Public Document Pack

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A meeting of the **Corporate Governance & Audit Committee** will be held in Virtually on **Monday 18 January 2021** at **2.00 pm**

MEMBERS: Mr F Hobbs (Chairman), Dr K O'Kelly (Vice-Chairman), Miss H Barrie, Mr J Brown, Mr A Dignum, Mr T Johnson, Mr D Palmer and Mr P Wilding

AGENDA

1 **Chairman's Announcements**
Any apologies for absence that have been received will be noted at this point.

2 **Approval of Minutes** (Pages 1 - 5)
The committee is requested to approve the minutes of its meeting on 26 November 2020.

3 **Urgent items**
The chairman will announce any urgent items that due to special circumstances are to be dealt with under the Late Items agenda item.

4 **Declarations of Interest**
These are to be made by members of the Corporate Governance and Audit Committee or other Chichester District Council members present in respect of matters on the agenda for this meeting.

5 **Public Question Time**
The procedure for submitting public questions in writing by no later than noon 2 working days before the meeting is available here or from the Democratic Services Officer (whose contact details appear on the front page of this agenda).

6 **2021-2022 Draft Treasury Management Strategy and Policy and Investment Strategies and Capital Strategy Update** (Pages 7 - 69)
1.1. That the Committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Indicators for 2021-22 ;
1.2. That the Committee considers the Council's Capital Strategy for 2021-22 to 2025-26; and
1.3. That the documents in 2.1 and 2.2 are recommended to Cabinet and Council for approval

7 **Internal Audit - Audit Plan Progress** (Pages 71 - 75)
That the Committee notes performance against the audit plan for 2020/21.

8 **Exclusion of the Press and Public**
There are no restricted items for consideration.

9 **Late items**
The committee will consider any late items as follows:

a) Items added to the agenda papers and made available for public inspection
b) Items that the chairman has agreed should be taken as a matter of urgency by reason of special circumstances to be reported at the meeting

NOTES

1. The press and public may be excluded from the meeting during any item of business where it is likely that there would be disclosure of "exempt information" as defined in section 100A of and Schedule 12A to the Local Government Act 1972.

2. Restrictions have been introduced on the distribution of paper copies of supplementary information circulated separately from the agenda as follows:
   a) Members of the Corporate Governance & Audit Committee, the Cabinet and Senior Officers receive paper copies of the supplements (including appendices).
   b) The press and public may view this information on the council's website here here unless they contain exempt information.

NON-CORPORATE GOVERNANCE AND AUDIT COMMITTEE MEMBER COUNCILLORS SPEAKING AT THE MEETING

Standing Order 22.3 of Chichester District Council's Constitution provides that members of the Council may, with the Chairman's consent, speak at a committee meeting of which they are not a member, or temporarily sit and speak at the committee table on a particular item but shall then return to the public seating area.

The Chairman intends to apply this standing order at Overview and Scrutiny Committee meetings by requesting that members should *normally* seek the Chairman's consent in writing by email in advance of the meeting. They should do this by noon two working days before the Corporate Governance and Audit Committee meeting, outlining the substance of the matter that they wish to raise. The word normally is emphasised because there may be unforeseen circumstances where a member can assist the conduct of business by his or her contribution and where the Chairman would therefore retain their discretion to allow the contribution without the aforesaid notice.

/Minutes of the meeting of the **Corporate Governance & Audit Committee** held Virtually on Thursday 26 November 2020 at 2.00 pm

Members Present: Dr K O'Kelly (Vice-Chairman), Mr T Johnson, Miss H Barrie, Mr A Dignum, Mr F Hobbs (Chairman) and Mr P Wilding

Members not present: Mr J Brown and Mr D Palmer

In attendance by invitation: Mr J Jones (Ernst & Young LLP) and Mr K Suter (Ernst & Young LLP)

Officers present: Mr S James (Principal Auditor), Mr N Bennett (Divisional Manager for Democratic Services), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr J Ward (Director of Corporate Services), Miss C Jardine (Senior Notice Processor) and Mr J Caines (Democratic Services Officer)

43 **Chairman's Announcements**

Apologies for absence were received from Cllrs Brown and Palmer.

44 **Approval of Minutes**

The minutes of the meeting held on 19 October 2020 were agreed as a correct record.

45 **Urgent items**

There were no urgent items.

46 **Declarations of Interest**

There were no declarations of interest relating to business to be transacted on the agenda.

47 **Public Question Time**

No Public Questions had been submitted.

48 **Audit Results Report Year End 31 March 2020**

Mr Kevin Suter, Ernst and Young ltd (E&Y), introduced the report to members and outlined the executive summary, highlighting the challenges faced due to the impact

of Covid-19 including remote working arrangements. However, he advised that quality had not been affected.

The Committee were advised that the audit had been completed successfully and E&Y were able to provide an unqualified audit opinion on the accounts as set out in the report, with particular attention drawn to the financial statement in section 2. Mr Suter thanked the Finance team for their work in completing the audit and welcomed questions from Committee Members.

In response to questions, the following was advised:

- The challenges faced during the course of the audit included an inability to meet officers in person and technical issues created by working remotely. However E&Y are confident that the report shows the Council in a good position, with positive feedback from their specialists.

- The property valuations included in the report are valuations provided by the Council, which take into account the impact Covid-19 on market values.

- The term 'going concern' was included in the report. Again this related to the impact of Covid-19. However E&Y are confident in the Council's financial position, particularly regarding the net pension asset, reserves and lack of debt.

- The additional fees that had been added were due to estimates for extra work that needed to take place and a delay in receiving accounts resulting in underutilised resources. Some of these charges are being questioned by the Council and Mr Ward agreed he would discuss the matter privately directly with Mr Suter and report back on the outcome at the next meeting.

The Chairman thanked Mr Suter for the work completed.

RESOLVED

That the report be noted.

49 **Statement of Accounts for 2019-2020**

Mr Mark Catlow was welcomed to the meeting and introduced the report on the Statement of Accounts 19/20 and the recommendation included. It was explained that the Committee would normally consider the proposed accounting policies and key judgements to be employed in preparing the statement of accounts back in March 2020, however, due to the impact of Covid-19 this was not possible. Helpfully, however, there were no significant changes to accounting standards or policies that members needed to consider prior to the preparation of the accounts themselves. Members were directed to Appendix 1 which provided the clearest illustration of the Council's Statement of Accounts, in addition to the infographic on page 85 of the report papers. Mr Catlow invited questions of the Committee.

The Chairman thanked officers for the update and commended the improved and easily digestible presentation.

RESOLVED

That the Committee approve the audited statement of accounts shown in Appendix 2 for the financial years ended 31 March 2020, note the out turn position and authorise the Letter of Representation to be given to the Council's External Auditor.

50 Financial Strategy and Plan 2021-22 to 2025-26

Mr Ward was welcomed to the meeting and introduced the report and gave detail of the content of the Appendices 1, 2 and 3. He advised that since a decision taken by Full Council to approve the acquisition of a new asset meant that the resources available were just over £12million.

He advised that Appendix 4 was an appendix regarding the Fees and Charges Policy that isn't typically included with the Financial Strategy and Plan, however, it was important for members to consider updating the policy in order to allow for better flexibility and autonomy for Council officers to revise their charging structures for chargeable services.

Cllr Johnson joined the meeting at 2.55pm.

The Committee discussed the content of the report, including savings potential and further impact of the financial strategy on the council's budget and savings. The Committee expressed support over the proposals and asked Cabinet Members present to discuss income generation and looking at addition sources of income. The Committee were advised these discussions were already taking place.

RESOLVED

That the Committee considers and recommends to Cabinet:

1. The key financial principles which underpin the financial management of the Council, and the 5 year Financial Strategy set out in appendix 1 to the agenda report.

2. That the Council maintains a minimum level of reserves of £4m for general purposes.

3. The updated Fees and Charging Policy.

And that the Committee:

Notes the updated 5 year Financial Model in Appendix 2 and the resources statement in Appendix 3 to the agenda report.

51 2019-2020 Annual Governance Statement and Corporate Governance Report

Mr Stephen James was welcomed to the Committee and introduced the report and recommendations included, highlighting Appendix 2 of the report detailing 6 areas

that had been added to the risk register. It was advised that overall Mr James was satisfied that the corporate governance, along with supporting controls and procedures, remain very strong within the Council. The Chairman welcomed comments and questions from the Committee.

The Committee welcomed the update and agreed that the report was well written, clear and concise. It was commented that the report would benefit from including the challenges faced by the Council and the implications the risks would have for the organisation.

The Committee considered the recommendations in the report.

RESOLVED

That the Committee consider that draft Annual Report on Corporate Governance at Appendix 1, the Annual Governance Statement 2019-2020 at Appendix 2 and the Internal Audit and Corporate Investigations Annual Report 2019-2020 at Appendix 3 and to recommend that the draft Annual Report on Corporate Governance at Appendix 1 to Full Council for approval.

52 Corporate Enforcement Agent Contracts

Ms Caroline Jardine was welcomed to the Committee and introduced the report for noting. It was advised that the Council uses enforcement agents to collect monies owed to the Council, on behalf of the revenues team and the parking enforcement team. It was also advised there is no cost to the Council to use these agents. Two enforcement agents had been awarded contracts from April 2020. It was also advised an update would be provided in two years regarding the performance of the contracts. Questions were welcomed from the Committee.

It was advised that the evaluation of the agents through the procurement process was reliant upon service delivery and the rate of successful debt recovery.

RESOLVED

1. That the Committee notes the Council have awarded new contracts to two Enforcement Agents (bailiffs) who collect unpaid debts on behalf of the Revenues and Benefits and Parking Services Teams.

2. That officers provide an update on these contracts to the committee within two years from the beginning of the new contracts.

53 Corporate Contract Procedure Rules

Mr Nicholas Bennett was welcomed to the meeting and introduced the report and recommendations included. Detail over the content of the report was provided and it was advised that the new procedure rules had been simplified with unnecessary sections removed, however due to potential further changes an amended report may be considered at some point in the new year. It was also advised that advice and guidance had been sourced from Hampshire County Council as an example of best practice.

Mr Bennett outlined that the term “Most Economically Advantageous Tenders” had been included as it was a statutorily defined term under section 67 of the Public Contract Regulations 2015 and was defined as:

“a method of assessment that can be used as the selection procedure, allowing the contracting party to award the contract based on aspects of the tender submission other than just price.”

This meant that contracts could be awarded after having taken into account additional aspects, such as local interest and environmental factors and not just financial implications. Members agreed they were content to include the phrase in the wording of the Procedure Rules.

RESOLVED

1. That the Committee considers and notes the updating of the Councils Contract Procedure Rules.

2. That the amended Contract Procedure Rules be recommended to Full Council.

54 **Exclusion of the Press and Public**

It was not necessary to resolve to exclude the press and public from the meeting.

55 **Late items**

There were no late items.

The meeting ended at 3.30 pm

CHAIRMAN Date:

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Chichester District Council

Corporate Governance and Audit Committee

14 January 2021

Draft Treasury Management, Investment and Capital Strategies 2021-22

1. Contacts

Report Author:
Mark Catlow, Group Accountant
Tel: 01243 521076 E-mail: mcatlow@chichester.gov.uk

2. Recommendation

2.1. **That the Committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Indicators for 2021-22, and**

2.2. **That the Committee considers the Council's Capital Strategy for 2021-22 to 2025-26.**

2.3. **That the documents in 2.1 and 2.2 are recommended to Cabinet and Council for approval**

3. Background

3.1. Local authorities' treasury management activities are prescribed by the Local Government Act 2003 and Regulations issued under this Act. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice (the Code) derives its legal status from these statutory Regulations.

3.2. The draft Treasury and Investment Strategy presented at appendix 2 to this report is designed to comply with this regulatory framework.

3.3. The Council is also required by the Code to produce a Capital Strategy which should:

- provide a high-level overview of how capital and treasury intentions contribute to the provision of local services; and,
- describe how risks to future financial sustainability are managed.

3.4. A draft capital Strategy is included in this report at appendix 3.

3.5. Although every attempt has been made to reduce the technical content of this report, by its very nature the report is specialised in parts and the glossary of terms in Appendix 5 aims to aid members understanding of some terms used.

4. Outcomes to be achieved

4.1. The Treasury Management and Investment Strategies for 2021-22 and the Council's Capital Strategy for 2021-22 to 2025-26 are approved before 1 April 2021 in accordance with CIPFA's Treasury Management in the Public Services: Code of Practice and the MHCLG's investment Regulations.

5. Alternatives that have been considered

5.1. The Treasury Strategy contains details of alternatives that have been considered. There is no 'do nothing' option as the Council is required to approve a Treasury and Investment Policy for 2021-22 as well as its Capital Strategy before 31 March 2021.

6. Resource and legal implications

6.1. The Council may be putting its financial standing at risk, as well as failing to meet the requirements of the Local Government Act 2003, if it failed to follow the revised Treasury Management Code and the Investment Guidance. Acceptance of the recommendations in this report would not only help avoid this risk, but would demonstrate that the Council's financial matters continue to be managed prudently

6.2. The Treasury Management Strategy and the Prudential Indicators reflect various assumptions of future interest rate movements and Government support for capital expenditure. These assumptions have been taken into account in the 5 year model under pinning the Council's Financial Strategy and resources statement.

6.3. Appendix 1 to the Treasury Strategy contains details of the interest rate assumptions that have been used in developing this strategy.

7. Consultation

7.1. The forthcoming financial year's Treasury Management Strategy, Investment Strategy and Capital Strategy documents will also be considered by Cabinet before being presented to Full Council for approval.

8. Community impact and corporate risks

8.1. The statutory and regulatory framework under which the treasury management function operates is very stringent, and each authority has to decide its own appetite for risk and the rate of return it could achieve.

8.2. Risk management is covered within the Treasury Management Strategy and specifically within TMP 1, an extract of which is shown in appendix 4.

9. Other Implications

	Yes	No
Crime & Disorder		✓
Climate Change 1. Ethical, Social and Governance (ESG) factors are increasingly	✓	

being recognised as a factor in the wider Treasury sector. The strategies accompanying this report includes sections on responsible investing and carbon reduction.		
Human Rights and Equality Impact		✓
Safeguarding and Early Help		✓
General Data Protection Regulations (GDPR)		✓
Health and Wellbeing		✓
Other (Please specify): 1. **Compliance with the Local Government Act 2003** 2. Non- compliance or loss of an investment due to default by a counterparty could affect the financial wellbeing of the council dependent on the size of the loss and the ability to fund losses from its unallocated reserves.	✓	

10. Appendices

10.1. Appendix 1 – Summary of amendments between 2020-21 and 2021-22

10.2. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2021-22.

10.3. Appendix 3 – Capital Strategy 2021-22 to 2025-26

10.4. Appendix 4 - Treasury Management Practices (TMP's) Extract of TMP 1 Risk Management.

10.5. Appendix 5 - Glossary

11. Background Papers

11.1. None.

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Appendix 1 – Summary of the main amendments between 2020-21 and 2021-22

Minor text and table updates are not reported.

Item	Page	Comment
Treasury Management and Investment Strategy 2020-21		
- Counterparty limits	10-11	1. The maximum counterpart limit (excluding LAPF) is reduced from £6m to £5m for 2021-22. This is as a result of applying the rules set out at the foot of page 9 of the Strategy and rounding to the nearest £m. The actual value calculated is £4.92m (15% of £32.8m), rounded up £5m for practical application. In addition to the £32.8m usable reserves figure used above, the Council would also have an estimated £4m of working capital to absorb any losses. Table 4 2. The link to credit ratings is removed. This is already taken into account within the Council's approved lending list provided by Arlingclose. The overall minimum credit rating is requirement is maintained at A- (page 15) – categories affected by this are marked by an asterix in table 4. 3. The £24m limit on total investment in Money Market Funds (MMF) is removed for 2021-22. This limit was originally introduced to recognize that MMF all make similar underlying investments and therefore increasing the total amount in these funds may not increase underlying diversification. However, as MMFs are now a key tool to manage credit and liquidity risks in the current economic climate this limit has been removed. 4. Added 'other investments' category in table 4. This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans.

		Table 5 5. Limit of funds invested under the same management increased from £6m (£10m for the LAPF) to £15m, being 25% of expected investment values.
- Minimum Credit Rating	13	Text section added to clarify application of minimum credit rating criteria to Treasury investments in table 4.
- Negative Interest Rates	14	Updated section for the current economic outlook
- Responsible Investing	14-15	Added 'comply of explain' approach to investments based on institutions being a signatory to the UN Environment Finance Initiative's (UNEFI) Principles for Responsible Banking/ Investment.
- Borrowing Sources	16	General update to terminology and also to include community municipal bonds as a possible source of borrowing.
Non-Treasury Investments		
- Security	18-19	Added paragraphs to clarify the position regarding fair value of the Council's commercial investments.
Other items		
Policy on financial derivatives	24	Updated text following developments at other local authorities.
Capital Strategy		
- Impact of COVID-19	3	New section added
- Supporting Carbon reduction	4-5	New section added

Appendix 2 - Treasury Management Strategy

Contents

Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy for 2021-22

Treasury Management Policy Statement

Treasury management within the Council is undertaken in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services ("the TM Code").

The Council defines treasury management as:

"The management of the organisation's financial 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."

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Treasury investment policy objective for this Council is the prudent investment of its treasury balances. The Council's Treasury investment priorities are security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and the MHCLG guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

The Council's borrowing objective, being debt free and with relatively substantial resources still available for its capital investment spending plans, means that it does not intend to borrow any monies, except for short term cash flow purposes for revenue and capital commitments.

The generation of investment income to support the Council's spending plans is an important, but secondary objective. Other than income from the Council's investment in the Local Authority property Fund or other long term pooled funds, returns are generally used to fund one-off expenditure or capital investment.

Treasury Management Strategy Statement

The Council's priority is the security and liquidity of its Treasury investments in accordance with the priorities set out in the CIPFA Code and MHCLG Guidance. Whilst fundamentally risk averse, the Council accepts some modest degree of risk within the limits and counterparty restrictions set out in its Treasury Management and Investment Strategy and risk appetite statement

The Chartered Institute of Public Finance and Accountancy's '*Treasury Management in the Public Services: Code of Practice'* (the CIPFA Code) requires the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year.

The Ministry for Housing, Communities and Local Government (MHCLG) also issues guidance on Local Authority Investments (the Guidance). Paragraph 21 of the Guidance makes it clear that, except for the requirement to prioritise Security, Liquidity and Yield in that order of importance, treasury management investments are managed within the principles set out within the CIPFA Code.

The Council's TMS Statement is underpinned by the CIPFA Code and Treasury Management Practices (TMPs) which provide prescriptive information as to how the treasury management function should be carried out.

In accordance with the Guidance, the Council will be asked to approve a revised Treasury Management Strategy should the assumptions on which this report is based change significantly. Such circumstances may include, for example, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balances.

Treasury Management and Investment Strategy 2021-22

Treasury Investments

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

As at 4 December 2020, the Council held £97m of investments as set out in table 1 below

Table 1: Investment Portfolio Position

Investments	£m	Return %*
Short term Investments (cash, call accounts, deposits)	39.0	0.16
Money Market Funds	24.0	0.04
Total Liquid Investments	63.0	0.11
External Pooled funds	34.0	3.73
Total Treasury Financial Investments	97.0	1.38
Commercial Property Investments	13.6	7.0**
Service Investments	0.4	n/a**

**returns are based on income only.*
*** based on latest complete financial year and value as at 31-3-2020*

These investments are expected to fall over the next few months due to the normal pattern of lower taxation receipts in February and March 2021. The Council's latest finalised resource projection indicates the following movements in resources, including funds available for investment, over the medium term.

Table 2: Treasury projection to 31 March 2025 (£m)

	2020 Actual	2021	2022	2023	2024	2025
Usable Reserves:						
• Earmarked and specific	9.9	9.1	8.2	8.2	8.2	8.2
• New Homes Bonus	15.2	15.5	10.7	10.6	10.5	10.3
• Asset Replacement	7.6	6.0	4.3	4.5	4.5	4.6
• Capital receipts reserve	1.9	2.9	7.5	8.1	11.3	11.4
• General Fund	15.3	11.5	9.6	9.3	9.3	9.3
Grants and contributions, including CIL and disabled facility grants	13.3	9.6	1.1	1.2	2.3	5.8
Commuted payments (s.106)	5.9	5.7	4.6	3.5	2.8	2.1
Working Capital, including collection fund balances	6.4	4.1	4.1	4.1	4.1	4.1
Total Resources	75.5	64.4	50.1	49.5	53.0	55.8
Internal investments	41.5	30.4	16.1	15.5	19.0	21.8
External Investments	34.0	34.0	34.0	34.0	34.0	34.0
Total Investments	75.5	64.4	50.1	49.5	53.0	55.8
External Debt	-	-	-	-	-	-

The above figures are based on the Councils latest resource projections and include assumptions about timing of transactions that may differ from actual delivery. CIL projections are as at September 2020.

The Council's operational boundary and authorised debt ceilings are set out in tables 6 and 7 and are set at a level that will accommodate possible short-term working capital requirements or any financial lease liabilities that will be recognised following the adoption of IFRS16 on 1 April 2022.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. As the Council does not expect to incur any debt (other than for temporary cash management purposes) over the next three years, the Council's CFR is forecast to be zero over this period.

Risk Appetite Statement

As a debt free authority the Council's highest priority in its treasury management function is the security of those investments in accordance with the priorities set out in the CIPFA Code. However, whilst fundamentally risk averse, the Council will accept some modest degree of risk

The Council mitigates investment risk by using different investment instruments, diversified high credit quality counterparties and with country, sector and group limits as set out in this strategy.

When investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including certain unrated building societies and money market funds. The Council may also invest surplus funds through tradable instruments such as gilts, treasury bills, certificates of deposit, corporate bonds and pooled funds. The duration of such investments will be carefully considered to limit that risk of them having to be sold (although they may be) prior to maturity, mitigating the risk of the capital sum being diminished through price movements.

Proportionality

The Council currently builds the following sources of income from investments into its base budget as these sources of income have demonstrated an ability to provide a constant, predicable return over the medium term. The figures are presented here are a proportion of net cost of Council services.

Table 3: Proportionality of Investments

	2018-19 Actual	2019-20 Actual
Net Cost of services £m	20.0	17.5
Commercial property income £m	1.0	1.0
Proportion %	5.0	5.7

Net Cost of Services is as presented in the Council's annual financial statements. Income from Commercial properties is gross. In accordance with professional best practice the Council does not formally value rental income streams further than 12 months in advance.

Income from commercial properties is expected to remain below 10% of the Council's net cost of services.

Table 3 demonstrates the Council met its target for the last full financial year at the date this strategy was prepared. For 2020-21 (outturn) and 2021-22 (forecast), the target will continue to be set at 5% of the Council's net cost of services. The outturn for 2020-21 will be reported in the first half-yearly update in 2021-22 together with the forecast for 2021-22, which is only available after the Council has approved its budget in March 2021.

In setting this reporting threshold the Council does not intend for it to prevent the Council charging market rents or lending at market interest rates. If at any point this warning limit is exceeded, a report on the risk to the Council's overall revenue budget will be made to the Council's Corporate Governance and Audit Committee and to the Cabinet.

To mitigate the risk on front line services should commercial investments not achieve planned returns, the Council prepares its 5 year financial strategy in-line with a series of key principles. The key principles are set out in the Council's financial strategy and are available online via the published papers for the Council's Corporate Governance and Audit Committee and Cabinet.

In accordance with current MHCLG guidance, the Council will be asked to approve a revised strategy should the assumptions on which this report is based change significantly.

Treasury Investments and Borrowing

In line with the Council's Treasury Management Policy Statement, treasury management includes all the activities necessary for:

1. Cash management,
2. Liquidity planning and control; and,
3. Corporate finance, including medium and long term financing and investing.

Successfully identifying, monitoring and mitigating risk is the cornerstone of effective treasury management, although the Council acknowledges that effective treasury management also supports the achievement of business and service objectives.

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities lead to a cash surplus which is invested in accordance with the CIPFA Code.

The balance of treasury investments is expected to fluctuate between £60m and £100m during the 2021/22 financial year. The contribution that these investments make to the

objectives of the Authority is to support effective treasury management activities.

The Council does not intend to borrow any monies, except for short term cash flow purposes for revenue and capital commitments.

Investment Objective

The Council's objective when investing money is to comply with the principles stated in this strategy document, striking an appropriate balance between risk and return in line with the Council's risk appetite statement.

Counterparty limits

The Council may invest its surplus funds with any of the counterparties in table 4 below, subject to the cash limits (per counterparty) and time limits shown.

The Authority's revenue reserves available to cover investment losses are forecast to be £42.1m million on 31st March 2021. This is defined as usable reserves less the Council's capital receipts reserve in table 2.

The Authority's expected average investment balance in 21-22 from Table 2 is £57m. The lowest usable reserves figure is forecast to be £32.8m (31.3.2022)

The Counterparty and sector limits below are set such that no one default will incur a loss of either:

- 10% of the Council's expected average investment balance; or,
- 15% of the Council's available reserves as defined above

Both calculations are rounded to the nearest £0.5million for the purposes of setting this limit. The Council's investment with the CCLA property fund has a higher, separate limit. Where this counterparty limits in tables 4 and 5 fall between financial years, any new limit will only apply once existing investments as at 1 April reach the end of their present deposit period.

A group of entities under the same ownership will be treated as a single organisation for counterparty limit purposes.

In addition to the limits set on individual counterparties in Table 4 below, Table 5 sets limits on any group of pooled funds under the same management.

Table 4: Approved Investment Counterparties

Sector	Time limit	Counterparty limit	Sector limit	Notes
The UK Government	25 years	Unlimited	n/a	
Local authorities & other government entities	10 years	£5m	Unlimited	
Secured investments	10 years	£5m	Unlimited	1
Banks (unsecured)	13 months	£3m	Unlimited	1,2
Building societies (unsecured)	13 months	£3m	£5m	1
Money market funds	n/a	£5m or 0.5% of fund value	Unlimited	1 3
Strategic pooled funds (excluding LAPF)	n/a	£5m	£30m	5
Strategic pooled funds (CCLA - LAPF)	n/a	£10m	£10m	5
Real estate investment trusts	n/a	£2m	£4m	5
Other investments	2 years	£3m	£5m	1, 4

Notes:

1. *Investments are subject to credit rating floors and/ or other criteria set out 'Minimum credit ratings' below*
2. *The limits for the Council's operational bank account are determined separately and set out in the relevant section below*
3. *Individual limits will be 0.5% of fund value or £5m, whichever is the smaller*
4. *Service and commercial investments will be subject to individual, separate risk assessment and are considered separately in this strategy. They are not covered by the Treasury limits in table 4*
5. *No maximum investment period is set for pooled funds and REITs as they are intended to be for the long term. The limit on strategic pooled funds does not apply to Money Market Fund investments.*

The Council sets limits on the totals to be invested in any one single entity, group of entities, or investment type. These are set out in Table 5 and apply to all treasury investments.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds (including money market funds) and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 5: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker (1)
Foreign countries	£5m per country

1. The limit for nominee accounts does not apply to investments in Money Market Funds and their nominee companies

Counterparties

Government

Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years

Secured investments

Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments

Banks and building societies (unsecured)

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Money market funds

Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to

money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly

Where investments in pooled funds or other financial assets have prices or values that can vary according to fund performance and other factors, the investment limits in table 4 will operate to regulate the initial purchase cost (total initial investment) only.

Real estate investment trusts (REIT)

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational bank accounts

The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2.5m in total across all operational accounts.

Other investments

This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

For corporate bonds, the limits referred to in table 4 will apply to the sum of bond principal (par value) and any premium or discount paid to acquire the bond in the secondary market. The limit will exclude the accrued interest element paid to secure a secondary bond as this is recoverable on maturity of the Bond.

Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury advisors, who will notify changes in the ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

If in the case of a decision to recall or sell an investment at a cost which is over the approved virement limits, the Council's urgent action procedure in its Constitution would be invoked by officers.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn in a timely manner will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Minimum credit rating

Treasury investments in the sectors marked *Note 1* in table 4 will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £1m per counterparty; or (c) are part of a diversified pool of investments e.g. a strategic investment in an external pooled fund.

Other Information on the Security of Investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2011 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions, and advice from the Council's Treasury advisor. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or with other local authorities. This may will cause investment returns to fall but will protect the principal sum invested.

Business model for holding investments

The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash-flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

2nd European Union Markets in Financial Investments Directive

The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, this is considered to be the most appropriate status.

UK exit from the European Union

If, following the UK's exit from the European Union liquidity needs to be repatriated from EU based money market funds, the Council expects to deposit this with the Government's Debt Management Office (DMO) or UK domiciled banks.

Any decision to repatriate funds will be made by the Council's section 151 officer following consultation with the Council's Treasury Advisor.

Negative interest rates

The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Responsible Investing

As a responsible investor, the Council is committed to considering environmental, social, and governance (ESG) issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

The overriding priorities of treasury management must remain security, liquidity, and yield in that order. However, once these priorities are met preference will be given to placing investments with banks or institutions who have demonstrated a significant interest is sustainability by being a signatory to the UN Environment Finance Initiative's (UNEFI) Principles for Responsible Banking/ Investment. This requirement will not extend to investments with the UK public sector.

Before a direct investment is made with an institution that is not a participant in the above initiative, approval will be sought from the section 151 or deputy section 151 officer setting out why no reasonable alternative at that particular time is available. This 'comply or explain' approach recognises that, whilst ESG is a desirable objective for treasury investing, it must be ranked behind security, liquidity and yield.

Where the Council does not have direct control over the individual investments, (for example, for investments in money market or external pooled funds), the Council will seek to understand and evaluate the Ethical, Social and Governance policies of money market and external pooled funds when considering making an initial investment. This evaluation will include a review of any reports prepared by prospective fund managers under the UK Stewardship Code issued by the Financial Reporting Council and of the institution's commitment to the UNEFI Principles for Responsible Investment.

Liquidity Management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast. To ensure adequate liquidity is maintained, 'worst case' estimates of cash flows are used when considering the Council's medium term investment position.

Borrowing

The Council is currently debt-free and has no borrowing other than that which might occur as part of routine working capital management. Under the Council's current resource projections, there are no plans to borrow to finance new capital expenditure over the medium term but this remains an option if deemed to be prudent.

If it considers it necessary to borrow money, the Council's chief objective will be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Short term internal borrowing (for schemes that pay back within the 5 year time frame of the capital programme) can be accommodated without incurring external interest charges, provided the resulting savings are recycled into reserves.

Longer term pay back periods will have to accommodate both the external interest and a minimum revenue provision (MRP) in accordance with the Council's MRP policy.

Borrowing would add pressure on the revenue budget as MRP and interest would become payable. The capacity to make these payments would need to be identified in advance, namely the further efficiency savings generated by the investment in the assets.

Borrowing Sources

The Council may need to borrow money in the short term to cover unexpected cash flow shortages from the following approved sources:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the West Sussex Pension Fund)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Capital market bond investors, including via community municipal bonds
- Any other UK public sector body

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Sale and leaseback

The Council will, where possible, take advantage of the 20 basis points (0.20%) reduction in borrowing costs available from the Public Works Loan Board (PWLB) to those authorities who provide information on their plans for long-term borrowing and associated capital spending.

Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. If these limits are breached in-year, this will trigger an exception report explaining the circumstances of the breach to Cabinet.

The limit for 'other long term liabilities' includes the Council's best estimate of finance lease liabilities that may be recognised following adoption of IFRS16 on 1 April 2022.

Table 6: Operational boundary for external debt

Operational Boundary	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Borrowing	10	10	10	10	10
Other long-term liabilities	2	2	3	3	3
Total Debt	12	12	13	13	13

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe.

The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 7: Authorised limit for external debt

Authorised Limit	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Borrowing	20	20	20	20	20
Other long-term liabilities	5	5	5	5	5
Total Debt	25	25	25	25	25

Non-Treasury Investments

The Authority may purchase assets for investment or service delivery purposes and may also make loans and provide guarantees for service and other purposes.

The overall amount that can be committed to investments of this type will be limited by adherence to the Council's overall key financial principles approved for the relevant financial period.

Commercial Investments

The Council may invest in commercial opportunities with the intention of making a profit that will be spent on local public services.

To provide specific guidance on the enhanced scrutiny and assessment of risk required, the Council has approved an investment opportunities protocol. All decisions to make commercial investments will comply with this protocol.

The Council's investment opportunities protocol requires that:

- Acquisitions should be within the District Council's area, or sufficiently close by to be easily managed
- Priority is given to acquisitions which achieve a community or economic benefit and strengthen the local economy
- The acquisition provides an acceptable rate of return for the additional risk taken on, and will not increase the Council's ongoing revenue costs in the longer term

Where necessary, specialist advisers are employed to provide advice and act for the Council for specific transactions.

Security

The Authority will assess the risk of loss before entering into and whilst holding commercial investments by undertaking due diligence in accordance with the Council's protocol on investment opportunities.

In accordance with the Guidance, the Council assesses security for investment properties as maintaining the fair value of the investment property portfolio above the purchase price paid.

A fair value assessment for all commercial investments held by the Council has been undertaken within the last 12 months. Of the six properties owned by the Council for investment purposes, their total market value was assessed at £13.623m on 31 March 2020, significantly above the total initial purchase cost.

Within this, two of the properties had a fair value that was below the initial purchase cost. The estimated unrealised loss for one is £24,000, equivalent to less than 2% of its fair value. For the final property, the unrealised loss is £225,000 or 6.5% of the purchase cost.

Whilst it is possible that the fair value of these investment properties would not provide security against loss this would only occur if the Council were forced to sell these properties. It should also be noted that the Council has received significant rental income since these properties were first acquired and any perceived fall in value will be mitigated by the income generated to date. Property is a long term asset and the Council only invests once it is satisfied that the asset can be held over a period longer than 5 years and does not borrow to fund the purchase

The Council is satisfied that the true market value of these properties provides adequate security for the investment of public funds.

Liquidity

Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions such as those that currently exist. Because of this, the Council only invests in non-treasury assets where strategic forecasts indicate the asset can be held over an appropriate timeframe.

The Council does not borrow to finance non-treasury investments and therefore has no need to generate cash to repay borrowing. It recognises that unforeseen events can occur and maintains both a short term and medium term (five year) cashflow forecast which it expects will give the Council sufficient notice of any need to liquidate any non-treasury investments.

The Council also holds significant cash and short term investment balances at any one time.

Service investments

The Council may choose to make loans or provide guarantees to local enterprises, local charities and other entities as part of a wider strategy for local economic growth and to support its Corporate Priorities.

The Council manages the risk of any loan and guarantee by ensuring that total exposure is proportionate to the Council's revenues and revenue reserves to ensure that there is adequate cover in the event of a default or call on the guarantee.

Where service loans are made, or loan facilities agreed, the total exposure will be limited to the funding approved for this purpose in advance by the Council's Cabinet.

The Authority has guaranteed the possible pension liabilities associated with TUPE and other transfers of staff from public to private sector where staff have remained within the Local Government Pension Scheme (LGPS). The provision of this guarantee was a

requirement of the LGPS administering body and the risk is mitigated by a bond which is intended to cover all but the most extreme likely financial exposure.

The decision to provide any loan or guarantee will be determined in accordance with the governance arrangements established by the Council's Constitution.

Non-Specified Investments

From 2018, the additional monitoring requirements for non-specified investments are only applicable to non-treasury investments per paragraph 21 of the Guidance. The Council has a number of long term treasury investments that have previously been classified as non-specified investments but are now considered to be outside the scope of this requirement.

The Guidance defines non-specified investments as any non-treasury investment that does not meet the following criteria:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+.

If the need arises to make a non-specified investment, this will comply with the investment upper limits both individually and cumulatively specified in this investment strategy in table 8, below.

Table 8: Non-Specified Investment Limits

Limits (excluding Treasury Investments)	Cash limit (£m)
Total medium and long-term investments	20
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	20
Total non-specified investments	30

For clarity, these limits do NOT apply to Treasury Investments.

Risk exposure indicators
Treasury Management Indicators

The Council will use the voluntary measures set out below to measure its exposure to risk

Security and credit risk

Table 9: Security risk indicators

Measure	Target
Average Credit Score (time-weighted)	Less than the average of other District Councils (AAA=1, D=24)
Average Credit Rating (time weighted)	Maintain below the time weighted average of other District Councils
Proportion Exposed to Bail-in (%)	Less than the average of other District Councils
Fair Value of external funds	Overall positive fair value (market value less purchase consideration) over any rolling three year period

Liquidity

Officers will continue to manage the Council's treasury management investments ensuring that sufficient cash is available to accommodate known payments. In the unlikely circumstance that a large unexpected cash payment is required and the Council does not have sufficient liquidity immediately available, the Council will use its facility to borrow temporarily for cash management purposes.

Table 10: Liquidity risk indicators

Measure	Target
Proportion of investments available within 7 days (%)	Compare and explain against District Council average
Proportion available within 100 days (%)	Compare and explain against District Council average

Average days to maturity	Compare and explain against District Council average

Maturity Structure of Borrowing

As the Council is debt free it currently holds no fixed long term borrowing for which a maturity profile exists.

Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments in response to adverse economic or market conditions or credit rating downgrades.

Table 11 sets out the upper limit for each forward financial year period for the maturing of investments for periods longer than 364 days up to their final maturities beyond the end of the financial period.

Table 11: Limits on investment periods (£m)

	2021/22	2022/23	2023/24
Limit on principal invested beyond year end	60	60	60

Market and economic risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments, although the effects on the Council of such movements are not considered to be material as the majority of sums invested are at fixed interest rates for short periods. Of much more significance is the risk of property price movements and interest rate risk relating to the Council's investment in external pooled funds.

To measure the significance of these risks, the Council calculates the effect of a 1% change in interest rates and a 5% change in property prices on the Fair Value of the external funds when preparing its Statement of Accounts.

It will compare these figures against the individual counterparty limits set out above in table 4, which are seen as representative of a measure of the maximum amount that the council is willing to risk.

A Treasury exception will be reported to Cabinet where the interest rate risk exceeds 50% the Council's individual Counterparty limit (equivalent to £2.5m).

For comparison, as at 31 March 2020 the position was as follows.

Table 12: Exposure to economic risk (£m)

	1% change in Interest rates	5% change in equity prices	5% change in property prices
Pooled funds (£34m)	0.41	0.29	0.49

Non- Treasury Investments Indicators

The Council will use the voluntary measures set out below to measure its exposure to risk associated with non-treasury investments

Table 13: Non-Treasury investment risk indicators

Measure	Risk/ Measure
Commercial income to net service expenditure (NSE)	This indicator measures the Council's dependence on income from its commercial investments to deliver core services.
Net operating surplus	This indicator measures the contribution received from the investment portfolio at a net level (income less costs) over time.
Vacancy levels and tenant exposure	Monitoring vacancy levels (voids) to ensure the property portfolio is being managed productively.
Exposure to credit default events for loans made	This will measure the Council's exposure to loss through default for non-treasury loans made to third parties.
Market Value of commercial properties	This indicator will track the Council's ability to recover its investment in any commercial investment should the need so arise

Other Items

There are a number of additional items that the Council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Investment of Money Borrowed in Advance of Need

Although not envisaged at this stage, the Council may, exceptionally, borrow in advance of need, where this is expected to provide the best long term value for money. Any borrowing in advance of need will comply with the MHCLG Guidance.

Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit as set out in table 7. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Investment Training

To address the training need of members, training will be provided to members of both Cabinet and the Corporate Governance and Audit Committee in advance of them considering the forthcoming year's strategies.

Member and officer training is an essential requirement in terms of understanding roles, responsibilities and keeping up to date with changes and in order to comply with the CIPFA Treasury Management Code of Practice.

The training needs of the officers involved on treasury management are identified through the annual performance and development appraisal process, and additionally when the responsibilities of individual members of staff change. Staff attend relevant training courses, seminars and conferences.

Officers regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant officers are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Staff involved in non-Treasury investments and commercial property purchases attend training, Continuing Professional Development and networking events and generally follow the market to keep abreast of current trends and values. The Team is represented at meetings of ACES (Association of Chief Estates Surveyors and Property Managers in the public Sector) which provides a forum for networking and sharing property information.

Investment Advisers

The Council currently contracts with Arlingclose Limited as its treasury management adviser and receives specific advice on investment, debt and capital finance issues. However, responsibility for final decision making remains with the Council and its officers. The contract runs until 30 June 2022.

The quality of this service is controlled and monitored against the contract by the Financial Services Divisional Manager.

Property Investments are undertaken in accordance with the Investment Opportunities Land and Property protocol. Investment advisors are appointed depending on staffing capacity or risk basis, where specialist advice may be required.

Reporting

Treasury investments

The Council/Cabinet will receive as a minimum:

- An annual report on the strategy and plan to be pursued in the coming year and on the need to review the requirements for changes to be made to the Treasury Management Strategy Statement.
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, by 30th September in the next financial year, including any circumstances of non-compliance with the organisation's treasury management policy statement and Treasury Management Practices.

The body responsible for scrutiny of treasury management policies and practices is the Corporate Governance and Audit Committee. Monitoring reports on Treasury performance and compliance with this strategy will be prepared and presented to this Committee as a minimum for the half year to September and the full year to March.

The Leader of the Council, the Cabinet Member for Corporate Services and the members of the Corporate Governance & Audit Committee receive weekly monitoring reports of the investments held. Corporate Governance & Audit Committee will receive half yearly monitoring reports.

Non-Treasury Investments

For commercial investments, the Council's Commercial Board and Cabinet will receive reports on performance and risk each year. Approval for investments and reporting on them will be in line with the Council's protocol on investment opportunities.

For service investments, the reporting process will comply with the Council's Constitution on a case by case basis.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Corporate Services believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Table 14: Alternatives considered

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Appendix 2A – Economic and interest rate forecast – January 2021

This summary has been provided by Arlingclose Ltd

Economic background

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable. The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.

Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.

This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.

Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal

Interest rate forecast

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Capital Strategy 2021/22 to 2025/26

Contents

Introduction

This capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services and how associated risk is managed by the council.

Our Strategic Aims & Objectives

The Council's Corporate Plan was approved on 23 January 2018 and originally ran until 31 March 2021.

Given the significant impact of the pandemic on finances and service priorities, the Council will revisit its longer term objectives once the medium term outlook is clearer. In the meantime, the existing priorities have been extended and remain:

- Improving the provision of and access to suitable housing.
- Supporting our communities.
- Managing our built and natural environments to promote and maintain a positive sense of place
- Improving and support the local economy to enable appropriate local growth
- Managing the council's finances prudently and effectively

Each of these priorities is underpinned by several objectives, setting out what the Council aims to achieve. Below these objectives sit further, more specific, actions the council will undertake and, where appropriate, these are accompanied by specific, measurable targets.

Impact of COVID-19

The Council's objectives and goals are currently being reshaped in light of the impact of Covid-19. Priorities are based on:

- A short term focussed recovery action plan, with targeted interventions, that is agile and helps supports communities, businesses and the Council's services recover from the impact of C19; and,
- Returning the Council's finances to having a balanced budget over the medium term.

A three stage approach is being used to review and reshape the Council's finances:

1. Efficiency savings: an inward-facing review of all services to identify opportunities that boost productivity and generate cashable efficiency savings.
2. Policy options: will stem from the efficiency savings work but these relate specifically to those requiring a Member decision prior to adoption.
3. Service prioritisation: This will prioritise those services that the council needs to deliver by law (statutory services) first. Services were asked to provide a list of activities that they deliver, identifying which were statutory and non-statutory.

This process will take some time to complete, although some of the initial options under stages 1 and 2 will be built into the Council's budget from 2021-22.

Stage 3 is a more substantial piece of work requiring significant member/community input. This piece of work will commence only if the Council's future finances cannot support the delivery of all current Council services.

This Capital strategy reflects the Council's capital investment and financing intentions as set out in the Council's budget spending plans for 2021-22 and recognises that, given the exceptional economic uncertainty faced at present, the position described within is very likely to evolve in line with the Council's ongoing response and recovery plan described above.

Approval process

The Council approves a capital programme on recommendation from the Council's Cabinet. This programme consists of significant projects that qualify as capital expenditure and a planned programme of scheduled asset replacements (ie; the Asset Replacement Programme or ARP).

The Council follows the following key principles in determining its capital priorities:

- All key decisions of the Council should relate back to the Corporate Plan
- The revenue budget and capital programme must remain balanced and sustainable over a rolling 5 year period.
- The Council will not use its reserves to fund ongoing services.
- Savings in the revenue budget or external funding are identified before any new revenue expenditure, including capital expenditure that has revenue consequences, or any reduction in planned income is approved.

Cabinet is responsible for the acquisition, management, maintenance and disposal or letting or all Council properties together with review and implementation of the Council's Asset Management plan and this Capital Strategy. The Director of Growth & Place has delegated authority to let, manage, repair and maintain properties.

The Directors of Corporate Services and Growth and Place are responsible for providing professional advice to Cabinet and Council in the discharge of these functions, with the Director of Corporate Services being responsible for making arrangements for raising and repaying loans as necessary and overall treasury management of funds until they are needed.

Supporting carbon reduction

Following the Declaration of a Climate Emergency in 2019, the Council has committed to working towards a carbon emissions reduction across the district of 10% year-on-year until 2025, supporting the national drive to deliver net zero carbon by 2050.

Our initial climate change action plan commits to;

- Put in place a system for identifying those CDC decisions with impacts on carbon emissions, air quality and biodiversity and ensure that negative impacts are avoided or mitigated.
- To align our council statutory and non-statutory plans, policies and guidance with respective carbon reduction pathways and biodiversity restoration plans, including procurement.

To achieve these goals, the Council will factor climate change into capital investment decisions, policies and projects at the earliest stages of their inception so that opportunities can be capitalised upon. This will entail;

- Reviewing our supply chains and procurement models to ensure due consideration is given to reducing greenhouse gas emissions.
- Seeking grants and/or loans to finance environmental technology, infrastructure and services within our own estate, or looking to fund ourselves;
- Supporting others within the district in finding sources of finance so that they may reduce their carbon footprint.

Our Assets

The Council's asset base at 31 March 2020 was

Total Assets £253m

Property, Plant & Equipment	Investment Property	Other Long Term Assets	Current Assets
£130m	£14m	£59m	£50m

Capital Programme

In 2021-22 the Council is planning to spend £25.7m on capital assets. This is part of an overall planned programme of £43.4m in the period 2021-22- to 2025-26, which includes the following major schemes

Table 1: Capital programme and major schemes 2020-21 to 2025-26

Capital Expenditure (£m)	2021-22	2022-23	Later	Total
Total approved spend **	25.7	5.4	12.3	43.4
Major schemes				
Disabled Facilities Grants	3.1	1.4	4.0	8.5
St. James Industrial Estate - Refurbishment and Replacement of Units	4.7	0	0	4.7
Infrastructure Business Plan: Southern Gateway Project	4.0	0.9	0	4.9
Infrastructure Business Plan: School Places	3.6	0	0	3.6
Infrastructure Business Plan : Rebuilding and expansion of Westhampnett Waste Transfer Station/Household Waste Recycling Site	2.3	0	0	2.3
Infrastructure Business Plan :Early Years Places, Whitehouse Farm Development	0	0	2.1	2.1
Freeland Close Redevelopment	1.5	0	0	1.5
Affordable Housing Grants	0.6	0.3	0	0.9

*** 2021-26 draft programme, subject to Council approval*

Affordability

The Council recognises that, due to its nature, the capital programme is constantly changing, so the resource position is regularly updated and monitored to ensure that the programme remains affordable. The Council's resource projection at December 2020 is shown below.

Table 2: Resources available to finance our Capital programme (£m)

Resources 2021-22 to 2025-26	Total
Reserves at April 2021	26.7
New Resources expected in period	
- Capital receipts	8.6
- Interest on Leases	1.1
- Interest on Investments	1.1
- Contribution from General Fund	3.1
- Contributions to Asset Replacement Fund	7.3
- Contribution to Capital Projects Fund	0.9
- Contributions from Earmarked Reserves	1.9
- Other Contributions	0.3
- External income, including CIL	25.0
Total New Resources	49.3
Less commitments	
- Minimum Reserves Provision	-4.0
- LEP Grant	-5.0
- COVID 19 Recovery	-8.0
-	
Capital Programme	
- Approved capital projects	-35.1
- Current Asset replacements	-8.3
Total commitments	-60.4
Available Resources	15.6

Tables 1 and 2, taken together demonstrate that the Council currently expects to be able to fully fund its approved capital and asset replacement programmes from existing and expected resources.

The main risk managed by the Council is that the expected resources shown in the table above will not be received, or will be received significantly later than forecast.

The receipt of capital resources is closely monitored by the Council's Finance and Estates teams, Commercial Board and is regularly reported to the Portfolio holder for Corporate Services and to Cabinet. An annual statement on resource projections against capital needs is included with the Council's financial strategy that is presented each year to full Council for approval.

An assessment is made by the Council's Financial Services Division of the best financing method for all major capital investments at the earliest stage of the proposal's development. Whilst the present intention is to remain debt free through this period, the Council will assess on a case by case basis what financing options exist and which represents the best value for money.

Guidance issued by the Government requires all Councils to be transparent where they plan to use capital receipts flexibility to part fund individual projects. As the Council currently makes significant revenue contributions to fund its capital programme, the Council presently does not intend to make use of this flexibility.

The Director and Corporate Services is satisfied that the proposed capital programme is prudent, affordable and sustainable and this is set out in more detail in the Council's 5 year financial strategy.

Managing our assets

To ensure that capital assets continue to be of long-term use, the Council has an asset management Plan (AMP) which provides the policy framework for the operational work of asset management, asset acquisition and disposal.

Asset Replacement

The Council recognises that it is not sufficient to simply provide for the initial purchase cost of capital assets. Investment in assets requires a long-term view to be taken of the cost of those assets across their entire lifespan.

The Council's revenue budget incorporates repairs and maintenance to council buildings, removing dependency on reserves to fund what is a recurring revenue cost. Commercial investments are let on fully repairing and insuring lease terms to protect the Council's assets.

Other lifecycle costs for all Council assets are forecast for 25 years and included in the Council's approved Asset Replacement Programme (ARP). An annual contribution from the Council's revenue budget to fund this programme is made equating to approximately one 25th of the projected total ARP cost.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account and where it is economical to borrow in advance of spend.

In managing these funds, the Council has adopted the following risk statement

> "The Council's priority is the security and liquidity of its Treasury investments in accordance with the priorities set out in the CIPFA Code. Whilst fundamentally risk averse, the Council accepts some modest degree of risk within the limits and counterparty restrictions set out in its Treasury Management and Investment Strategy."

This means that, when investing its surplus cash, the Council does not limit itself to making deposits only with the UK Government and local authorities, it can, and does, invest in other areas such as money market funds and tradable instruments such as corporate bonds and pooled funds. The duration of such investments is always carefully considered to limit that risk of them having to be sold (although they may be) prior to maturity, mitigating the risk of the capital sum being diminished through price movements.

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Corporate Services and staff, who must act in line with the treasury management strategy approved by Council. Half yearly on treasury management activity are presented to the Corporate Governance and Audit Committee and Cabinet.

Investments

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. The Council's business model for holding treasury investments is designated as 'hold to collect', in that that Council holds these financial assets to collect their contractual cash flows, rather than with a view to selling the assets to generate cash flows. However, there is no absolute requirement that financial assets are always held until their maturity in all circumstances.

The Council prioritise security and liquidity over yield in holding Treasury investments. That is, it focusses on minimising risk rather than maximising returns.

Cash that is likely to be spent in the near term is invested securely to minimise the risk of loss. Money that will be held for longer terms is invested more widely,

including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments can be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 3: Forecast treasury management investments in £m (31 March)

	2021	2022	2023	2024	2025
Near-term investments	30.4	16.1	15.5	19.0	21.8
Longer-term investments	34.0	34.0	34.0	34.0	34.0
TOTAL	64.4	50.1	49.5	53.0	55.8

These figures do not account for any delays in timing of capital payments. Delays generally increase the available cash balances temporarily above forecast levels.

Borrowing

The Council is currently debt-free and has no borrowing other than that which might occur as part of routine working capital management. Under the Council's current resource projections, there are no plans to borrow to finance new capital expenditure over the medium term.

The Capital Financing Requirement (CFR) is a measure of the Council's underlying need to borrow to fund capital expenditure. The Council intends to achieve a zero CFR at 31 March 2021 and does not forecast this to change through the period to 31 March 2026.

Although our projections below incorporate some headroom for potential for borrowing should the need arise, funding options for major projects are assessed on a case by case basis by the Council's Financial Services Division. If any future projects are to be funded by borrowing, the project approval process will include the necessary actions to approve any necessary increase to these limits.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each of the following three financial periods. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 4: Proposed Operational and authorised limits for borrowing (£M)

	2021/22	2022/23	2023/24	2024/25
Operational Boundary – borrowing	10	10	10	10
Operational Boundary– PFI and leases	2	3	3	3
Operational Boundary– total external debt	12	13	13	13
Authorised Limit – borrowing	20	20	20	20
Authorised Limit– PFI and leases	5	5	5	5
Authorised Limit– total external debt	25	25	25	25

Further details on borrowing are contained in the Council the treasury management strategy: http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy. The limits in this table are provisional until the 2021-22 strategy is approved by Full Council.

Liabilities

Decisions on incurring new discretionary liabilities are taken by Divisional Managers in consultation with Director of Corporate Services and within the limits established by the Council's Constitution and Treasury and Investment strategy. The risk of liabilities crystallising and requiring payment is monitored by financial services.

Further details on liabilities, contingent liabilities and guarantees are can be found in the Council's statement of accounts:
http://www.chichester.gov.uk/statementofaccounts

Interest Rate Exposures

The Council is not exposed to risk associated with the maturity structure of borrowing, but recognises that its Treasury investments are subject to risk from movements in interest rates. The Council manages this risk by ensuring an appropriate mix of short term fixed and variable rate investments and a portfolio of external investments in pooled funds.

Impact on Council tax

Although capital expenditure is not charged directly to the revenue budget, a Minimum Revenue provision (MRP) is charged to revenue, offset by any investment income receivable. MRP charge is a set aside from council reserves to ensure that borrowing can be repaid when due and the overall net annual charge is known as

financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

As the Council is, and expects to remain, debt free, the Council is not required to make a charge to revenue to finance debt (minimum revenue provision).

Further details on the revenue implications of capital expenditure are published with the Council's revenue budget which is considered each year by Cabinet and Full Council.

Service investments

The Council has made a very limited number of loans to assist local public services and residents, the majority for housing renewal purposes.

Some loans have been made to members of staff for transport purposes. Decisions on minor loans are made by the relevant service manager in consultation with the Director of Corporate Services.

The total value of loans made by the Council to external third parties is disclosed on the Council's annual statement of accounts, although some loans have been treated as capital expenditure in accordance with the Local Authorities (Capital Finance and Accounting) (England) Regulations.

Further details on service investments are within the Council's investment strategy, which is published with the Council's Treasury management strategy: http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy.

Commercial Activities

The Council's existing property portfolio generates income of approximately £2.8m million per year for the General Fund revenue account.

The majority of this income (£1.8m) comes from properties held primarily to support the provision of local services, not to make a profit or for any appreciation in value. Examples of these activities include rents and licence fees from industrial units, commercial and industrial ground leases, shops, offices and other lettings to sports, community and voluntary organisations.

Only a small proportion of the assets involved are held because rental income and/ or capital appreciation were substantial factors in the decision to acquire or hold them. These are classified as 'investment properties' and disclosed in the Council's statement of accounts. These assets generate around £1m per annum in income which is used to support font line services.

General capital investment in commercial property is likely to take three main forms.

- Freehold or Long Leasehold Purchases
- Commercial development of property with the Council retaining ownership and receiving rental income.
- Partnerships where another party undertakes the development and the Council (as landowner) receives a proportion of the rental value.

Land and property acquisition and development is also a means of influencing regeneration and the economic development within the District. Therefore while one objective may be to increase the financial resources the Council has available, appropriate investment can also extend service delivery or provide community improvement generally.

For these reasons the Council has an approved investment opportunities protocol that gives priority to acquiring property in the Chichester District, albeit opportunities to acquire properties elsewhere are considered if a justifiable case exists for doing so.

The protocol also provides specific guidance on the enhanced scrutiny required, including:

- Acquisitions should be within the District Council's area, or sufficiently close by to be easily managed
- Priority is given to acquisitions which achieve a community or economic benefit and strengthen the local economy
- The acquisition provides an acceptable rate of return for the additional risk taken on, and will not increase the Council's ongoing revenue costs in the longer term
- Where necessary, Specialist advisers are to be employed to provide advice and act for the Council

The Council aims to acquire land and property for the longer term (10 years or more) to reap the benefit of sustained rental income and capital appreciation as land and property values recover from the effects of economic downturn in recent years and more recently the impact of Covid-19 and uncertainty relating to Brexit.

There is a recognition that, in undertaking investments primarily for financial return, the Council needs to ensure that these decisions are subject to enhanced decision making and scrutiny as a result of the additional risk being taken on and the potential impact on the sustainability of the authority. The principal risk exposures in commercial property-based revenue strategy are:

- A downturn in the property market. This could lead to falling rents or higher vacancies, potentially meaning that the Council will need to find other sources of revenue, or reduce costs to balance its budgets. This scenario

could also lead to falling property values, with a risk that the asset would be worth less than the purchase price.

- Government intervention to set limits on commercial activities. This would force the Council to react, which may be against the Council's long term interests.
- Lack of expertise in specialist areas, leading to poor acquisition decisions.

Investment purchases are evaluated using a scoring matrix approach, with a minimum score required of least 100 out of a maximum score of 168 (60th percentile). The score reflects, amongst other things, tenancy strength, tenure, occupiers lease length and repairing terms.

Decisions on commercial investments are made by Cabinet in line with the criteria and process set out in the Council's investment opportunities protocol.

For 2021-22 the Council has followed the recommendations of the Ministry of Housing, Communities and Local Government and included an indicator for the ratio of commercial income to net service expenditure in its investment strategy.

Further details on this and general risk management arrangements are contained in the Council's investment strategy and Treasury management strategy: http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy

Other long-term liabilities

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees do carry risks to the Council and as such, they are subject to separate risk mitigation procedures before they are entered into.

The only guarantees provided by the Council relate to possible pension liabilities associated with TUPE transfers of staff from public to private sector where staff have remained within the Local Government Pension Scheme.

In these circumstances the provision of a guarantee is a requirement of the Pension Fund. The financial risk of each guarantee is mitigated by a bond which is intended to cover all but the most extreme possible financial exposure.

Other than to cover mandatory requirement under the Local Government Pension Scheme, the Council does not expect to provide financial guarantees to, or on behalf of, any third party.

The Council has disclosed total long term liabilities of £7.3m in its last statement of accounts. The majority of this figure (£5.8m) relates to section 106 contributions which are fees paid by applicants seeking planning permission for the mitigation of the impact of new homes on the local community and infrastructure.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, both the Divisional Manager for Property & Growth and the Valuation & Estates Manager are chartered surveyors and registered valuers who jointly have over 33 years' post qualification experience

The Council currently employs Arlingclose Limited as Treasury Management advisors, and individual property consultants for cases where specialist property advice is required such as major development schemes. It has also elected where possible to be treated as a professional investor under the requirements of the 2nd European Union Markets in Financial Instruments Directive.

TREASURY MANAGEMENT PRACTICE NOTES

TMP 1 – RISK MANAGEMENT

General Statement

The Section 151 Officer will oversee the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk. The Section 151 Officer will ensure that reports are presented at least annually, on the adequacy/suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives.

In respect of each of the following risks, the arrangements that seek to ensure compliance with these objectives are set out in this document and take into account the risk appetite statement in the Council's Treasury Management Strategy Statement, available via the following link:

http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy

This document is integral to the Council's treasury management practices and all staff involved in treasury management activities should familiarise themselves with its contents.

Overall approach

The Council has adopted a set of locally tailored risk indicators that it feels provides a balanced picture of the following risk areas

- Security and credit risk
- Liquidity
- Principal periods invested for greater than 364 days
- Exposure to market and economic risk
- Non-treasury investment risk

Each of these indicators is prescribed in the Council's annual Treasury and Investment Strategy and they will be monitored and reported in line with the procedures described in TMP6

[1] Credit and Counter party risk management

This risk is the risk of a third party failing to meet its contractual obligations (for example, to pay any investment money or interest back in full, on time)

Statutory guidance restricts the types of investments that local authorities can use and forms the structure of the Council's policy, which is contained in the Council's treasury management strategy.

The Council's key objective is to invest prudently, giving priority to security, then liquidity before yield.

The Council also has regard to the CIPFA publications Treasury Management in Public Services: Code of Practice and Cross-Sectoral Guidance Notes and the sector specific guidance; Guidance Notes for Local Authorities including Police Authorities and Fire Authorities.

The Council ensures that its counter party lists and limits;

- reflect a prudent attitude towards organisations with whom funds may be deposited, and
- limit its investment activities to the instruments, methods and techniques referred to in TMP4 and in the Council's Treasury Management Strategy, published at the link above.

The Council also maintains a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements. This is contained within the Council's Treasury management policy statement and approved each year by the Council.

Monitoring Investment Counterparties

The assessment of credit worthiness or credit rating of investment counterparties will be monitored regularly.

The Council obtains credit rating information from its treasury advisers who monitor leading credit rating agencies and notify the Council of any changes in ratings as they occur. This includes and takes account of changes, ratings watches and rating outlooks as necessary.

The Council has established counterparty limits by sector and credit rating and compliance with these limits is reviewed before any investment decision is made.

In considering credit rating, the lowest rating issued by leading credit rating agencies is used, unless an investment-specific rating is available when this will be used.

The Council considers other possible sources of information available to assess the credit worthiness of counterparties. This includes information direct from brokers, news agencies and its treasury advisers monitoring the Credit Default Swaps (CDS) market.

On occasions ratings may be downgraded after an investment has been made, however, the criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest.

Any counterparty failing to meet the criteria or due to adverse information in the public domain, will be removed from the approved list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

[2] Liquidity Risk Management

This risk is the risk that cash will not be available when needed

The Council ensures it has adequate though not excessive cash resources, borrowing arrangements, overdraft facilities to enable it at all times to have a level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case and statutory authority for doing so and will only do so for the current capital programme.

To maintain flexibility and liquidity the Council determines a maximum amount of principal that can be invested for periods longer than 364 days and closely monitors known future cash demands. To ensure adequate liquidity is maintained, 'worst case' estimates of cash flows are used when considering the Council's medium term investment position.

The Council has also set an operational boundary for external debt that can be used on a short term basis for daily cash management purposes

[3] Interest rate risk management

This risk is the risk of fluctuations in interest rates creating unexpected and unbudgeted burdens on Council finances

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 (Reporting requirements and managing information arrangements).

The effects of varying levels of inflation, so far as they can be identified, will be controlled by the Council as an integral part of its strategy for managing its exposure to inflation.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, to create stability and certainty of costs and revenues, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

To achieve this objective the following specific policies are followed:

- maintaining the Council's debt free position and undertake no new borrowing unless the business case is proven for 'invest to save' projects
- retaining an appropriate minimum level of reserves in order to maintain flexibility in the use of interest earned from deposits
- lending surplus funds only to approved counterparties as specified by the Council's Treasury Management Strategy
- minimising short term borrowing by efficient cash flow management
- ensuring that the use of any hedging tools such as derivatives are only used for the management of risk and prudent management of the financial affairs of the council, as set out in the Council's Treasury Management Strategy

[4] Exchange rate Risk Management

The Council does not invest in foreign denominations but does occasionally make payments to foreign suppliers. In so doing we will manage our exposure to fluctuations in exchange rates to minimise any detrimental impact on budgeted income expenditure levels.

Any large contracts let by the Council must be denominated in £Sterling and the Section 151 Officer consulted on any proposed departure from this policy.

[5] Refinancing risk management

The Council ensures that any borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies are managed, with a view to obtaining offer terms for renewal or refinancing, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationship with counter parties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

[6] Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements.

It will demonstrate such compliance if required to do so, to all parties with whom it deals in such activities. In framing its credit and counter party policy the Council will ensure that there is evidence of counter parties' powers, authority and compliance in transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council manages the risk of 'Bail-in' by limiting its exposure to unsecured deposits and also by specifying counterparty investment limits. See TMP4 for further information.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, in so far as it is reasonable to do so, will seek to minimise the risk of these impacting adversely on the organisation.

[7] Fraud error and corruption, and contingency management

The Council ensures that it has identified the circumstances that may expose it to the loss through fraud, error, corruption or other eventualities in its treasury management dealings. It employs suitable systems and procedures and maintains effective contingency management arrangements, to these ends.

The Council's treasury management system is considered sufficiently resilient to contingencies as it is a hosted solution operated by Logotech. Data is backed up to off-site servers operated by the software supplier.

The Council has a business continuity plan and key functions, including cash management and payments are included in that plan

[8] Fair value risk management

The Council is able to invest in variable Net Asset Value Instruments, or instruments that are revalued to Fair Value each accounting period, subject to the risk management provisions below

For the main classes of such instrument, the risk to security of the principal sum involved are managed as follows

Investment	Risk	Mitigating actions and risk management
Money Market Funds	These funds are likely to be Low Volatility Net Asset value funds	Exposure is limited by restrictions on the total invested in any single Money Market fund and across all funds.
External Pooled funds, including the Local Authority Property Fund	We may incur a loss to the Council's General fund balances if the Fair Value of these investments falls	The Council's investment in external pooled funds (including the Local Authority Property Fund) is limited by the Council's annual Treasury strategy. The Council carefully selects mixed asset and diversified funds to reduce the potential for volatility of capital values. The potential exposure to movements in fair values is considered in determining the adequacy of the Council's revenue reserves.

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Appendix 5 – Treasury Management Glossary (updated December 2020)

Amortised Cost Accounting	Values the asset at its purchase price, and then subtracts the premium/adds back the discount linearly over the life of the asset. The asset will be valued at par at its maturity.
Authorised Limit (Also known as the Affordable Limit)	A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail - in Risk	Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon. A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.
Bank of England	The central bank of the UK
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate".
Basis Point	A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in **interest rates** and **bond yields**. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.
Bill	A certificate of short-term debt issued by a company, government or other institution, tradable on the financial market
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the

	time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.
Call Account	A deposit account that can be called back (repayment requested), normally on an instant basis
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR)	The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Certainty Rate	The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
CD's	Certificates of Deposits with banks and building societies
Capital Receipts	Money obtained on the sale of a capital asset.
Capital Strategy	An annual report required by the Prudential Code that sets out a local authority's high level plans for capital expenditure, debt and investments and its prudential indicators fo r the forthcoming financial year.
Cash Plus fund	A collective investment scheme similar to a money market fund but with a longer duration (around 6 months)
CIPFA	The Chartered Institute of Public Finance and Accountancy – the professional body for accountants working in the public sector. CIPFA also sets various standards for Local Government
Collective Investment Scheme	Scheme in which multiple investors collectively hold units or shores. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are often referred to as 'pooled funds')
Commercial Investment	An investment whose main purpose is generating income, such as investment property.
Constant Net Asset Value (CNAV)	These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value

Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often 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 List	List of approved financial institutions with which the Council can place investments with.
Covered Bond	Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."
CPI	Consumer Price Index – the UK's main measure of inflation
Credit Rating:	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees
Debt Management Office (DMO)	The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign credit rating.
Diversification /diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
European Investment Bank (EIB)	The European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion
Fair Value	Fair value is defined as a sale price agreed to by a willing buyer and seller, assuming both parties enter the transaction freely. Many investments have a fair value determined by a market where the security is traded.
Federal Reserve	The US central bank. (Often referred to as "the Fed").
Floating rate notes (FRNs)	Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three-month Treasury bill or the three-month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
FTSE 100 Index	The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market

	capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law.
General Fund	This includes most of the day-to-day spending and income of the Council
Gilts	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Gross Domestic Product (GDP)	Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy
IFRS	International Financial Reporting Standards.
LIBOR	The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
Maturity	The date when an investment or borrowing is repaid.
Maturity Structure / Profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.
Ministry for Housing, Communities and Local Government (MHCLG)	The MHCLG is the UK Government Ministry for Housing, Communities and Local Government in England.
Minimum Revenue Provision (MRP)	An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Money Market Funds (MMF)	An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. • **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1 and calculate their price to two decimal places known as "penny rounding". • **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The

	NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received • **Low Volatility NAV (LVNAV)** funds. LVNAV MMFs are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points.
Multilateral Development Banks	See Supranational Bonds below.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Operational Boundary	This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.
Pooled Funds	A pooled investment is an investment in a large, professionally managed portfolio of assets with many other investors. As a result of this, the risk is reduced due to the wider spread of investments in the portfolio. See also 'collective investments'.
Property	Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
Public Works Loans Board (PWLB)	This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
REIT	Real estate Investment Trust – a company whose main activity is owning investment property and is therefore similar to a property fund in many respects
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital

	financing charges.
RPI	Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.
(Short) Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (Interest) with maturity durations of less than 365 days
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called **multilateral development banks**). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury (T) -Bills	Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services, initially published in 2003, subsequently updated in 2017
Treasury Management Practices (TMP)	Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Variable Net Asset Value (VNAV)	Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.
Yield	The measure of the return on an investment instrument.

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Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE

18th January 2021

Progress Report – Audit Plan 2020/2021

1. Contacts

Report Author:
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2. Recommendation

2.1 That the committee notes performance against the audit plan for 2020/21.

3. Update on Audit Plan 2020/2021

3.1. The current audit plan comprises 25 full reviews and 4 follow-ups. Due to demands on resources the 4 audits assessed as medium risk are to be removed from the plan to enable the team to focus on the Key Financial Systems and the high risk audit areas.

3.2. The exception for the Land Charges follow-up audit related to fully documenting the decision making process when changing fees and charges. For the 2020/21 financial year no changes have been made to the Land Charges fees, therefore this follow-up will not take place.

3.3. This will leave 21 full reviews and 3 follow-ups.

3.4. As at 18th January 2021, 5 audit reports have been issued as final (21%), 4 audits are at draft report stage (17%), and 4 are work in progress (17%).

3.5. The audit reports issued as final since the last committee meeting are:

- Payroll
- HR Recruitment & Selection follow-up
- Council Tax
- Business Rates

3.6. Results of the audits are contained in appendix one. There have been no audits given a 'No Assurance' rating and no critical exceptions have been raised.

4. Background

4.1. Not Applicable

5. Outcomes to be Achieved

5.1. Not Applicable

6. Proposal

6.1. Not Applicable

7. Alternatives Considered

7.1. Not Applicable

8. Resource and Legal Implications

8.1. Not Applicable

9. Consultation

9.1. Not Applicable

10. Community Impact and Corporate Risks

10.1. Not Applicable

11. Other Implications

Are there any implications for the following?		
	Yes	No
Crime & Disorder:		√
Climate Change and Biodiversity:		√
Human Rights and Equality Impact:		√
Safeguarding and Early Help:		√
General Data Protection Regulations (GDPR):		√
Health and Wellbeing:		√
Other (Please specify):		√

12. Appendices

12.1. Audits completed since the last committee.

13. Background Papers

14.1 None

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Audits completed since the last Committee meeting (19th October 2020)

Audit title	Critical Risk	High Risk	Medium Risk	Low Risk – Improvement	Total no of Exceptions	Overall Assurance level	Summary
Payroll	0	0	1	0	1	**Reasonable Assurance**	The medium risk exception raised related to: • There is supporting documentation to verify any changes to the original data completed and submitted by Managers.
Council Tax	0	0	0	1	1	**Assurance**	The low risk exception was raised in both the Council Tax and Business Rates audits. It related to reconciliations between the Valuation Office Agency report and the Northgate system not being signed off by a senior officer.
Business Rates	0	0	0	1	1	**Assurance**	As above.

Follow-ups

Audit title	Issues addressed	Issues ongoing	Total	Initial Assurance Level	Follow-up Assurance Level	Comment
HR Recruitment & Selection	1	1	2	**Limited**	**Reasonable**	Further action is being taken to address the outstanding issues

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