential indicators. The indicators used to assess the performance of the treasury function are:

- Cash investments - 3-month LIBID rate.
- Property related investments – IPD Balance Property Unit Trust Index.
- Equities – FTSE all shares index

74. The results of these indicators will be reported in both the annual mid-year and year end treasury reports.

**Policy on the use of treasury management advisors**

75. The council has a joint contract for treasury management advisors with Vale of White Horse District Council. Link Asset Services (was Capita Asset Services) provides a range of services which include:

- technical support on treasury matters, capital finance issues, statutory reports;
- economic forecasts and interest rate analysis;
- credit ratings / market information service involving the three-main credit rating agencies;
- strategic advice including a review of the investment and borrowing strategies and policy documents.

76. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, resources and up to date market information.

**Treasury management scheme of delegation and the role of the Section 151 officer**

77. **Council**
    - receiving and reviewing reports on treasury management policies, practices and activities;
    - approval of annual strategy.

78. **Joint Audit and Governance Committee/ Cabinet**
    - approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
    - receiving and reviewing regular monitoring reports and acting on recommendations;
    - Ensuring effective scrutiny of the treasury management function

79. **Section 151 Officer/ Interim Head of Finance**
    - recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
    - submitting regular treasury management policy reports;
    - submitting budgets and budget variations;
    - reviewing the performance of the treasury management function;
    - ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
    - ensuring the adequacy of internal audit, and liaising with external audit;
    - Approving the selection of external service providers and agreeing terms of appointment.

80. The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management), this is detailed in appendix F.

**Summary**

81. Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can manage the council's cash flows and invest any surplus funds.

82. This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

# Appendix B

## ECONOMIC BACKGROUND

**UK.** 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, MPs blocked leaving on that date and the EU has agreed an extension to 31 January 2020. In addition, a general election has been called for December. At the time of writing (30 October), the whole Brexit situation could still change at any time. Given these circumstances and the uncertainty about the result of the general election, any interest rate forecasts are subject to material change as the situation evolves. If Parliament fully approves the Withdrawal Bill, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market that could cause wage inflation to accelerate; this would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently: the MPC would then be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, the MPC has relatively little room to make a big impact and it would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction.

The first half of 2019 saw UK **economic growth** falling to -0.2% in quarter 2 as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The **MPC** meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that since Boris Johnson became Prime Minister, the government has made significant statements on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself. However, in the three months to August, employment swung into negative with a fall of 56,000, the first fall for two years. Unemployment duly rose from a 44 year low of 3.8% on the Independent Labour Organisation measure in July to 3.9%. Wage inflation also edged down slightly from a high point of 3.9% to 3.8% in August, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The quarter 2 GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise

Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

**USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening.

**The Fed** finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn , whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt).

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

**EUROZONE. Growth** has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

**The European Central Bank (ECB)** ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt;** (at its October meeting it said this would start in November at €20bn per month - a relatively small amount compared to the previous buying programme). It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments will need to help stimulate growth by 'growth friendly' fiscal policy.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

**CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

**JAPAN** - has been struggling 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.

**WORLD GROWTH.** Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

**INTEREST RATE FORECASTS**

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has diminished.

**The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

**Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the

fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The SPD has done particularly badly in state elections since then which has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

# Appendix C

**Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service.**

1. These benchmarks are targets and so may be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.

2. **Yield**. The local benchmark currently used to assess the performance of cash investments is the level of returns contrasted against the London Interbank Bid (LIBID) three month rate. This is the interest rate a bank would be willing to pay to borrow from another bank for three months.
Property related investments are benchmarked against the IPD Balanced Property Unit Trust Index.

3. **Liquidity**. Liquidity is defined as the council "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice).

4. In respect of this area, the council shall seek to:

- maintain a minimal balance held in the council's main bank account at the close of each working day. Transfers to the councils call accounts, MMF and investments will be arranged in order to achieve this, while maintaining access to adequate working capital at short notice.
- use the authorised bank overdraft facility or short term borrowing where there is clear business case for doing so, to cover working capital requirements at short notice

5. **Security of the investments**.

In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the last 20-30 years.

**Average defaults for differing periods of investment**

| Long term rating | 1 year | 2 years | 3 years | 4 years | 5 years |
|---|---|---|---|---|---|
| AA | 0.04% | 0.10% | 0.18% | 0.27% | 0.36% |
| A | 0.05% | 0.15% | 0.28% | 0.42% | 0.59% |
| BBB | 0.16% | 0.44% | 0.77% | 1.15% | 1.55% |

6. The council's minimum long term (i.e. plus 365 day duration) rating criteria is currently "A-". For comparison, the average expectation of default for a two year investment in a counterparty with an "A" long term rating would be 0.15 per cent of the total investment (e.g. for a £1m investment the average loss would be £1,500). **This is an average** - any specific counterparty loss is likely to be higher. These figures act as a proxy benchmark for risk across the portfolio.

## Appendix D

## Explanation of Prudential and Treasury Indicators

Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

**Authorised limit for external debt** – this is the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows.

**Operational boundary for external debt** – this is set as the more likely amount that may be required for day to day cash flow.

**Upper limit for fixed and variable interest rate exposure** – these limits allow the council flexibility in its investment and borrowing options.

**Upper limit for total principal sums invested for over 365 days** – the amount it is considered can be prudently invested for periods in excess of a year

# Appendix E

**Treasury Management Practice (TMP) 1 – credit and counterparty risk management**

The CLG issued Investment Guidance in 2010, and this forms the structure of the council's policy below.

The key aim of the guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the code, the interim head of finance has produced its treasury management practices (TMPs). This part, TMP1(1), covering investment counterparty policy requires approval each year

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

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

The investment policy proposed for the Council is:

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

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

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A-)

- Certificates of deposits issued by banks and building societies (minimum rating as above) covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor’s, Moody’s and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are as stated in table 5 to this report.

**Non-specified investments**
These are any other type of investment (i.e. not defined or specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are as set out in Table 5.

**Implementation in 2018/19**
In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances.

The 2017 CIPFA Code of Practice on Treasury Management abolished the treasury indicators on limits for fixed and variable rate exposure. However, this was on the basis that authorities would explain in words how they control interest rate risk.

**IFRS 9**
Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments. Key considerations are:

- Expected credit loss model. Whilst this should not be material for ordinary treasury investments such as bank deposits, this is likely to be challenging for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).
- 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, will be changed to Fair Value through the Profit and Loss (FVPL).

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable 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.

# Appendix F

**Extension to the specific responsibilities of the S151 officer as per the Treasury Management code**

The below list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management);

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

## Appendix G

GLOSSARY OF TERMS

| | |
|---|---|
| **Authorised Limit** | The maximum amount of external debt at any one time in the financial year. |
| **Basis Point (BP)** | 1/100th of 1%, i.e. 0.01% |
| **Base Rate** | Minimum lending rate of a bank or financial institution in the UK. |
| **Benchmark** | A measure against which the investment policy or performance of a fund manager can be compared. |
| **Bill of Exchange** | A financial instrument financing trade. |
| **Callable Deposit** | A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower. |
| **Cash Fund Management** | Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio. |
| **Certificate of Deposit (CD)** | Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore, the holder of a CD is able to sell it to a third party before the maturity of the CD. |
| **Commercial Paper** | Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing. |
| **Corporate Bond** | Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies. |
| **Counterparty** | Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.) |
| **CDS** | Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap. |
| **CFR** | Capital Financing Requirement. |
| **CIPFA** | Chartered Institute of Public Finance and Accountancy. |
| **CLG** | Department for Communities and Local Government. |
| **Derivative** | A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock. |
| **DMADF** | Deposit Account offered by the Debt Management Office, guaranteed by the UK government. |

| | |
|---|---|
| **ECB** | European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2 per cent. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle. |
| **Enhanced Cash Funds** | A pooled investment fund. Longer dated investment than a MMF and, unlike a MMF, enhanced cash funds have variable asset value. Assets are marked to market on a daily basis and the unit prices vary accordingly. Investments can be withdrawn on a notice basis (the length of which depends on the fund) although such funds would typically be used for investments of 3 to 6 month duration. |
| **Equity** | A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain. |
| **Forward Deal** | The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate. |
| **Forward Deposits** | Same as forward dealing (above). |
| **Fiscal Policy** | The government policy on taxation and welfare payments. |
| **GDP** | Gross Domestic Product. |
| **Gilt** | Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent. |
| **Mark to Market Accounting** | Accounting on the basis of the “fair value” of an asset or liability, based on the current market price. As a result, values will change with market conditions. |
| **Minimum Revenue Provision** | This is a prudent sum set aside each year to offset the principal repayment of any loan to smooth the impact on the local taxpayer. |
| **Money Market Fund** | A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however a MMF relies on loans to companies rather than share holdings. |
| **Monetary Policy Committee (MPC)** | Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1 per cent of a central target of 2.5 per cent in two years’ time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment. |
| **Non-UCITS Retail Scheme (NURS) –** | Undertakings for collective investments are funds authorised to be sold in the UK that are required to meet standards set by the UK services regulator. An example is property funds. |
| **Operational Boundary** | The most likely, prudent but not worst case scenario of external debt at any one time. |
| **Other Bonds** | Pooled funds investing in a wide range of bonds. |
| **PWLB** | Public Works Loan Board. |
| **QE** | Quantitative Easing. |
| **Retail Price Index** | Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person. |

| | |
|---|---|
| **Sovereign Issues (Ex UK Gilts)** | Bonds issued or guaranteed by nation states but excluding UK government bonds. |
| **Supranational Bonds** | Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts. |
| **Treasury Bill** | Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value. |

# Report to:



## Joint Audit and Governance Committee
## Cabinet
## Council

Report of Interim Head of Finance

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| | | |
|---|---|---|
| To: | JOINT AUDIT & GOVERNANCE COMMITTEE on | 27 January 2020 |
| | CABINET on | 31 January 2020 |
| | COUNCIL on | 12 February 2020 |

# Treasury Management and Investment Strategy 2020/21

**Recommendations**

That Joint Audit and Governance Committee approves each of the following key elements of this report, and recommends these to Cabinet:

1. To approve the treasury management strategy 2020/21 set out in appendix A to this report;
2. To approve the prudential indicators and limits for 2020/21 to 2022/23 as set out in, appendix A.
3. To approve the annual investment strategy 2020/21 set out in appendix A, (paragraphs 41 to 82) and the lending criteria detailed in table 5.

That Cabinet considers any comments from committee and recommends Council to approve report.

**Purpose of report**

1. This report presents the council's Treasury Management Strategy (TMS) for 2020/21. This sets out how the council's treasury service will support financing of capital investment decisions, and how treasury management operates day to day. It sets out the limitations on treasury management activity informed by the prudential

indicators, within which the council's treasury function must operate. The strategy is included as appendix A to the report. This report includes the three elements required by legislation as follows:

- The **prudential and Treasury indicators** required by the CIPFA Prudential Code 2017 for Capital Finance in Local Authorities and CIPFA TM code of Practice 2017;

- The **annual investment strategy**. This sets out the council's criteria for selecting counterparties and limiting exposure to the risk of loss on its investments.

- A statutory duty to approve a **minimum revenue provision** policy statement, (appendix A, paragraph 15-19).

It is a requirement of the CIPFA Code of Practice on Treasury Management 2017 that this report is approved by full Council on an annual basis.

**Strategic objectives**

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

**Background**

3. Treasury management is the planning of the council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

4. The funding of the council's capital expenditure is also a function of treasury management. The capital programme provides a guide to the funding needs of the council and informs long-term cash flow plans to ensure that the council can meet its capital spending obligations.

5. Treasury investments are effectively what the council does with its cash resources before it is spent on the provision of services and the funding of the capital programme. All expenditure of a capital nature is managed through the council's capital programme and is not covered by this report.

6. The treasury management and annual investment strategy set out the council's policies for managing investments and confirms the council gives priority to the security and liquidity of those investments. It also includes the prudential indicators for the next three years; these demonstrate that the council's capital investment plans are affordable, prudent and sustainable.

7. The council's treasury management strategy 2020/21 is attached in appendix A. Whilst every attempt has been made to minimise the technical content of this report, it is, by its very nature and the need for compliance with associated guidance, technical in parts. A glossary of terms in appendix G should aid members understanding of some technical terms used in the report.

8. The last significant review by CIPFA of its 'Prudential code' and the 'Treasury Management Code of Practice' was in 2017 and the necessary changes to our TMS were made last year.

## Recommended changes to the treasury management strategy

9. Council approved the 2019/20 treasury management strategy on 13 February 2019. The proposed strategy for 2020/21 has no significant changes compared to previous year. Treasury management strategy 2020/21 has been updated in line with code.

## Financial implications and risk assessment

10. This report and all associated policies and strategies set out clearly the parameters the council must work within. It is important that the council follows the approved treasury management strategy which is designed to help protect the council's finances by managing its risk exposure.

11. Base rates last rose in August 2018 from 0.5 per cent to 0.75 per cent. This was the first increase in Bank Rate above 0.5 per cent since the financial crash of 2008.

12. Link Asset Services forecast that the bank base rate will not increase before March 2021, followed by increases in June 2022, before ending up at 1.25 per cent in March 2023. *Quoted from link Asset Services December 2019*

13. The table below gives an estimate of the investment income achievable for the next five years;

**Table 1: Medium term investment income forecast**

| | 2020/21<br>£000's | 2021/22<br>£000's | 2022/23<br>£000's | 2023/24<br>£000's | 2024/25<br>£000's |
|---|---|---|---|---|---|
| Forecast as at December 2019 | 833 | 782 | 894 | 840 | 717 |

The 2020/21 budget setting report and medium term financial plan will take into account the latest projections of anticipated investment income.

### Legal implications

14. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

15. The council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the Local Government Act 2003 ( the Act), the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance under Section 15(1) (a) Local Government Act 2003 and CIPFA Prudential Code for Capital Finance.

## Conclusion

16. This report introduces the treasury management strategy and the annual investment strategy for 2020/21 which are appended to this report, together with the prudential indicators for approval to council.. These documents provide the parameters within which the council's treasury management function will operate.

## Background papers

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA statement 17.10.18 on borrowing in advance of need and investments in commercial properties
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018
- Statutory Guidance on Local Government Investments (3rd Edition)
  Statutory Guidance on Minimum Revenue Provision

## Appendices

Appendix A Treasury Management Strategy 2020/21
Appendix B Economic Background
Appendix C Risk and performance benchmarking
Appendix D Explanation of Prudential and Treasury Indicators
Appendix E TMP1 extract
Appendix F Extension to the responsibilities of the S151 officer
Appendix G Glossary of terms

# Appendix A

## Treasury Management Strategy 2020/21

## Introduction

1. The first main function of the treasury management services is to ensure the council's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the treasury management service is the funding of the council's capital plans.

2. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

3. CIPFA defines treasury management as:

*"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

4. Revised reporting was required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities & Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is reported separately.

### Treasury Management reporting

5. The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

   a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:
      - the capital plans, (including prudential indicators);
      - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
      - the treasury management strategy, (how the investments and borrowings are managed), including treasury indicators; and
      - an investment strategy, (the parameters on how investments are to be managed).

b) A mid-year treasury management report – This is primarily a progress report and will update members on the mid-year treasury performance, amending prudential indicators as necessary, and whether any policies require revision.

c) An annual treasury report – This report reviews performance for the previous financial year and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Scrutiny**

6. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Joint Audit and Governance Committee.

**Treasury Management Strategy for 2020/21**

7. The strategy for 2020/21 covers the areas below:
   - the capital expenditure plans and the associated prudential indicators;
   - the minimum revenue provision (MRP) policy.
   - the current treasury position;
   - treasury indicators which limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - the borrowing strategy;
   - policy on borrowing in advance of need;
   - debt rescheduling;
   - the investment strategy;
   - creditworthiness policy; and
   - the policy on use of external service providers.

8. These elements cover the requirements of the Local Government Act 2003, (the Act) the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

**Councillor and officer training**

9. The CIPFA Code requires the Interim Head of Finance to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

10. Capita have been contracted to undertake the Treasury Management function since beginning of August 2016. The service is carried out by the financial accounting team which are based in Shepton Mallet. The council still authorise daily dealings and receive regular reports from the team on current and future investments.

**Capital Prudential Indicators**

11. The Council's capital expenditure plans (as detailed in the council's capital programme) are a key driver of treasury management activity. The output of the capital expenditure

plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

**Treasury management consultants**

12. The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

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

14. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, knowledge and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

**Minimum Revenue Provision (MRP) policy statement 2020/21**

15. The council's current capital programme will primarily be financed from internal resources. If borrowing is undertaken, then the council will be required by statute to set aside funds in the annual revenue budget to amortise the principal element of any borrowing – this is the MRP. There will also be a requirement to set aside revenue budget for the interest payments on any borrowing raised. Loans will generally be taken over the life of the assets being financed and amortised accordingly.

16. The council is required by regulation to approve an annual MRP policy before the start of the year to which it relates. Any in-year changes must also be submitted to the council for approval.

17. A variety of options are provided to councils for the calculation of MRP. The council has chosen the "asset life method" as being most appropriate. Using this method MRP will be based on the estimated life of the asset, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). Repayments included in annual PFI or finance leases are applied as MRP.

18. Currently, the council's MRP liability is nil. This will remain the case unless capital expenditure is financed by external or internal borrowing.

19. The Interim Head of Finance will determine the most appropriate repayment method, term of borrowing and duration of borrowing. As a general illustration, Table 1 below gives an example of the annual revenue costs associated with borrowing an amount of £2.5 million over a 50 year period, based on the current district tax base of 52,686 Band D equivalents.

| Table 2: Example MRP and interest calculation | |
|---|---|
| Loan Amount | £2,500,000 |
| Loan Duration | 50 Years |

| | | |
|---|---|---|
| PWLB Interest | 3.38% | |
| 2020/21 Tax Base | 52,686 | |
| | £ | £ per Band D |
| MRP Element | £50,000 | 0.95 |
| Annual Interest Cost | £84,375 | 1.60 |
| **Total** | **£134,375** | **2.55** |

**Prospects for interest rate forecast and economic rate forecasts**

20. The following table gives Link Asset Services central view on expected interest rate movements out to March 2023. It should be read alongside the commentary provided below.

*Quoted from link Asset Services December 2019*

| Bank Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.25% |
| Capital Economics | 0.75% | 0.75% | 0.75% | 0.50% | 0.50% | 0.50% | - | - | - | - | - | - | - | - | - |

| 5yr PWLB Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | 2.27% | 2.30% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.20% | 3.20% |
| Capital Economics | 2.27% | 2.40% | 2.40% | 2.40% | 2.40% | 2.40% | - | - | - | - | - | - | - | - | - |

| 10yr PWLB Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | 2.46% | 2.60% | 2.70% | 2.70% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.50% |
| Capital Economics | 2.46% | 2.60% | 2.60% | 2.60% | 2.60% | 2.60% | - | - | - | - | - | - | - | - | - |

| 25yr PWLB Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | 3.03% | 3.20% | 3.30% | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% |
| Capital Economics | 3.03% | 2.90% | 2.90% | 2.90% | 2.90% | 2.90% | - | - | - | - | - | - | - | - | - |

| 50yr PWLB Rate | NOW | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Link Asset Services | 2.87% | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% |
| Capital Economics | 2.87% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | - | - | - | - | - | - | - | - | - |

21. *It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth".*

22. *Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.*

23. *The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.*

24. *The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis,*

*emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.*

25. *In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.*

26. *Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.*

**Treasury Limits for 2020/21 to 2022/23**

27. It is a statutory duty, under Section 3 of the Act and supporting regulations for the council to determine and keep under review how much it can afford to borrow. The amount so determined is called the “Affordable Borrowing Limit”. The Authorised Limit is the legislative limit specified in the Act.

28. The council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital expenditure remains within sustainable limits and that the impact upon its future council tax is ‘acceptable’.

29. The Authorised Limit is set on a rolling basis, for the forthcoming financial year and two successive financial years.

30. The following indicators set the parameters within which we manage the overall capital investment and treasury management functions. There are specific treasury activity limits, which aim to contain the activity of the treasury function in order to manage risk and reduce the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The limits are set out in table 2 below.

**Cabinet is asked to recommend council to approve the limits:**

**Table 3: Prudential indicators**

| **Debt** | **2019/20 Approved £m** | **2020/21 Estimate £m** | **2021/22 Estimate £m** | **2022/23 Estimate £m** |
|---|---|---|---|---|
| **Authorised limit for external debt** | | | | |
| Borrowing | 30 | 30 | 30 | 30 |
| Other long term liabilities | 5 | 5 | 5 | 5 |
| | **35** | **35** | **35** | **35** |
| **Operational boundary for external debt** | | | | |

| | | | | |
|---|---|---|---|---|
| Borrowing | 25 | 25 | 25 | 25 |
| Other long term liabilities | 5 | 5 | 5 | 5 |
| | **30** | **30** | **30** | **30** |
| **Interest rate exposures** | | | | |
| Maximum fixed rate borrowing | 100% | 100% | 100% | 100% |
| Maximum variable rate borrowing | 100% | 100% | 100% | 100% |
| **Investments** | | | | |
| **Interest rate exposures** | | | | |
| Limits on fixed interest rates | 100% | 100% | 100% | 100% |
| Limits on variable interest rates | 50 | 50 | 50 | 50 |
| Total principal sums invested for periods longer than a year" ie +365 days | | | | |
| Upper limit for principal sums invested +365days | 40 | 40 | 40 | 40 |

**Current position**

31. The maturity structure of the council's investments at 30 November 2019 was as follows:

| Table 4: maturity structure of investments: | Total £000's | % Holding |
|---|---|---|
| Call | 0 | 0% |
| Money market fund | 22,950 | 22% |
| Less than 6 months | 31,000 | 30% |
| 6 months to 1 year | 25,000 | 24% |
| 1 year + | 24,000 | 23% |
| CCLA - Property Fund | 2,000 | 2% |
| **Total Investments** | **104,950** | **100%** |

*Note: £105 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley, business rate receipts prior to payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.*

32. The council currently holds all of its investments in the form of either cash deposits or a managed property fund (£2 million with CCLA), the majority of which have been placed for fixed terms with a fixed investment return.

33. The council's considerations for investment will remain security, liquidity and yield – in that order. Officers undertaking Treasury Management will work towards the optimum profile distribution.

**Investment performance for the year to 30 November 2019.**

34. The council's budgeted investment return for 2019/20 is £0.762 million, and the actual interest received to date is shown as follows:

| Table 5: Investment interest earned by investment type | | | | |
|---|---|---|---|---|
| | | | Interest Earned | |
| Investment type | Annual Budget £000's | Actual to date £000's | Annual Forecast £000's | Forecast Variation £000's |
| Fixed term and call cash | 648 | 534 | 922 | 274 |
| CCLA | 114 | 43 | 120 | 6 |
| **Total interest** | **762** | **577** | **1,042** | **280** |

**Borrowing Strategy 2020/21**

35. The annual treasury management strategy has to set out details of the council's borrowing requirement, any maturing debt which will need to be re-financed, and the effect this will have on the treasury position over the next three years. This council currently has no external debt and in general, the council will borrow for one of two purposes;

- to support cash flow in the short-term;
- To fund capital investment over the medium to long term.

35. Any borrowing undertaken will be within the scope of the boundaries given in the prudential indicators shown in Table 2, which allow for the council to borrow up to a maximum of £30 million, if such a need arose. This also allows short-term borrowing for the cash flow management activities of the authority.

36. The existing capital programme can be financed from internal resources. Additional expenditure committed in the future can be financed either by use of reserves or internal borrowing or externally (through prudential borrowing). Any decision on borrowing will be taken by the Interim Head of Finance based on the optimum cost to the council.

37. Any borrowing for capital financing purposes will be assessed by the Interim Head of Finance to be prudent, sustainable and affordable

38. This strategy allows the Interim Head of Finance to determine the most suitable repayment terms of any borrowing to demonstrate affordability and sustainability in the medium term financial plan if required. As a general rule, the term of any borrowing will not be longer than the expected life of the capital asset being created.

**Policy on borrowing in advance of need**

39. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be

considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

40. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

**Annual investment strategy 2020/21**

41. The MHCLG and CIPFA have extended their definition of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

42. The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

43. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

44. The primary aim of the council's investment strategy is to maintain the security and liquidity of its investments; yield or return on the investment will be a secondary consideration, subject to prudent security and liquidity. The council will ensure:

- It has sufficient liquidity in its investments to cover cash flow. For this purpose, it has set out parameters for determining the maximum periods for which funds may prudently be committed.

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

45. The strategy aims to provide a high degree of flexibility to take appropriate lending decisions, with a view to producing a portfolio with an even spread of maturity periods. This aim is to provide a more even and predictable investment return in the medium term.

46. The council's Interim Head of Finance will ensure a counterparty list (a list of named institutions) is maintained in compliance with the recommended credit rating criteria (table 5) and will revise the criteria and submit any changes to the credit rating criteria to council for approval as necessary.

**Investment types**

47. The types of investment that the council can use are summarised below. These are split under the headings of 'specified' and 'non-specified' in accordance with the statutory guidance.

**Specified investment instruments**

48. These are sterling investments of not more than one-year maturity, or those where the council has the right to be repaid within 12 months if it wishes. These would include sterling investments with:

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A- rated)
- Certificates of deposits issued by banks and building societies (minimum rating as above)

**Non-specified investment instruments**

49. These are any other type of investment (i.e. investments not defined as specified, above). Examples of non-specified investments include any sterling investments with:

- Supranational bonds of 1 to 10 years to maturity
- UK treasury stock (Gilts) with a maturity of 1 to 10 years
- Unrated building societies (minimum asset value £1 billion)
- Bank and building society cash deposits up to 5 years (minimum F1/A- rated)
- Deposits with UK local authorities up to 25 years to maturity
- Corporate bonds
- Pooled property, pooled bond funds and UK pooled equity funds
- Diversified Income Fund
- Multi-Asset Fund
- Ultra-Dated/Short dated bond
- Non-UCITS Retail Schemes (NURS)

**Other Non-specified investment instruments**.

50. Other non-specified investment instruments include:

- Fixed term deposits with variable rate and variable maturities

**Approach to investing**

51. The council holds approximately £40 million core cash balances which are available to invest for more than one year. This is expected to reduce over the medium term as the approved capital expenditure is incurred and to fund the revenue budget shortfall. In addition, the council has funds that are available on a temporary basis to invest. These are held pending payment over to another body such as precept payments and council tax. The amount can vary between £5 million and £15 million throughout the year and should only be invested short term (under one year). Investments will be made with reference to known cash flow requirements (liquidity).

52. While rates remain historically low the council will aim to keep investments relatively short term but will continue to look for opportunities to fix lending in the medium term

with highly rated institutions when possible for core cash balances. The aim is to increase the weighted average maturity of the portfolio in order to reduce maturity risk.

53. Officers will continue to provide tight controls on the investments placed. Where possible, opportunities to spread the investment risk over different types of instruments will be considered.

54. Should market conditions deteriorate suddenly to the extent that the council is unable to place money with institutions with the necessary credit rating, it will make use of the UK Government deposit account (DMADF).

55. The council has the authority to lend to other local authorities at market rates. Whilst investments with other local authorities are considered to be supported by central government, officers will consider the financial viability and sustainability of the individual local authority before any funds are advanced.

56. Further investment in property funds will be looked at in more detail for consideration. In 2013/14 the council invested £2 million in the Churches Charities and Local Authorities pooled property investment fund (CCLA).

57. Money market funds are mainly used for liquidity; they also provide security and spread portfolio risk. Officers will always monitor the council's exposure to these funds in order to manage our security risk.

58. Currently the council does not make use of an external fund manager. Whilst there are presently no plans for this situation to change, this will continue to be kept under review.

59. Bond funds can be used to diversify the portfolio, whilst maintaining an element of liquidity and security. These will be considered and reviewed as an investment possibility to spread portfolio risk.

60. One option to offer diversification in the council's investment portfolio would be to make use of Ultra Short Dated / Short Dated Bond Funds (USDBF / SDBFs).. Possible use of such funds would be intended for longer term investments than with traditional money market funds (i.e. for possible investment durations of three – six months).

61. USDBF/SDBF have a variable net asset value (VNAV). This means the assets are 'marked to market' (re-valued to current market value) on a daily basis and the fund unit price adjusted accordingly. Under this calculation basis the unit price fluctuates and could, therefore, be higher or lower than the original investment when it is redeemed. Any use of the above funds would be restricted to the high-quality counterparty credit criteria as set out in Table 5 below.

62. The council does not currently make use of certificates of deposit. Consideration will be given to their use to assist diversification of the investment portfolio. Certificates of deposit have the same level of ranking and security as ordinary fixed term deposits but have the option of being traded before maturity. Certificates of deposit are bought and sold on the stock market and their price can go up or down prior to their redemption date. If held to maturity the investment will return their issue value. The

council would only normally look to enter into such investments on a held to maturity basis.

**Counterparty selection**

63. Treasury management risk is the risk of loss of capital to the council. To minimise this risk, the council uses credit rating information when considering who to lend to. Link Asset Services provide the council with credit rating updates from all three ratings agencies – Standard & Poors, Fitch and Moodys.

64. The council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies in evaluating investment opportunity. This is because adopting this approach could leave the council with too few counterparties for the strategy to be workable. Instead, counterparty investment limits will be set by reference to all of the assigned ratings.

65. Where counterparties fail to meet the minimum required criteria (Table 5 below) they will be omitted from the counterparty list. Any rating changes and rating watches (notification of a rating change under consideration) are provided to officers almost immediately after they occur, and this information is considered before any deal is entered into. Extreme market movements may result in a downgrade of an institution or removal from the council's lending list.

66. Additional requirements under the CIPFA Treasury Management Code require the council to supplement the credit rating data with operational market information such as credit default swaps (CDS), negative watches and outlooks, which are considered when assessing the security of counterparties. This additional information is used so that the council does not rely solely on the current credit ratings of counterparties.

67. Where it is felt the council would benefit from utilising government guarantees provided by countries with an AAA rating, the council may lend to institutions covered by such guarantees. Any decision to lend in this way will be subject to consultation with the agreement of the cabinet member responsible for finance.

**Country and sector considerations**

68. The council has determined that it will only use approved counterparties outside the UK from countries with a minimum sovereign credit rating of AAA from Fitch Ratings.

**Counterparty limits**

69. In the normal course of the council's cash flow operations it is expected that both specified and non-specified investments will be used for the control of liquidity as both categories allow for short term investments. The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will be used where the council's liquidity requirements are safeguarded. The council will lend to institutions that meet the following criteria:

**Table 6: Counterparty Limits**

| Counterparty | Minimum Fitch Long term Rating ( or equivalent) | Counterparty Limit £m | Max. maturity period | Maximum % of total investments |
|---|---|---|---|---|
| Institutions with a minimum rating: | F1+ / AA- | £10.0m | 5 years | 100% |
| Institutions with a minimum rating: | F1 / A- | £10.0m | 2 year | 80% |
| Institutions with a minimum rating: | F2/BBB | £5.0m | 1 year | 70% |
| Banks - part nationalised UK | UK sovereign | £15.0m | 3 years | 100% |
| Banks - house bank | n/a | £5.0m | 3 months | 20% |
| Building societies >£1bn | n/a | £3.0m | 12 months | 50% |
| Building Societies | BBB+ | £7.0 m | 12 Months | 70% |
| Local authorities, parish councils | n/a | £20.0m | 25 years | 50% |
| Money Market funds | AAA | £20.0m | liquid | 100% |
| Pooled property funds - CCLA | n/a | £7.0m | Variable | 15% |
| Corporate Bonds | AA- | £5.0m | Variable | 40% |
| CCLA Diversified Income Fund | n/a | £3.0m | Variable | 10% |
| Multi - Asset Funds | n/a | £3.0m | Variable | 10% |
| Ultra-Dated/Short dated bonds | n/a | £3.0m | Variable | 10% |
| Non-UCITS Retail Scheme (NURS) | n/a | £3.0m | Variable | 50% |
| Managed Bond Funds | n/a | £15.0m | Variable | 70% |
| Share capital / Equities | n/a | £3.0m | Variable | 20% |
| Supranational | AAA | £10.0m | 10 years | 50% |
| UK Government - gilts | UK sovereign | No limit | 25 years | 20% |
| UK Government - DMADF | UK sovereign | No limit | 12 Months | 100% |
| UK Government - Treasury Bills | UK sovereign | No limit | 6 Months | 100% |

70. The criteria for choosing counterparties provides a sound approach to investment. Whilst councillors are asked to approve the criteria in table 5, under exceptional market conditions the Interim Head of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval.

## Fund managers

71. The council does not currently employ any external fund managers. However, in the event of such an appointment, appointees will comply with this and subsequent treasury strategies. This strategy empowers the Section 151 officer to appoint such an external manager to manage a proportion of the council's investment portfolio if this is advantageous. Situations in which this might be advantageous include benchmarking the performance of the treasury team; benefiting from the often-extensive credit risk and economic modelling resources of external fund managers and resources necessary to hold liquid instruments for trading.

## Risk and performance benchmarks

72. A requirement of the Code is that security and liquidity benchmarks are considered and approved. This is in addition to yield benchmarks which are used to assess

performance. The benchmarks are guidelines (not limits) so may be breached depending on the movement in interest rates and counterparty criteria. Their purpose is to allow officers to monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with an explanation in the mid-year or annual report to audit and corporate governance committee. Detailed information for the assessment of risk is shown in appendix C.

73. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic performance indicators, as opposed to the predominantly forward looking prudential indicators. The indicators used to assess the performance of the treasury function are:

- Cash investments - 3-month LIBID rate.
- Property related investments – IPD Balance Property Unit Trust Index.

74. The results of these indicators will be reported in both the annual mid-year and yearend treasury reports.

**Policy on the use of treasury management advisors**

75. The council has a joint contract for treasury management advisors with South Oxfordshire District Council. Link Asset Services (was Capita Asset Services) provides a range of services which include:

- technical support on treasury matters, capital finance issues, statutory reports;
- economic forecasts and interest rate analysis;
- credit ratings / market information service involving the three-main credit rating agencies;
- strategic advice including a review of the investment and borrowing strategies and policy documents.

76. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, resources and up to date market information.

**Treasury management scheme of delegation and the role of the Section 151 officer**

77. **Council**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

78. **Joint Audit and Governance Committee/ Cabinet**

- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;
- receiving and reviewing regular monitoring reports and acting on recommendations;

- Ensuring effective scrutiny of the treasury management function

79. **Section 151 Officer/Interim Head of Finance**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- Approving the selection of external service providers and agreeing terms of appointment.

80. The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management), (See Appendix G).

## Summary

81. Prior to the beginning of each financial year the council must approve the treasury management strategy. The strategy sets the parameters within which officers can manage the council's cash flows and invest any surplus funds.

82. This strategy provides a commentary on the current financial climate and sets out the council's lending strategy in response to this.

# Appendix B

## ECONOMIC BACKGROUND

**UK.** 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, MPs blocked leaving on that date and the EU has agreed an extension to 31 January 2020. In addition, a general election has been called for December. At the time of writing (30 October), the whole Brexit situation could still change at any time. Given these circumstances and the uncertainty about the result of the general election, any interest rate forecasts are subject to material change as the situation evolves. If Parliament fully approves the Withdrawal Bill, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market that could cause wage inflation to accelerate; this would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently: the MPC would then be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, the MPC has relatively little room to make a big impact and it would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction.

The first half of 2019 saw UK **economic growth** falling to -0.2% in quarter 2 as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The **MPC** meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that since Boris Johnson became Prime Minister, the government has made significant statements on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself. However, in the three months to August, employment swung into negative with a fall of 56,000, the first fall for two years. Unemployment duly rose from a 44 year low of 3.8% on the Independent Labour Organisation measure in July to 3.9%. Wage inflation also edged down slightly from a high point of 3.9% to 3.8% in August, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The quarter 2 GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

**USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening.

**The Fed** finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn , whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt).

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

**EUROZONE. Growth** has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

**The European Central Bank (ECB)** ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt;** (at its October meeting it said this would start in November at €20bn per month - a relatively small amount compared to the previous buying programme). It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments will need to help stimulate growth by ‘growth friendly’ fiscal policy.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

**CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

**JAPAN** - has been struggling 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.

**WORLD GROWTH.** Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

**INTEREST RATE FORECASTS**

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has diminished.

**The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

**Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The SPD has done particularly badly in state elections since then which has raised a major

question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF’s answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

# Appendix C

**Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service.**

1. These benchmarks are targets and so may be exceeded from time to time. Any variation will be reported, along with supporting reasons, in the Annual Treasury Report.

2. **Yield**. The local benchmark currently used to assess the performance of cash investments is the level of returns contrasted against the London Interbank Bid (LIBID) three-month rate. This is the interest rate a bank would be willing to pay to borrow from another bank for three months.
Property related investments are benchmarked against the IPD Balanced Property Unit Trust Index.

3. **Liquidity**. Liquidity is defined as the council "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice).

4. In respect of this area, the council shall seek to:

- maintain a minimal balance held in the council's main bank account at the close of each working day. Transfers to the councils call accounts, MMF and investments will be arranged in order to achieve this, while maintaining access to adequate working capital at short notice.

- use the authorised bank overdraft facility or short term borrowing where there is clear business case for doing so, to cover working capital requirements at short notice

5. **Security of the investments**.

In the context of benchmarking, assessing security is very much more a subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the last 20-30 years.

**Average defaults for differing periods of investment**

| Long term rating | 1 year | 2 years | 3 years | 4 years | 5 years |
|---|---|---|---|---|---|
| AA | 0.04% | 0.10% | 0.18% | 0.27% | 0.36% |
| A | 0.05% | 0.15% | 0.28% | 0.42% | 0.59% |
| BBB | 0.16% | 0.44% | 0.77% | 1.15% | 1.55% |

6. The council's minimum long term (i.e. plus 365 day duration) rating criteria is currently "A-". For comparison, the average expectation of default for a two year investment in a counterparty with an "A" long term rating would be 0.15 per cent of the total investment (e.g. for a £1m investment the average loss would be £1,500). **This is an average** - any specific counterparty loss is likely to be higher. These figures act as a proxy benchmark for risk across the portfolio.

## Appendix D

## Explanation of Prudential and Treasury Indicators

Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

**Authorised limit for external debt** – this is the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cash flows.

**Operational boundary for external debt** – this is set as the more likely amount that may be required for day to day cash flow.

**Upper limit for fixed and variable interest rate exposure** – these limits allow the council flexibility in its investment and borrowing options.

**Upper limit for total principal sums invested for over 365 days** – the amount it is considered can be prudently invested for periods in excess of a year

# Appendix E

**Treasury Management Practice (TMP) 1 – credit and counterparty risk management**

The CLG issued Investment Guidance in 2010, and this forms the structure of the council's policy below.

The key aim of the guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the code, the Interim Head of Finance has produced its treasury management practices (TMPs). This part, TMP1(1), covering investment counterparty policy requires approval each year

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

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

The investment policy proposed for the Council is:

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

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

- UK government Debt Management Agency Deposit Facility (DMADF)
- UK government – treasury stock (Gilts) with less than one year to maturity
- Supranational bonds of less than one year's duration
- Deposits with UK local authorities
- Pooled investment vehicles such as Money Market Funds (MMF) (AAA rated)
- Deposits with banks and building societies (minimum F1/A-)
- Certificates of deposits issued by banks and building societies (minimum rating as above) covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are as stated in table 5 to this report.

**Non-specified investments**
These are any other type of investment (i.e. not defined or specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are as set out in Table 5.

**Implementation in 2018/19**
In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances.

The 2017 CIPFA Code of Practice on Treasury Management abolished the treasury indicators on limits for fixed and variable rate exposure. However, this was on the basis that authorities would explain in words how they control interest rate risk.

**IFRS 9**
Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments. Key considerations are:

- Expected credit loss model. Whilst this should not be material for ordinary treasury investments such as bank deposits, this is likely to be challenging for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).
- 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, will be changed to Fair Value through the Profit and Loss (FVPL).

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable 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.

## Appendix F

**Extension to the specific responsibilities of the S151 officer as per the Treasury Management code**

The below list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management);

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

## Appendix G

GLOSSARY OF TERMS

| | |
|---|---|
| **Authorised Limit** | The maximum amount of external debt at any one time in the financial year. |
| **Basis Point (BP)** | 1/100th of 1%, i.e. 0.01% |
| **Base Rate** | Minimum lending rate of a bank or financial institution in the UK. |
| **Benchmark** | A measure against which the investment policy or performance of a fund manager can be compared. |
| **Bill of Exchange** | A financial instrument financing trade. |
| **Callable Deposit** | A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower. |
| **Cash Fund Management** | Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio. |
| **Certificate of Deposit (CD)** | Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore, the holder of a CD is able to sell it to a third party before the maturity of the CD. |
| **Commercial Paper** | Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing. |
| **Corporate Bond** | Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies. |
| **Counterparty** | Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.) |
| **CDS** | Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap. |
| **CFR** | Capital Financing Requirement. |
| **CIPFA** | Chartered Institute of Public Finance and Accountancy. |
| **CLG** | Department for Communities and Local Government. |
| **Derivative** | A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock. |
| **DMADF** | Deposit Account offered by the Debt Management Office, guaranteed by the UK government. |

| | |
|---|---|
| **ECB** | European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2 per cent. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle. |
| **Enhanced Cash Funds** | A pooled investment fund. Longer dated investment than a MMF and, unlike a MMF, enhanced cash funds have variable asset value. Assets are marked to market on a daily basis and the unit prices vary accordingly. Investments can be withdrawn on a notice basis (the length of which depends on the fund) although such funds would typically be used for investments of 3 to 6 month duration. |
| **Equity** | A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain. |
| **Forward Deal** | The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate. |
| **Forward Deposits** | Same as forward dealing (above). |
| **Fiscal Policy** | The government policy on taxation and welfare payments. |
| **GDP** | Gross Domestic Product. |
| **Gilt** | Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent. |
| **Mark to Market Accounting** | Accounting on the basis of the “fair value” of an asset or liability, based on the current market price. As a result, values will change with market conditions. |
| **Minimum Revenue Provision** | This is a prudent sum set aside each year to offset the principal repayment of any loan to smooth the impact on the local taxpayer. |
| **Money Market Fund** | A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however a MMF relies on loans to companies rather than share holdings. |
| **Monetary Policy Committee (MPC)** | Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1 per cent of a central target of 2.5 per cent in two years’ time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment. |
| **Non-UCITS Retail Scheme (NURS) –** | Undertakings for collective investments are funds authorised to be sold in the UK that are required to meet standards set by the UK services regulator. An example is property funds. |
| **Operational Boundary** | The most likely, prudent but not worst-case scenario of external debt at any one time. |
| **Other Bonds** | Pooled funds investing in a wide range of bonds. |
| **PWLB** | Public Works Loan Board. |
| **QE** | Quantitative Easing. |

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|---|---|
| **Retail Price Index** | Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person. |
| **Sovereign Issues (Ex UK Gilts)** | Bonds issued or guaranteed by nation states, but excluding UK government bonds. |
| **Supranational Bonds** | Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts. |
| **Treasury Bill** | Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value. |

# Audit and Governance Work Programme

**containing Joint Audit and Governance Committee work to be undertaken**
**JANUARY TO MAY 2020**

South Oxfordshire District Council
Listening Learning Leading

Vale of White Horse District Council

## What is the work programme?

The Audit and Governance Work Programme belongs to South Oxfordshire District Council's and Vale of White Horse District Council's Joint Audit and Governance Committee and sets out a schedule of work for the period shown above. It is a rolling plan, subject to change at each committee meeting; however, the councils may allocate additional work without notice.

| Item title | Meeting date | Lead officer | Why is it here? | Scope | Notes |
|---|---|---|---|---|---|
| **Annual Audit Letter 2018/19** | Joint Audit and Governance Committee 27 Jan 2020 | William Jacobs, Head of Finance william.jacobs@southandvale.gov.uk | The external auditor will present iyts annual audit letter for 2018/19 for the committee's consideration. | | |
| **Internal audit activity report - third quarter 2019/20** | Joint Audit and Governance Committee 27 Jan 2020 | Victoria Dorman-Smith victoria.dorman-smith@southandvale.gov.uk | The council audits its services through the internal audit service in line with the approved internal audit plan 2019/20. The report will summarise the outcomes of recent internal audit activity for the committee to consider. | The committee is asked to review the report and main issues arising and seek assurance that action has been or will be taken where necessary. | This is a recurring agenda item and is updated at each meeting. |

Agenda Item 16

| Item title | Meeting date | Lead officer | Why is it here? | Scope | Notes |
|---|---|---|---|---|---|
| **Internal audit management report - third quarter 2019/20** | Joint Audit and Governance Committee 27 Jan 2020 | Victoria Dorman-Smith victoria.dorman-smith@southandvale.gov.uk | The committee monitors the effectiveness of internal audit each quarter against the approved audit plan. | To report on management issues, summarise the first quarter progress of the internal audit team against the 2019/209 audit plan and summarise the priorities and planned audit work for quarter three. | This is a recurring agenda item and is updated at each meeting. |
| **Treasury management mid-year monitoring 2019/20** | Joint Audit and Governance Committee 27 Jan 2020 | Simon Hewings simon.hewings@southandvale.gov.uk | The committee is responsible for the scrutiny of the councils' treasury management activity. | To review the councils' treasury management activities for the first six months of the 2019/20 financial year. | |
| **Treasury management and investment strategy 2020/21** | Joint Audit and Governance Committee 27 Jan 2020 | Simon Hewings simon.hewings@southandvale.gov.uk | The committee is responsible for the scrutiny of the councils' treasury management activity and to propose a strategy to both Councils, via their Cabinets, for the management of this function in the forthcoming year. | To scrutinise the treasury management strategies and policies and if required, make recommendations for amendment to both Cabinets. | |

| Item title | Meeting date | Lead officer | Why is it here? | Scope | Notes |
|---|---|---|---|---|---|
| **Internal audit activity report - fourth quarter 2019/20** | Joint Audit and Governance Committee<br>23 Mar 2020 | Victoria Dorman-Smith<br>victoria.dorman-smith@southandvale.gov.uk | The council audits its services through the internal audit service in line with the approved internal audit plan 2019/20. The report will summarise the outcomes of recent internal audit activity for the committee to consider. | The committee is asked to review the report and main issues arising and seek assurance that action has been or will be taken where necessary. | This is a recurring agenda item and is updated at each meeting. |
| **Internal audit management report - fourth quarter 2019/20** | Joint Audit and Governance Committee<br>23 Mar 2020 | Victoria Dorman-Smith<br>victoria.dorman-smith@southandvale.gov.uk | The committee monitors the effectiveness of internal audit each quarter against the approved audit plan. | To report on management issues, summarise the first quarter progress of the internal audit team against the 2019/209 audit plan and summarise the priorities and planned audit work for quarter three. | This is a recurring agenda item and is updated at each meeting. |
| **External auditor's audit planning reports 2019/20** | Joint Audit and Governance Committee<br>23 Mar 2020 | William Jacobs, Head of Finance<br>william.jacobs@southandvale.gov.uk | The external auditor to report on how it intends to carry out its responsibilities as auditor. | To consider the external auditor's report. | |
| **Comments and complaints 2018/19** | Joint Audit and Governance Committee<br>23 Mar 2020 | Sally Truman<br>sally.truman@southandvale.gov.uk | The committee is responsible for monitoring the councils' comments and complaints. | To review the comments and complaints received during 2018/19. | |

| Item title | Meeting date | Lead officer | Why is it here? | Scope | Notes |
|---|---|---|---|---|---|
| **Code of conduct annual report** | Joint Audit and Governance Committee 23 Mar 2020 | Margaret Reed, Head of Legal and Democratic Services margaret.reed@southandvale.gov.uk | The Committee has responsibility for having an overview of the standards of conduct framework for councillors, any co-opted members and parish councillors. | To review operation of the code of conduct. | |
| **Risk management** | Joint Audit and Governance Committee 23 Mar 2020 | Yvonne Cutler-Greaves Yvonne.CutlerGreaves@southandvale.gov.uk | The committee agreed to receive regular progress reports on the implementation of the risk management framework. | To review and comment on progress. | |
| **Internal audit plan 2020/21** | Joint Audit and Governance Committee 23 Mar 2020 | Victoria Dorman-Smith victoria.dorman-smith@southandvale.gov.uk | The council audits its services through the internal audit service. | To approve the internal audit plan for 2020/21. | |
| **Review of statement of accounting policies** | Joint Audit and Governance Committee 23 Mar 2020 | Richard Spraggett richard.spraggett@southandvale.gov.uk | To audit and review the policies and principles used when compiling the 2019/20 accounts. | | |