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AUDIT COMMITTEE
Agenda

Date	Tuesday 21 July 2020
Time	6.00 pm
Venue	Virtual Meeting https://www.oldham.gov.uk/info/200608/meetings/1940/live_council_meetings_online
Notes	1. DECLARATIONS OF INTEREST- If a Member requires any advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or Constitutional Services in advance of the meeting. 2. CONTACT OFFICER for this Agenda is Constitutional Services, email constitutional.services@oldham.gov.uk 3. PUBLIC QUESTIONS – Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the Contact officer by 12 Noon on Thursday, 16 July 2020. The question will be read out by the Chair and a response will be provided at the meeting. 4. FILMING – This meeting will be recorded for live and/or subsequent broadcast on the Council's website. The whole of the meeting will be recorded, except where there are confidential or exempt items and the footage will be on our website. This activity promotes democratic engagement in accordance with section 100A(9) of the Local Government Act 1972. The cameras will focus on the proceedings of the meeting. Members of the public and the press may also record / film / photograph or broadcast this meeting when the public and the press are not lawfully excluded. Please note that anyone using recording equipment both audio and visual will not be permitted to leave the equipment in the room where a private meeting is held. Recording and reporting the Council's meetings is subject to the law including the law of defamation, the Human Rights Act, the Data Protection Act and the law on public order offences. MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS: Councillors Ahmad, Dean, C. Gloster, Haque (Vice-Chair), Salamat, Sheldon, Hobin, Iqbal and Taylor

Item No	
1	Apologies For Absence

2 Urgent Business

Urgent business, if any, introduced by the Chair

3 Declarations of Interest

To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.

4 Public Question Time

To receive Questions from the Public, in accordance with the Council's Constitution.

5 Minutes of Previous Meeting (Pages 1 - 8)

The Minutes of the Audit Committee held on 23rd June 2020 are attached for approval.

6 Treasury Management Review 2019/20 (Pages 9 - 38)

7 Reserves Policy for 2019/20 to 2020/21 (Pages 39 - 56)

8 External Audit - Audit Update Report

Report to follow.

9 External Audit - Audit Completion Report

Report to follow.

10 2019/20 Statement of Accounts

Report to follow.

AUDIT COMMITTEE
23/06/2020 at 6.00 pm

Oldham Council

Present: Councillor Haque (in the Chair)
Councillors Ahmad, Dean, C. Gloster, Sheldon, Hobin and Iqbal

Also in Attendance:

Alastair Newall	Mazars LLP
Anne Ryans	Director of Finance
Mark Stenson	Head of Corporate Governance
Andy Cooper	Senior Finance Manager
Lee Walsh	Finance Manager - Capital and Treasury
Sabed Ali	Assistant Manager – Internal Audit
Elizabeth Drogan	Head of Democratic Services
Lori Hughes	Constitutional Services
Mark Hardman	Constitutional Services

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Taylor.

2 **URGENT BUSINESS**

There were no items of urgent business received.

3 **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4 **PUBLIC QUESTION TIME**

There were no public questions received.

5 **MINUTES OF PREVIOUS MEETING**

RESOLVED that the minutes of the meeting of the Audit Committee held on 4th June 2020 be approved as a correct record.

6 **FEEDBACK ON EXTERNAL AUDIT RECOMMENDATIONS**

The Committee was reminded that, following the 2018/19 Statement of Accounts audit, the Council's external auditors, Mazars LLP, had made certain recommendations in the Audit Completion Report. In line with best practice principles, the Council had implemented the recommendations, centred mainly around the Council's general IT controls, in the workplan for 2019/20 and as part of the preparation of the Council's 2019/20 Statement of Accounts.

The recommendations and actions undertaken related to -

- a review and update of the Council's Corporate Information Security Policy;

- the introduction of a formal Information Backup Policy; and
- an update of the IT Access Control Policy, with further work ongoing on processes related to IT access issues relating to new starters and leavers, maintaining appropriate access and ensuring controls are reflected in and governed by the Policy.

The External Auditor noted that the Council's audit was being assessed currently and that they would report back on these projects at the appropriate time. In the meantime, it was pleasing to see the progress being reported.

Responding to queries relating to the Corporate Information Security Policy, it was acknowledged that while the ten year period identified was a long time, this had not meant that procedures were not updated in that period. The Council's security arrangements were considered to be good, and the issue highlighted was more of a matter of 'housekeeping' and keeping documentation together. With regard to the Information Backup Policy, it was acknowledged that this was a more difficult issue and that the principal issue was around re-establishing systems and links to the cloud. IT resilience was acknowledged as an important issue and the Head of Corporate Governance undertook to report further to the Committee at an appropriate time.

RESOLVED – that the responses to the recommendations highlighted by the Council's external auditors in the Audit Completion Report 2018/19, and how the Council has implemented those recommendations in the Council's general IT controls, be noted.

7 **REVIEW OF SYSTEM OF INTERNAL AUDIT BY THE AUDIT COMMITTEE**

The Committee was reminded that the Accounts and Audit Regulations and Public Sector Internal Audit Standards (PSIAS) advised that the body charged with governance, which for Oldham Council was the Audit Committee, should undertake an annual review of the effectiveness of its system of Internal Audit. As in previous years, the Head of Corporate Governance was reporting to this Committee based on a review of Internal Audit services against criteria set out in the "Balanced Scorecard" methodology based on criteria set out in the PSIAS developed to give the Committee assurance on a number of matters.

The conclusion of the internal review was that the overall system of Internal Audit and the overall service provided by the Corporate Governance team (Internal Audit, Counter Fraud, Risk and Insurance) remained good. The following matters were highlighted to the Committee as scoring Amber/Red and detail of action being taken was advised -

- Scorecard 1.10: Internal Audit where the assessment related to the use of automated audit software for which

there had been some delays to the implementation of an appropriate cost effective solution;
- Scorecard 2.8: Corporate Initiatives and Monitoring relating to the criteria "Payroll System has adequate opinion" which reflected on-going challenges around improving the audit opinion on this fundamental financial system which was reported elsewhere on the agenda at this meeting; and
- Scorecard 2.9: Compliance within the Council's Procedure Rules which related to the issue of contract documentation on contracted spend which has been highlighted as an issue in the 2019/20 Annual Governance Statement.

Responding to a concern that the reported regular attendance of Internal Audit staff at Directorate Management Team meetings might impact negatively on the independence of the Internal Audit service, the Committee was advised that attendance was intended to seek information and was judged against factors such as projects under consideration, assessment of risk etc.

RESOLVED that the self-assessment of the Head of Corporate Governance that the overall system of Internal Audit has been fit for purpose in 2019/20 be noted.

8 **2019/20 ANNUAL REPORT BY THE HEAD OF CORPORATE GOVERNANCE**

The Head of Corporate Governance presented an Annual Report on such matters as required by International Auditing Standards and the 2013 UK Public Sector Internal Audit Standards (Revised 2017). Throughout the year the Head of Corporate Governance reported to the Committee on the internal control environment in place within a number of Directorates arising from Internal Audit work undertaken, and the Annual Report presented a summary of this work. The Annual Report was presented in the form of two appendices to the submitted report –

- The Annual Report and Head of Corporate Governance Opinion of the System of Internal Control for the year ended 31st March 2020, presented to assist the Committee in its review of the 2019/20 Annual Governance Statement and with the future review of the Statement of Final Accounts; and
- The Internal Audit and Counter Fraud Team Key Performance Indicators: 2019/20 Achievements and 2020/21 Targets.

It was noted that section 8.1 to the appended Annual Report should reflect that local and parish elections were held on 2nd May 2019, and not as presented in the submitted papers.

The overall opinion of the Head of Internal Audit was that reasonable assurance could be given that there were generally robust risk management and governance arrangements and sound systems of internal control designed to meet the Council's objectives, and that controls were generally being applied consistently. However, managers had agreed actions to improve controls in key areas, particularly around Payroll (as referenced elsewhere on the Committee agenda) and Personal Budgets and Direct Payments which both had ‘inadequate’ audit opinions.

Disappointment was expressed at the position regarding Personal Budgets and Direct Payments as these impacted directly on people’s lives. With regard to the payroll system, it was advised that a significant effort had been made to support issues around the system. There was optimism that the new system would provide a real opportunity for change in 2020/21, though implementation had been impacted by the Covid-19 pandemic.

On being asked to look ahead at implications of the Covid-19 pandemic, the Head of Corporate Governance noted there had been three months where emergency procedures had been in place and that the temporary procedures would need to be reviewed through two different processes. There would be a need to ensure that all actions and processes, for example the implications of the imposed restriction on the use of bailiffs, were documented in any review.

RESOLVED that the Annual Report presented by the Head of Corporate Governance and the continued developments in overall internal control and financial administration across the Council be noted.

9 **2019/20 DRAFT STATEMENT OF ACCOUNTS**

The Committee was reminded that the Council is required to prepare a Statement of Accounts for each financial year and those accounts must be prepared in accordance with statutory timelines and accounting practices set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) 2019/20 Code of Practice on Local Authority Accounting in the UK and any additional CIPFA guidance such as the year end Final Accounts Bulletins.

As a result of the Covid-19 pandemic, revised deadlines and timescales had been agreed by Government such that the publication date for final, audited, accounts for Category 1 Councils such as Oldham had moved from 31st July to 30th November 2020 and the requirement for the public inspection period to include the first ten working days of June (for Category 1 Authorities) had been replaced with a requirement that the public inspection period must commence on or before the first working day of September 2020. So far as Oldham was concerned, the Council had submitted its draft financial statements to the External Auditors on 31st May 2020 with the public inspection period running from 1st June to 10th July 2020. In order to facilitate the audit process, the Council had made working papers available to the auditors prior to the handover of the Statement of Accounts.

A submitted report introduced the Council's draft Statement of Accounts 2019/20 which was appended to that report and the following issues were highlighted to the Committee –

- the overall revenue outturn position for 2019/20 was a surplus of £0.270, an increase on the favourable variance of £0.065m projected at month 9;
- the year-end variances attributable to each Portfolio area;
- Schools balances at 31 March 2020 of £5.487m were offset by the deficit on the Dedicated Schools Grant (DSG) of £4.916m leaving a net balance of £0.571m held within Other Earmarked Reserves;
- the final Housing Revenue Account (HRA) balance was £21.796m;
- the balance on the Collection Fund was a surplus of £3.295m;
- the small reduction in revenue account earmarked reserves of £1.263m to a level of £79.360m, a decrease in other earmarked reserves of £4.431m to a level of £8.504m, and an increase in the General Fund balance of £0.270m to £15.110m which was reflective of the revenue outturn position;
- expenditure on the Council's Capital Programme for 2019/20 was £54.383m, an increase on the month 9 forecast expenditure of £52.497m requiring funding allocated to future years to be re-profiled to fully finance the Capital Programme in 2019/20;
- Capital Receipts in year totalled £9.914m, all of which were used to finance the Capital Programme in year;
- the significant items in each of the primary financial statements;
- the preparation of Group Accounts incorporating the Councils two wholly owned companies – the Unity Partnership Ltd. and MioCare Community Interest Company; and
- the performance of the Finance Team in closing the accounts.

The Director of Finance noted that the accounts had been completed in accordance with the original statutory deadline and, while this had been a challenge in current circumstances, this reflected the good performance of the Finance Team.

The External Auditor noted that they had now had the draft accounts for 3-4 weeks and were making strong progress in the audit, notwithstanding the challenges presented by current circumstances. There were no matters or significant issues to raise with the Committee at this time and they were looking to conclude the audit by mid-July in order to report further to the Committee in mid/late July.

A Member queried figures provided in Section 9 of the Core Financial Statement and Explanatory Notes that appeared to suggest an increasing number of managers while redundancy tended to affect lower paid staff. The Director of Finance noted that the figures presented covered both the Council and schools, schools having some degree of discretion in staffing matters with impacted on the figures presented.

In response to queries concerning the impact of Covid-19 on the draft accounts, the Committee was advised that there was little impact given the timing of the pandemic. However, the Committee's attention was drawn to a grant allocation of £7.6m made by government to the Council in the closing days of March which, while reflected in Reserves, was intended for expenditure in the current financial year. The real issue for the Council would be in the current financial year and, while it was important for the Council to demonstrate financial resilience, it was difficult to be clear as to the impact on finances given the evolving situation.

Responding to a query as to the presentation of Covid-related business grants in next years accounts, the Director advised current thinking was that most would be regarded as an agency arrangement on behalf of the government and would not be included in the accounts, while the allocation of discretionary grants would be. It was acknowledged that the financial position for the Council going forward would be challenging, and it could be that in addition to increased funding, the government may introduce some technical changes to help local authorities to spread the cost of Covid response.

RESOLVED that the Council's draft Statement of Accounts 2019/20 be noted.

10 **ANNUAL GOVERNANCE STATEMENT 2019/20**

The Committee was reminded that as part of the Statement of Final Accounts the Council also produced an Annual Governance Statement that identifies the significant governance issues the Council needed to consider at the financial year-end to reduce its risk.

The Committee received a report providing an update on progress made to reduce the risk of issues arising where such matters were identified in the Annual Governance Statement for 2018/19 as areas requiring improvement in internal control and assessing whether those matters needed inclusion in the 2019/20 Statement; identifying new risks pre-Covid which were considered appropriate for potential inclusion in the Annual Governance Statement 2019/20; assessing new risks that have become apparent since the pandemic and whether they should be included in the 2019/20 Statement; and presenting the draft Annual Governance Statement for the financial year 2019/20, such matters being addressed within appendices to the submitted report.

Issues identified in 2018/19 had included the need to strengthen internal controls in both Payroll Services and financial systems in Adult Social Care. Both had been long term issues for the Council and assessed progress in each was set out in the report. On review of the pre-Covid issues identified, there had been a decision taken not to include any of these issues within the 2019/20 Statement. Considering issues from the post-Covid period in 2019/20, two issues relating to the financial resilience of partners and a review of key contractual arrangements with a view to any future emergency situation had been considered as warranting inclusion. The Committee was invited to review the draft Annual Governance Statement for 2019/20.

The External Auditor advised that there were no issues to raise in relation to the Annual Governance Statement at this time, though their review of this document tended to be undertaken towards the end of the audit process.

A Member noted the update provided in respect of the revenue position of Children's Services and the ongoing implementation of a new operating model, querying its position in current circumstances. The Head of Corporate Governance noted that planned efficiencies were being introduced, but clearly there was going to be a pent-up demand to come through as lockdown is lifted. While this would represent a challenge, it was suggested that the service was better placed to address these than it would have been two years ago,

RESOLVED that the Annual Governance Statement 2019/20 be agreed.

11 **AUDIT COMMITTEE WORK PROGRAMME FOR 2020/21**

RESOLVED that the submitted Audit Committee Work Programme 2020/21 be noted.

12 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

13 **UPDATE ON GENERAL MATTERS IN 2019/20**

The Committee received a report providing an update on several matters related to litigation and internal governance which it had been considered appropriate to bring to the attention of the Committee. The Head of Corporate Governance undertook to provide a Member with requested detail concerning a transaction considered at the meeting of the Cabinet held on 23rd April 2020.

RESOLVED that the report be noted.

The meeting started at 6.00 pm and ended at 7.35 pm

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Oldham Council

Report to Audit Committee

Treasury Management Review 2019/20

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green

Officer Contact: Anne Ryans, Director of Finance

Report Author: Lee Walsh, Finance Manager

Ext. 6608

21 July 2020

Reason for Decision

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

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

- an annual treasury strategy in advance of the year (approved 27 February 2019)
- a mid-year (minimum) treasury update report (approved 8 January 2020)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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

The Council confirms that it has complied with the requirements under the Code to give prior scrutiny to the treasury strategy and the mid-year update. The Audit Committee is charged with the scrutiny of treasury management activities in Oldham and is therefore requested to review the content of this annual report prior to its consideration by Cabinet and Council (to ensure full compliance with the Code for 2019/20).

Executive Summary

During 2019/20, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2018/19 Actual £'000	2019/20 Revised £'000	2019/20 Actual £'000
Actual capital expenditure	48,564	63,945	54,383
Total Capital Financing Requirement:	493,880	491,011	472,377
Gross borrowing	147,846	167,843	167,843
External debt	394,456	403,338	403,709
Investments			
· Longer than 1 year	15,000	15,000	15,000
· Under 1 year	69,900	52,000	103,120
· Total	**84,900**	**67,000**	**118,120**
Net Borrowing (Gross borrowing less investments)	**62,946**	**100,843**	**49,723**

As can be seen in the table above, actual capital expenditure was less than the revised budget estimate for 2019/20 presented within the 2020/21 Treasury Management Strategy report considered at the Council meeting of 26 February 2020. The outturn position was significantly less than the £84.332m original capital budget for 2019/20 as approved at Budget Council on 27 February 2019.

During the course of the year the Capital Programme saw substantial rephasing. A number of major schemes including a number of schools' schemes in the Children's Service Directorate were rephased. The Asset Management (Education) Essential Condition Works provision was realigned into future years to align with other works being undertaken at schools. Housing Revenue Account (HRA) schemes were re-phased into 2020/21 to align with the latest HRA Strategy. In addition, the 'Creating a Better Place' Strategy required a number of existing regeneration projects to be reviewed and rephased to align to the long-term vision of the strategy. Also, during the year, the IT Capital Strategy, the Strategic Roadmap was reviewed. The outcome was a rephasing of resources to ensure that the Council's future IT offer takes account of new innovations in IT and creates efficiencies that will complement future ways of working.

Borrowing of £20m was undertaken during the year. Member training on treasury management issues was undertaken on 1 October 2019 in order to support Members and senior members of staff in their scrutiny role.

Other prudential and treasury indicators are to be found in the main body of this report.

The Director of Finance confirms that the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2019/20 continued the challenging investment environment of previous years, namely low investment returns.

Recommendations

The Audit Committee is recommended to:

1) Approve the actual 2019/20 prudential and treasury indicators presented in this report
2) Approve the annual treasury management report for 2019/20
3) Commend this report to Cabinet

Treasury Management Review 2019/20

1 Background

1.1 The Council has adopted the Revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2017. The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year
- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management Policies and Practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the Section 151 Officer (Director of Finance).
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

Treasury management in this context is defined as:

"*The management of the local authority's 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. "*

1.2 The report therefore summarises the following the:-

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2019/20

2.1.1 The Council incurs capital expenditure when it invests in or acquires long-term assets. These activities may either be:

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

2.1.2 The actual capital expenditure forms one of the required prudential indicators (these indicators are all summarised in Appendix 1). The table below shows the actual level of capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2019/20 was less than the revised budget estimate. The revised budget estimate is based on the month 8 2019/20 reported position to align with the Annual Treasury Management Strategy 2020/21 report, and not the latest reported position (March 2020). All prudential indicators in the 2019/20 strategy are based on this revised budget. Capital expenditure was less in year due to re-phasing of some IT projects, property related schemes, HRA schemes and education schemes that were expected to progress during the year. In addition, the 'Creating a Better Place' Strategy required a number of existing regeneration projects to be reviewed and rephased to align to the long-term vision of the strategy.

	2018/19 Actual £'000	2019/20 Revised £'000	2019/20 Actual £'000
Non-HRA capital expenditure	46,318	62,091	52,249
HRA capital expenditure	2,246	1,854	2,134
Total capital expenditure	**48,564**	**63,945**	**54,383**
Resourced by:			
• Capital receipts	14,919	13,143	9,914
• Capital grants	25,522	29,975	42,091
• HRA	851	6	2,134
• Revenue	7,272	1,854	244
Unfinanced capital expenditure	**0**	**18,967**	**0**

2.2 The Council's Overall Borrowing Need

2.2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2.2 Part of the Council's treasury activity is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets) or utilising temporary cash resources within the Council.

Reducing the CFR

2.2.3 The Council's (non-Housing Revenue Account [HRA]) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non- HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

2.2.4 The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

2.2.5 The Council's 2019/20 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy report for 2019/20 on 27 February 2019.

2.2.6 The Council's CFR for the year is shown in the table below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. In 2019/20 the Council had seven PFI schemes in operation; however, no borrowing is actually required against these schemes as a borrowing facility is included within each contract.

Capital Financing Requirement	2018/19 Actual £'000	2019/20 Revised £'000	2019/20 Actual £'000
Opening balance	505,049	493,880	493,880
Add unfinanced capital expenditure	0	18,967	0
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	450	0	525
Less MRP/VRP*	(2,944)	(2,742)	(2,742)
Less PFI & finance lease repayments	(8,675)	(19,094)	(19,286)
Closing balance	493,880	491,011	472,377

* Includes voluntary application of capital receipts and revenue resources

2.2.7 Borrowing activity is constrained by prudential indicators for net borrowing, the CFR and by the authorised limit.

Gross borrowing and the CFR

2.2.8 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years.

2.2.9 This essentially means that the Council is not borrowing to support revenue expenditure.

2.2.10 This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2019/20 if so required. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2018/19 Actual £'000	2019/20 Revised £'000	2019/20 Actual £'000
Gross borrowing position	394,456	403,338	403,709
CFR - including PFI / Finance Leases	493,880	491,011	472,377
Under / (Over) funding of the CFR	99,424	87,673	68,668

The table above shows the position as at 31 March 2020 for the Council's gross borrowing position and CFR. This shows, compared to the revised budget position:

- Movement in the gross borrowing position, reflecting the fact that additional borrowing of £20m of long term borrowing had been taken out during the year which has been offset by repayment of transferred debt, PFI and finance leases.

- A reduction in the CFR, predominantly due to the slippage in the capital programme and financing of capital through revenue resources.

<u>The Authorised Limit</u>

2.2.11 The authorised limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003 and was set at £512m. Once this has been set, the Council does not have the power to borrow above this level.

<u>The Operational Boundary</u>

2.2.12 The operational boundary is the expected borrowing position of the Council during the year and was set at £495m. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2019/20 Actual £'000
Authorised Limit	512,000
Operational Boundary	495,000

<u>Actual financing costs as a proportion of net revenue stream</u>

2.2.13 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream and is within expected levels.

	2019/20 Actual £'000
External Debt	167,843
PFI / Finance leases	235,867
Actual External Debt (Gross Borrowing) (rounded)	**403,710**
Financing costs as a proportion of net revenue stream (General Fund)	13.41%

2.2.14 The table above splits the gross borrowing position of the Council between actual external debt (loans) and PFI / Finance lease debt. As can be seen above the gross borrowing position is well within the Authorised Limit and Operational Boundary. The difference between the two reflects the Council’s under borrowed position.

2.3 **The Council's Debt and Investment Position**

2.3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

2.3.2 At the end of 2019/20 the Council's treasury position was as follows:

	31 March 2019 Principal £'000	Average Rate/ Return	Average Life years	31 March 2020 Principal £'000	Average Rate/ Return	Average Life years
Fixed rate funding:						
-PWLB	15,482			35,482		
-Stock	6,600			6,600		
Market	125,764			125,761		
Total borrowings	**147,846**	4.50%	35.42	**167,843**	4.30%	37.08
PFI & Finance lease liabilities	**246,610**			**235,867**		
Total External debt	**394,456**			**403,710**		
CFR	**493,880**			**472,377**		
Over/ (under) borrowing	**(99,424)**			**(68,667)**		
Investments:						
Financial Institutions/LA's	69,900	0.76%		103,120	0.94%	
Property	15,000	4.36%		15,000	4.32%	
Total investments	**84,900**			**118,120**		
Net Debt	**62,946**			**49,723**		

2.3.3 The maturity structure of the debt portfolio was as follows:

	2018/19 Actual %	Upper Limit %	Lower Limit %	2019/20 Actual %
Under 12 months	30%	40%	0%	23%
12 months and within 24 months	0%	40%	0%	0%
24 months and within 5 years	33%	40%	0%	32%
5 years and within 10 years	5%	40%	0%	4%
10 years and above	32%	50%	40%	40%

2.3.4 The investment portfolio and maturity structure was as follows:

Investment Portfolio	Actual 31 March 2019 £'000	Actual 31 March 2019 %	Actual 31 March 2020 £'000	Actual 31 March 2020 %
Treasury Investments				
Banks	13,000	15.31%	37,500	31.75%
Local Authorities / Public Bodies	30,500	35.92%	28,500	24.13%
Money Market Funds (MMF's)	26,400	31.10%	37,120	31.43%
Total managed in house	**69,900**	**82.33%**	**103,120**	**87.30%**
Bond Funds				
Property Funds	15,000	17.67%	15,000	12.70%
Cash Fund Managers				
Total Managed Externally	**15,000**	**17.67%**	**15,000**	**12.70%**
TOTAL TREASURY INVESTMENTS	**84,900**	**100%**	**118,120**	**100%**
TOTAL NON TREASURY INVESTMENTS *	0	0%	2,181	110%

* Members should note that the Non-Treasury Investments during 2019/20 related to property purchase.

	2018/19 Actual £'000	2019/20 Actual £'000
Investments		
Longer than 1 year	0	0
Under 1 year	69,900	103,120
Property Fund	15,000	15,000
Total	**84,900**	**118,120**

2.3.5 Key features of the debt and investment position are:

a) Over the course of the year 2019/20, investments have increased by £33.220m. The large increase in investments related to borrowing completed during the year in line with the Council's Treasury Management Strategy, additional Government grants received in March 2020 to tackle the COVID-19 crisis together with the upfront payment for Grant in Lieu of Business Rates for 2020/21 that was also received in March 2020.

b) The average rate of return on investments with Financial Institutions increased from 0.76% in 2018/19 to 0.94% in 2019/20. This increase relates to the Bank of England base rate being at 0.75% for the majority of the year before it dropped to 0.10% in March 2020.

c) Investments were arranged throughout the year to ensure cash available to support the three-year up-front pension payment at the start of 2020/21.

2.4 Investment Strategy and control of interest rate risk

2.4.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the Monetary Policy Committee (MPC) would be able to deliver on an increase in Bank Rate until Brexit was finally settled. However, there was an expectation that Bank Rate would rise thereafter but would only rise to 1.0% during 2020.

2.4.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by MPs but fell back again in early January 2020 before recovering again after the 31 January 2020 departure of the UK from the EU.

2.4.3 When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

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

2.4.5 The table below shows the interest rate forecast as at mid-year of 2019-20:

Link Asset Services Interest Rate View 11.11.19													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

2.5 Borrowing Strategy and control of interest rate risk

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

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

2.5.3 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury Management Team and the Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

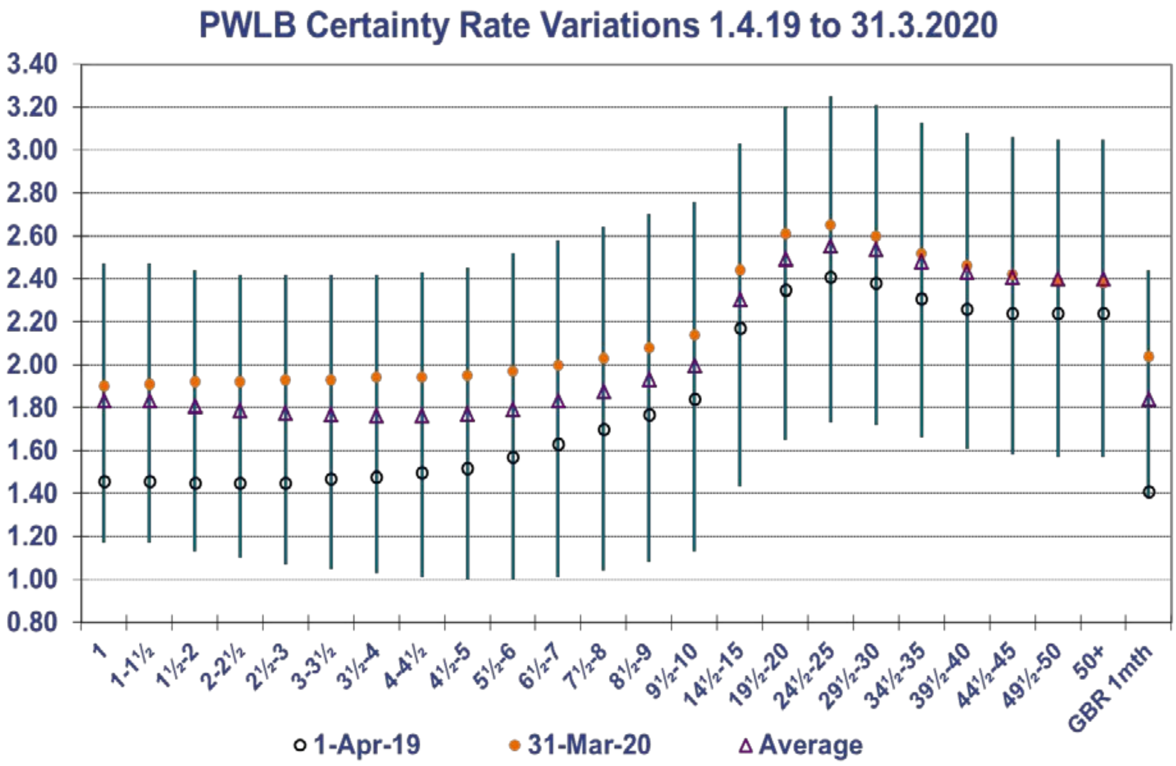
- if it had been felt that there was a significant risk of a sharp **fall** in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper **rise** in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

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

2.5.5 The information below and in graphs and tables in Appendices 2 and 3 show PWLB rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year:

- 5 year PWLB rate - started the year at 1.52%, falling to a low for the year at 1.00% in August 2019, peaking at 2.45% in March 2020 and finishing the year at 1.95%.

- 10 year PWLB rate - started the year at 1.84%, falling to a low for the year at 1.13% in September 2019, peaking at 2.76% in March 2020 and finishing the year at 2.14%.
- 25 year PWLB rate - started the year at 2.41%, falling to a low for the year at 1.73% in September 2019, peaking at 3.25% in March 2019 and finishing the year at 2.65%.
- 50 year PWLB rate. - started the year at 2.24%, falling to a low for the year at 1.57% in September 2019, peaking at 3.05% in December 2019 and finishing the year at 2.39%.



2.5.6 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M. Treasury determining a specified margin to add to gilt yields.

2.5.7 There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields.

2.5.8 While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.

2.5.9 This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

2.5.10 Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies and moved cash into safe haven assets i.e. government bonds.

2.5.11 Major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of Government expenditure financed by issuing Government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

2.5.12 However, HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with Local Authorities on possibly further amending these margins. This consultation concludes at the end of July 2020 (the Council will be preparing a response). It is clear that the Treasury intends to put a stop to Local Authorities borrowing money from the PWLB for commercial activity if the aim is solely to generate an income stream.

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

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

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

2.6 Borrowing Outturn for 2019/20

Treasury Borrowing

2.6.1 The Council borrowed £20m from the PWLB in August 2019. The borrowing was undertaken when market rates reached the Council's internal trigger points. This ensured borrowing was undertaken at the optimum point to minimise future costs, securing good value for money.

Date	Lender	Principal £'000	Type	Interest Rate	Maturity (Years)
20-Aug-19	PWLB	10,000	Maturity	1.720%	50
20-Aug-19	PWLB	5,000	Maturity	1.810%	30
20-Aug-19	PWLB	5,000	Maturity	1.740%	20
Total		**20,000**			

Debt Rescheduling

2.6.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Repayment of Debt

2.6.3 In March 2020 £3k was repaid in relation to Charitable Investments that the Council held.

2.7 Investment Outturn

Investment Policy

2.7.1 The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy which for 2019/20 was approved by Council on 27 February 2019. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

Resources

2.7.3 The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2019 (£'000)	31 March 2020 (£'000)
Balances General Fund	14,840	15,110
Balances HRA	21,305	21,796
Earmarked Reserves	80,623	79,360
Provisions	29,251	28,367
Usable Capital Receipts	0	0
Total	**146,019**	**144,633**

Investments at 31 March 2020

2.7.4 The Council managed all of its investments in house with the institutions listed in the Council's approved lending list. At the end of the financial year the Council had £118.120m of investments as follows:

Institution	Type	Amount £'000	Term (days)	Rate %	Start date	End date
CCLA Property	Property	15,000		4.36%		
Total Property		**15,000**				
Goldman Sachs	Fixed	2,000	183	0.90%	03-Oct-19	03-Apr-20
Goldman Sachs	Fixed	3,000	179	0.90%	07-Oct-19	03-Apr-20
Thurrock Council	Fixed	2,500	193	0.76%	26-Sep-19	06-Apr-20
Thurrock Council	Fixed	2,500	87	0.80%	10-Jan-19	06-Apr-20
Ashford Borough Council	Fixed	5,000	54	0.82%	12-Feb-20	06-Apr-20
Eastleigh Borough Council	Fixed	5,000	49	0.73%	17-Feb-20	06-Apr-20
Slough Borough Council	Fixed	3,000	31	1.20%	06-Mar-20	06-Apr-20
Surrey County Council	Fixed	5,000	61	1.05%	27-Mar-20	27-May-20
Thurrock Council	Fixed	2,500	59	1.00%	31-Mar-20	29-May-20
North Lincolnshire Council	Fixed	3,000	184	1.15%	25-Mar-20	25-Sep-20
Total Fixed Deposits		**33,500**				
Standard Chartered	CD*	5,000	182	0.88%	04-Oct-19	03-Aor-20
Standard Chartered	CD	5,000	182	0.92%	05-Nov-19	05-May-20
Total Fixed Deposits		**10,000**				
Bank of Scotland	Notice	2,500	32	0.90%	21-Jun-19	
Bank of Scotland	Notice	12,500	95	1.10%	07-May-19	
Santander	Notice	7,500	95	1.00%	01-Mar-19	
Total Notice Accounts		**22,500**				
Federated MMF**	MMF	17,120	1	0.72%	31-Mar-20	01-Apr-20
Aberdeen MMF	MMF	20,000	5	0.78%	27-Mar-20	01-Apr-20
Total Money Market Funds		**37,120**				
Total Investments		**118,120**				

* Certificate of Deposit (CD)
** Money Market Funds (MMF)

2.7.5 The Council's investment strategy was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. The table below shows the returns by the relevant time period

	LIBID + 5%	Actual Return %
7 Day	0.56%	0.73%
1 Month	0.59%	0.89%
3 Month	0.67%	1.01%
6 Month	0.74%	0.89%
12 Month	0.84%	0.97%
Average		0.90%
Target	0.68%	

2.7.6 The Council's overall average performance on its cash investments exceeded its LIBID benchmark in all periods.

2.7.7 The investments held with the CCLA property fund generated £632k of income with an average return in year of 4.32%. Furthermore, the Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during 2019/20.

2.8 The Economy and Interest Rates

UK – Brexit

2.8.1 The main issue in 2019 was the repeated debates in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019.

2.8.2 A general election was called and held in December 2019 and resulted in a decisive victory for the Conservative Party. The main election promise of leaving the EU was then enabled so that the UK could leave the EU on 31 January 2020.

2.8.3 However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline. The second and third rounds of negotiations have already had to be cancelled due to the virus.

Economic Growth

2.8.4 The year 2019 was very volatile with economic growth for quarter 1 unexpectedly strong at 0.5%, quarter 2 was reduced by -0.7 to -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 was 0.0%, leaving a year on year percentage of +1.1%.

2.8.5 The year 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December which settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world and the way in which we now live has changed as a result of the coronavirus outbreak.

2.8.6 It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the full lock down period, when the end of the full lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

2.8.7 After the Monetary Policy Committee raised the Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to access and monitor the situation until March 2020. At this point it was clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in the Bank Rate from 0.75% occurred in March 2020, first to 0.25% and then to 0.10%.

2.8.8 These cuts were accompanied by an increase in Quantitative Easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned and moved to stop people losing their jobs during this lock down period.

2.8.9 Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country was in full lock down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over during the lock down period when some firms may have little or no income.

2.8.10 However, it must be noted that at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. This is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in the next few months and beyond.

2.8.11 The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2% to nearly 11%.

2.8.12 The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the next Budget. The Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the full lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is fully eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

Inflation

2.8.13 Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing an excess in the supply of oil which has fallen sharply in price.

2.8.14 Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

Employment

2.8.15 Employment had been growing healthily through the last year, but was obviously heading for a major reduction at the end of 2019/20 due to coronavirus. The good news over the last year is that wage inflation has been significantly higher than Consumer Price Index (CPI) inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, as people have not been able to leave their homes to do non-food shopping, retail sales have also been significantly reduced.

USA

2.8.16 Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Federal Reserve (Fed) cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. At the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

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

2.8.18 However, all this will not stop the US falling into a sharp recession in quarter 2 of 2020; some estimates are that growth could fall by as much as 40%. The first two weeks in March initial jobless claims reached total of 10 million and increased even further by the end of March.

Eurozone (EZ)

2.8.19 The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% year on year in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt.

2.8.20 However, the downturn in EZ growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth.

2.8.21 At its March 2019 meeting it announced a third round of Targeted longer-term refinancing operations (TLTROs), this provided banks with cheap two year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month (a relatively small amount), plus more TLTRO measures.

2.8.22 Once coronavirus started having a major impact in Europe, the ECB took action in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national Governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.

China

2.8.23 Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing.

2.8.24 The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak. This resulted in a lock down of the country and a major contraction of economic activity in February-March 2020.

2.8.25 While it appears that China had managed to contain the virus by the end of March, it is clear that the economy is going to take some time to recover its previous rate of growth. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

Japan

2.8.26 Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It appears to have missed much of the domestic impact from coronavirus in 2019-20 financial year, however, the virus is at an early stage.

World Growth

2.8.27 The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China.

2.8.28 Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in Government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is sweeping around the world and having a major impact in causing a world recession in growth in 2020.

2.9 Other Key Issues

International Financial Reporting Standards (IFRS) 9 – Financial Instruments

2.9.1 Following the introduction of IFRS 9 in 2018/19 and after the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for Local Authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018 and applies for five years from this date. The Council has elected to utilise the mandatory override. The Council is required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

International Financial Reporting Standards (IFRS) 16 - Leases

2.9.2 IFRS 16 should have been introduced for Local Authorities from 1 April 2020 which meant that the annual accounts for 2020/21 were to be the first set of accounts produced in accordance with this standard. The Code of Practice on Local Authority Accounting requires the Council to disclose information relating to the impact of an accounting change required by a new standard that has been issued but not yet adopted by the 2019/20 Code as a note in the 2019/20 accounts. Therefore, the Treasury team have been looking at the impact of the standard on the Council's treasury indicators that would be included in the Treasury Management strategy 2020/21.

2.9.3 However, due to the Coronavirus and the additional pressure Local Authorities are facing in these unprecedented times, on 20 March 2020, the Financial Reporting Advisory Board (FRAB), announced the deferral of International Financial Reporting Standard 16 (IFRS 16) implementation to 2021/22.

Other Treasury Management Issues

2.9.4 The Council is currently involved in legal action against Barclays Bank with regards to certain Lender Option Borrower Option (LOBO) transactions. This is based on the Bank's involvement in manipulation of the LIBOR benchmark rate and the subsequent impact on the Council's financial position. This matter is on-going.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Audit Committee has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of the report are agreed and recommended to Cabinet for approval.

5 **Consultation**

5.1 There has been consultation with Link Asset Services, Treasury Management Advisors.

5.2 The presentation of the Treasury Management Review 2019/20 to the Audit Committee for detailed scrutiny is in compliance with the requirements of the CIPFA Code of Practice. The report will subsequently be presented to Cabinet and Council for approval.

6 **Financial Implications**

6.1 All included in the report.

7 **Legal Services Comments**

7.1 None

8 **Cooperative Agenda**

8.1 The treasury management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the cooperative ethos of the Council.

9 **Human Resources Comments**

9.1 None

10 **Risk Assessments**

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in Internal Audit reports and in the External Auditors' reports presented to the Audit Committee.

11 **IT Implications**

11.1 None

12 **Property Implications**

12.1 None

13 **Procurement Implications**

13.1 None

14 **Environmental and Health & Safety Implications**

14.1 None

15 **Equality, community cohesion and crime implications**

15.1 None

16 **Equality Impact Assessment Completed**

16.1 No

17 **Key Decision**

17.1 Yes

18 **Key Decision Reference**

18.1 N/A

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1, 2 and 3
Officer Name:	Lee Walsh
Contact No:	0161 770 6608

20 **Appendices**

Appendix 1 Prudential and Treasury Management Indicators
Appendix 2 Graphs
Appendix 3 Borrowing and Investment Rates

Appendix 1: Prudential and Treasury Indicators

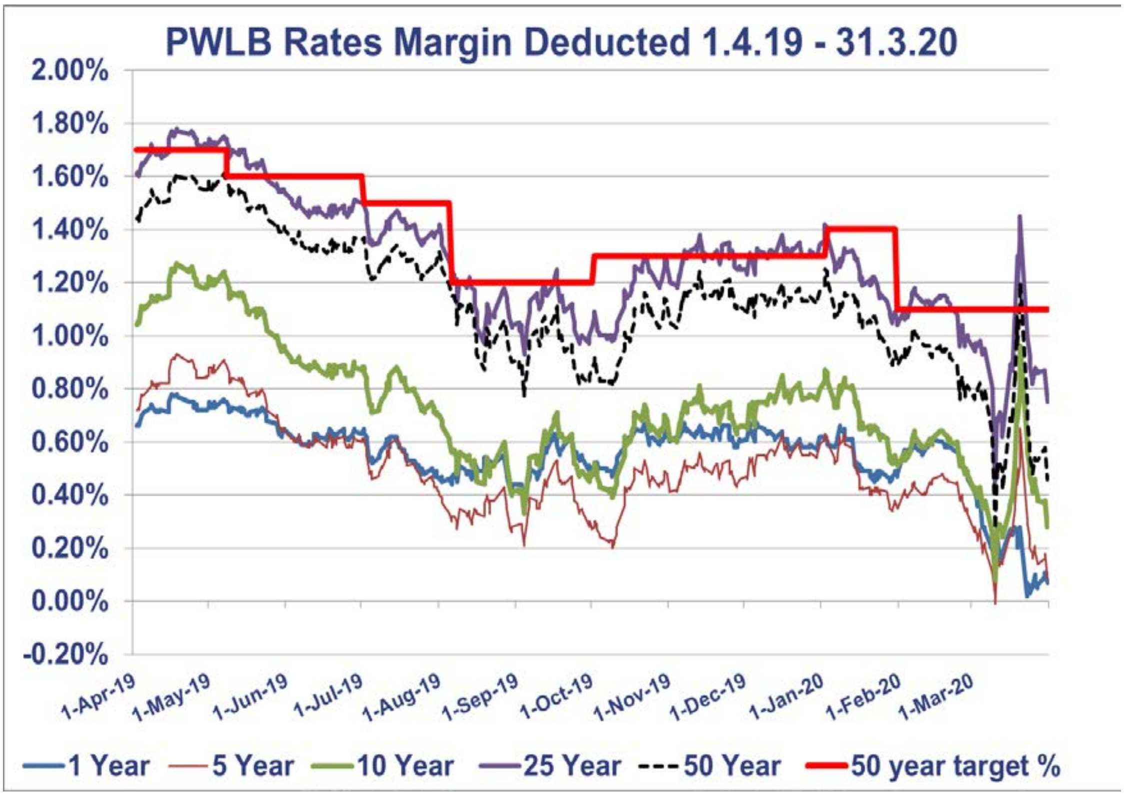
TABLE 1: Prudential indicators	2018/19	2019/20	2019/20	2019/20
	Outturn	Original	Revised	Outturn
	£'000	£'000	£'000	£'000
Capital Expenditure				
Non – HRA	46,318	80,097	62,091	52,249
HRA	2,246	4,235	1,854	2,134
TOTAL	48,564	84,352	63,945	54,383
Ratio of financing costs to net revenue stream				
Non – HRA	10.00%	%	%	13.41%
In year Capital Financing Requirement				
Non – HRA	(11,169)	31,125	(2,869)	(21,503)
TOTAL	(11,169)	31,125	(2,869)	(21,503)
Capital Financing Requirement as at 31 March	493,880	525,005	491,011	472,377

TABLE 2: Treasury management indicators	2018/19	2019/20	2019/20	2019/20
	Outturn	**Original Budget**	**Revised**	**Outturn**
	£'000	£'000	£'000	£'000
Authorised Limit for external debt				
Borrowing	305,000	305,000	272,000	272,000
Other long term liabilities	285,000	240,000	240,000	240,000
TOTAL	**590,000**	**545,000**	**512,000**	**512,000**
Operational Boundary for external debt -				
Borrowing	285,000	290,000	260,000	260,000
Other long term liabilities	275,000	235,000	235,000	235,000
TOTAL	**560,000**	**525,000**	**495,000**	**495,000**
Actual external debt	394,456			403,709
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Actual	100%			100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	40%	40%	40%	40%
Actual	0%			0%
Upper limit for total principal sums invested for over 364 days	50,000	50,000	50,000	50,000

Maturity structure of fixed rate borrowing during 2019/20	Upper Limit	Lower Limit	Actual
Under 12 months	40%	0%	23%
12 months and within 24 months	40%	0%	0%
24 months and within 5 years	40%	0%	32%
5 years and within 10 years	40%	0%	4%
10 years and above	50%	40%	40%

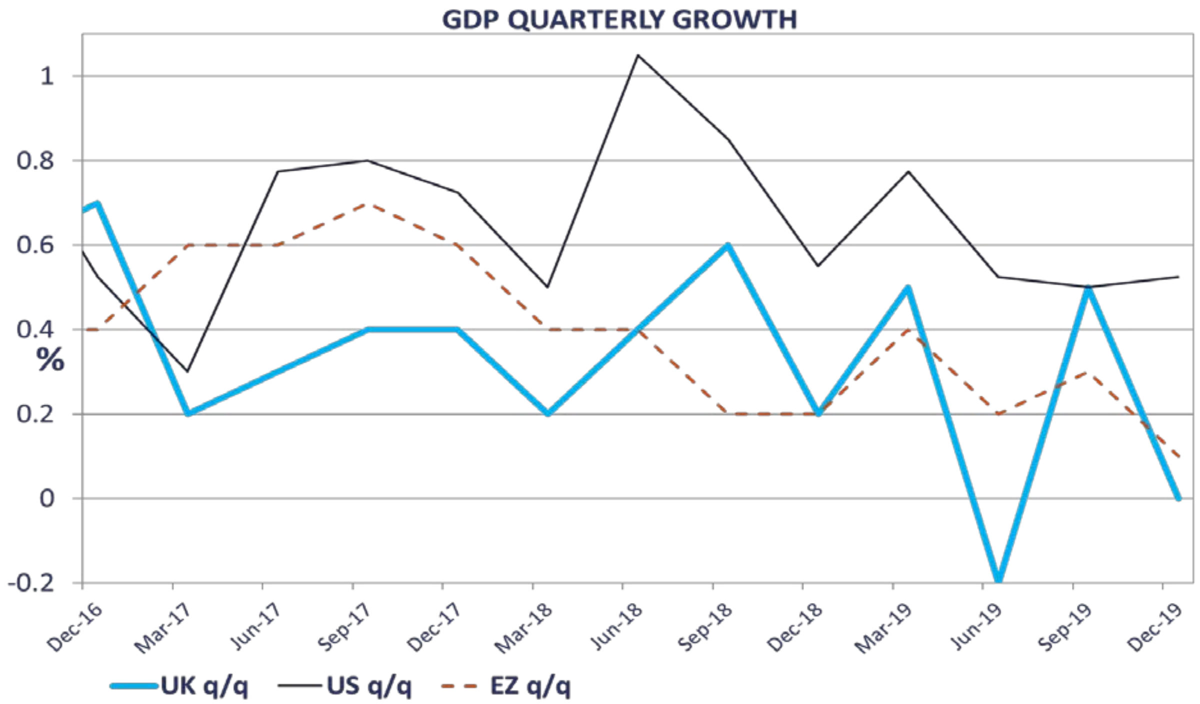
Appendix 2: Graphs

On 9.10.19, the margin over gilt yields for PWLB certainty rates was increased from 80 bps to 180 bps. The graph below shows PWLB rates less the margins added over gilt yields. This graph therefore shows more clearly the ***actual movements in gilt yields*** during the year on which PWLB rates are based.

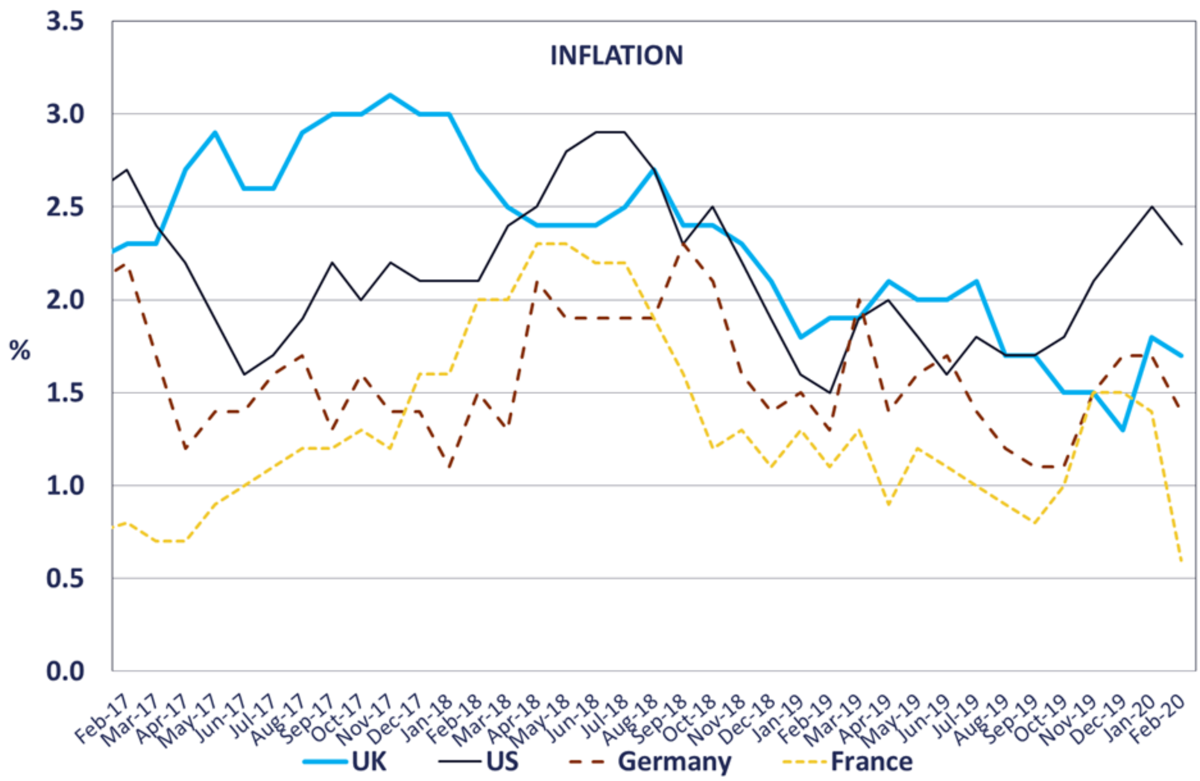


	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	0.66%	0.72%	1.04%	1.61%	1.44%
31/03/2020	0.10%	0.15%	0.34%	0.85%	0.59%
Low	0.02%	-0.01%	0.08%	0.45%	0.27%
Date	20/03/2020	09/03/2020	09/03/2020	09/03/2020	09/03/2020
High	0.78%	0.93%	1.27%	1.78%	1.61%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	0.55%	0.49%	0.72%	1.28%	1.12%

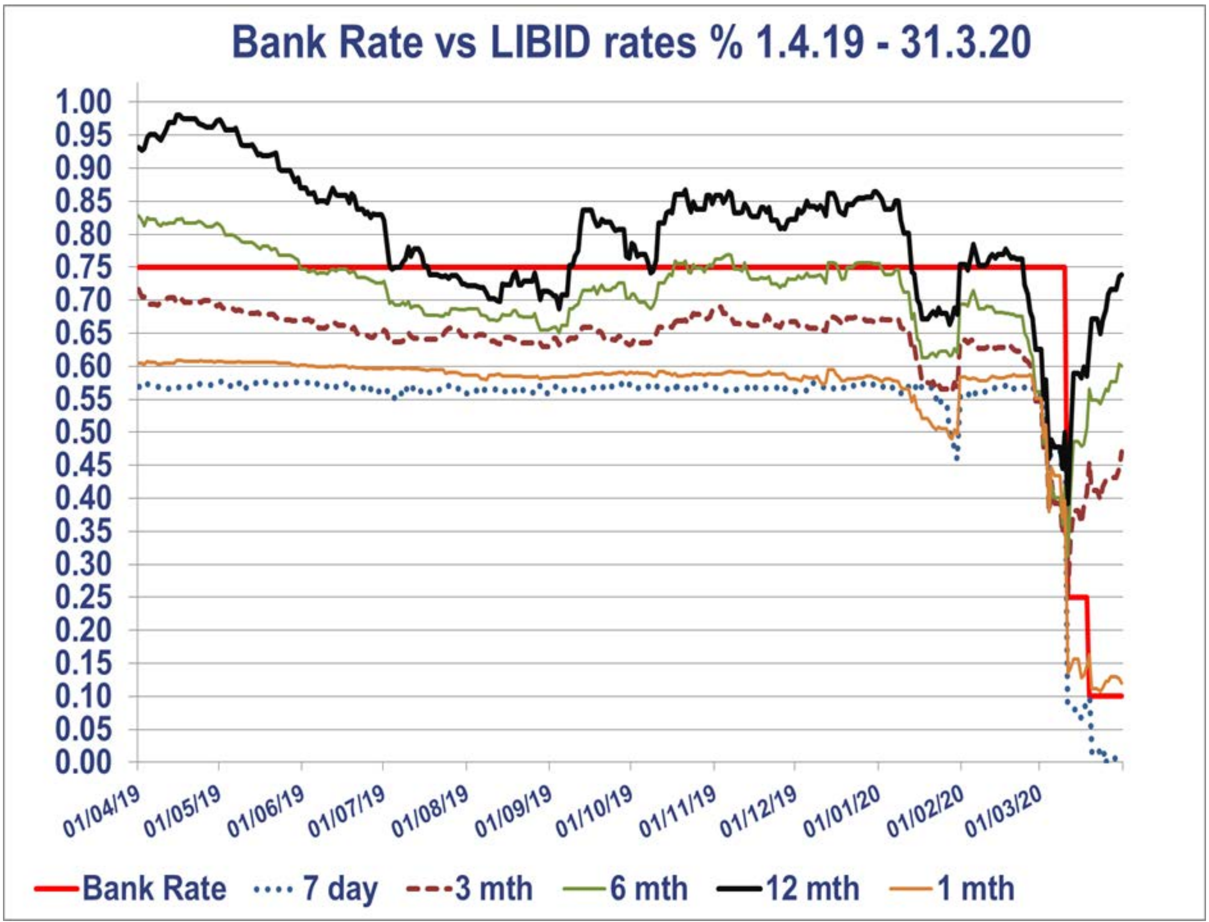
UK, US and EZ GDP growth



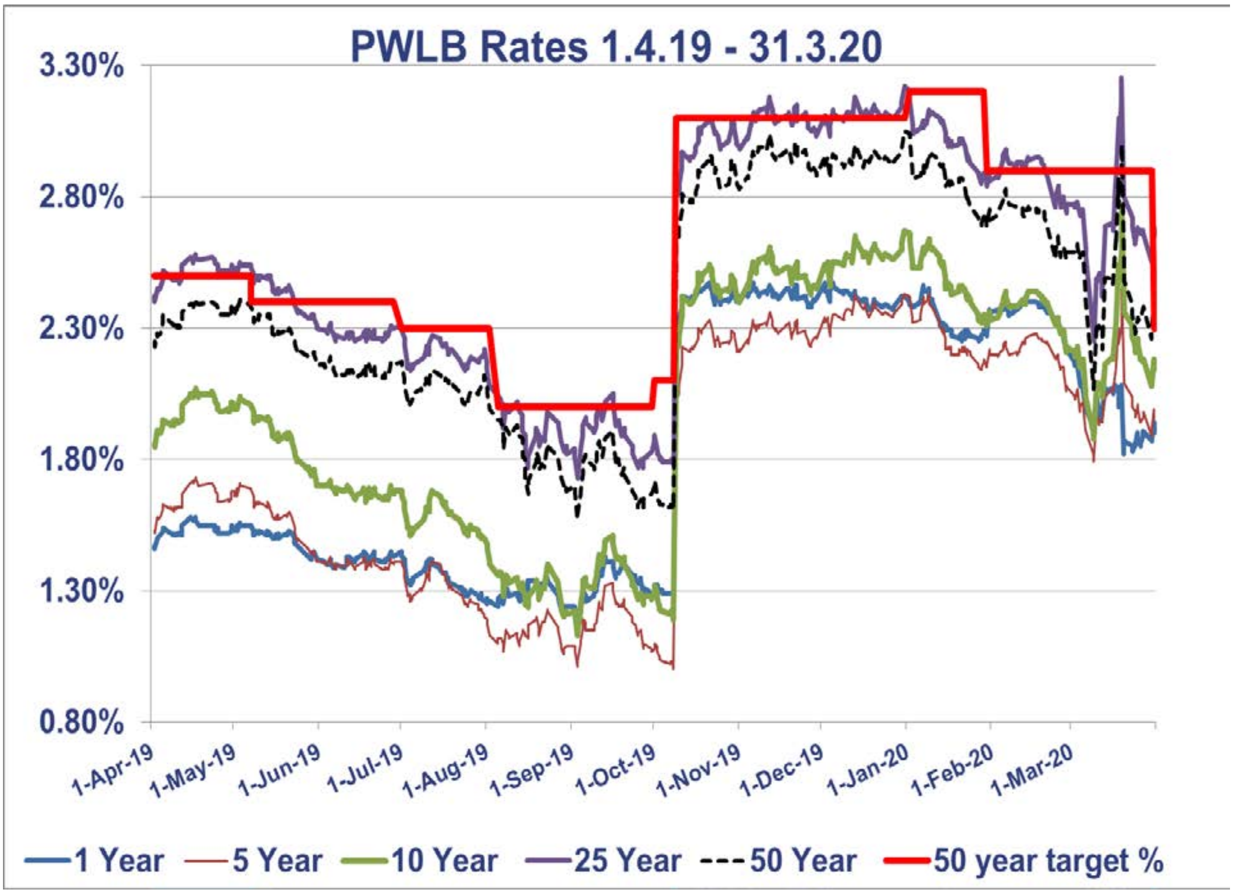
Inflation UK, US, Germany and France



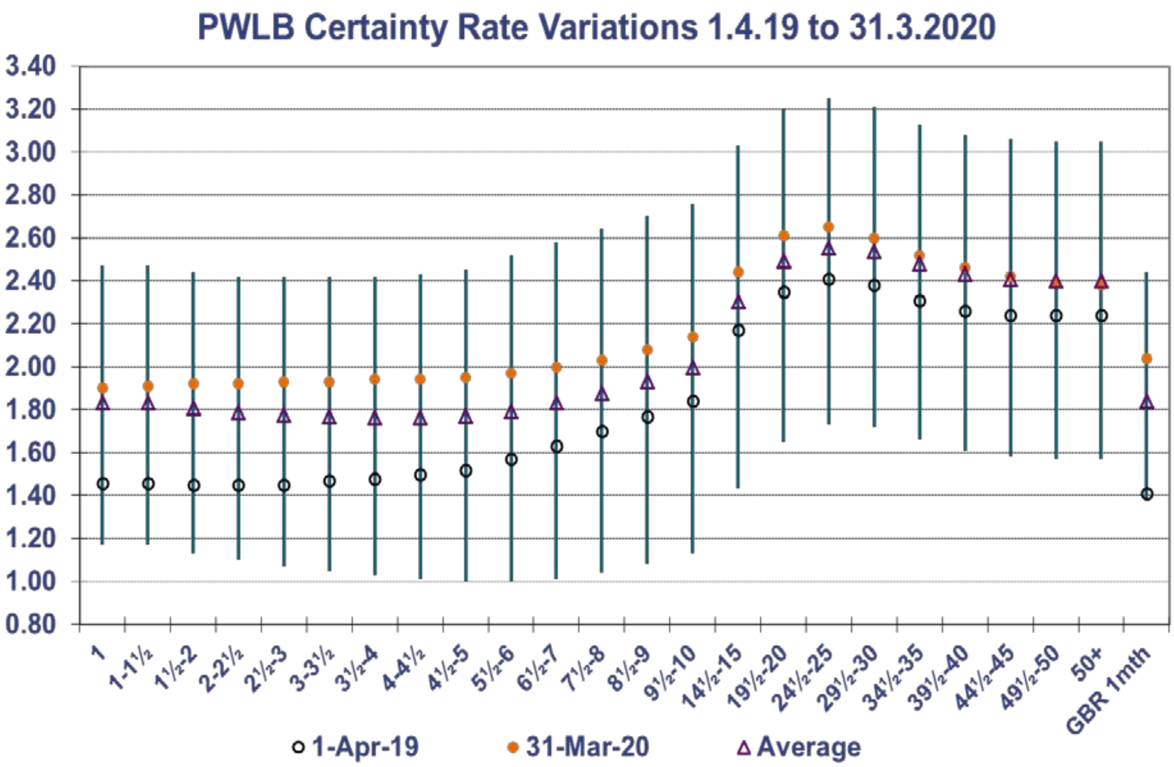
Appendix 3:Investment and Borrowing rates



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.10	0.00	0.11	0.26	0.31	0.39
Low Date	19/03/2020	25/03/2020	23/03/2020	11/03/2020	11/03/2020	11/03/2020
Average	0.72	0.53	0.56	0.63	0.70	0.80
Spread	0.65	0.58	0.50	0.46	0.52	0.59



PWLB Rates 1.4.19 - 31.3.20
3.30%
2.80%
2.30%
1.80%
1.30%
0.80%
1-Apr-19
1-May-19
1-Jun-19
1-Jul-19
1-Aug-19
1-Sep-19
1-Oct-19
1-Nov-19
1-Dec-19
1-Jan-20
1-Feb-20
1-Mar-20
1 Year
5 Year
10 Year
25 Year
50 Year
50 year target %



PWLB Certainty Rate Variations 1.4.19 to 31.3.2020
3.40
3.20
3.00
2.80
2.60
2.40
2.20
2.00
1.80
1.60
1.40
1.20
1.00
0.80
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-40
44½-45
49½-50
50+
GBR 1mth
1-Apr-19
31-Mar-20
Average

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

Report to Audit Committee

Reserves Policy for 2019/20 to 2020/21

Portfolio Holder: Cllr A Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green

Officer Contact: Anne Ryans - Director of Finance

Report Author: Vickie Crewe - Senior Accountant

Ext. 3306

21 July 2020

Reason for Decision

The purpose of this report is to present to Members of this Committee on the proposed Reserves Policy of the Council for the financial years 2019/20 to 2020/21 and incorporate any views into the final policy.

Executive Summary

From the financial year 2014/15, the Council developed a strategic approach to the creation and maintenance of reserves through the development of a Reserves Policy. The presentation of the Policy to the Audit Committee introduced improved transparency into this process which had previously been managed at the discretion of the Chief Financial Officer when the closure of the Final Accounts was undertaken.

There have been several reports issued on Local Government Financial Resilience over the last couple of years with the Chartered Institute of Public Finance and Accountancy releasing its Financial Resilience Index in December 2019. This Index placed an increased focus on the level of reserves held by Local Authorities and therefore its ability to be financially resilient.

Furthermore, the global pandemic has had a significant impact on Local Government and the financial challenges faced by the Council means a greater reliance will be placed on reserves.

The Policy is presented to the Audit Committee for it to review but also provide assurance that the Council manages its reserves effectively.

The Reserves Policy is attached at Appendix 1 and presents the Council's strategic approach to the creation and maintenance of reserves.

Recommendations

That Members of the Audit Committee review the Reserves Policy for 2019/20 to 2020/21 and advise the Council on its suitability from a governance perspective.

Reserves Policy for 2019/20 to 2020/21

1 Background

1.1 There is a need to have a strategic approach to the creation and maintenance of the Earmarked Reserves by the Authority. This is because resources are becoming even more scarce and any money set aside needs to both support the priorities of the Council and prevent unforeseen expenditure/events impacting on year on year budgets wherever possible.

1.2 The level of reserves maintained by Local Authorities collectively has in the past attracted comment from the former Secretary of State for the Department of Communities and Local Government (now Ministry for Housing, Communities and Local Government) indicating they are excessive.

1.3 In December 2012, the Audit Commission produced a report into their research on the level of reserves held by Councils. The report, whilst produced a number of years ago, set out sound advice and recognised that there is no set formula for deciding the level of reserves that is appropriate. It stated that having the right level of reserves was important and where reserves were low there could be very little resilience to financial shocks and sustained financial challenges. It also stated that where reserves are high, there is a risk that some Councils may retain certain funding which could otherwise be utilised as a one-off to address challenging savings targets and provide the time for transformation to deliver permanent financial savings.

1.4 One conclusion from the Audit Commission report was that Councils needed to consider their present decision making around reserves in a number of areas:

- Undertaking an annual review to ensure reserves align with Medium Term Financial Plans.
- Having clarity about what earmarked reserves are for.
- Ensuring earmarked reserves held to mitigate financial risk reflect an up to date assessment of risk.
- Monitoring the level and use of reserves over recent years, and comparing the Council's approach to other organisations facing similar circumstances.
- Budget monitoring and forecasting to give Elected Members greater awareness of likely year-end movements on reserves.
- Ensuring significant or unexpected variations to budget are dealt with.

1.5 Members can be assured that the Council already meets the criteria detailed above through the regular review of reserves, the Revenue Budget Monitoring reports presented to Cabinet, the Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments Report presented alongside the Revenue Budget Report to Council and the production of an annual Reserves Policy.

1.6 Members of Audit Committee will recall that during 2019/20, the Chartered Institute of Public Finance and Accountancy (CIPFA) published its Financial Resilience Index. The level of reserves and balances are a key element in the CIPFA Financial Resilience Index which was published for the first time in December 2019.

1.7 None of the Oldham indicators were considered to be extremely high risk or a cause for immediate concern. However, reserves sustainability and change in reserves when compared to other Authorities were around the midpoint on the risk scale. The Index did provide some useful information and confirmed the position that, leading into 2019/20 the Council was financially resilient. The Index will be issued again during 2020/21 to reflect the position at the end of 2019/20. Given the COVID-19 pandemic and the consequent financial challenges facing most Authorities including Oldham, the result of the Index is likely to be out of date by the time it is published.

1.8 Members will also recall that a report on Local Government Financial Resilience was presented to this Committee on 12 September 2019. As highlighted within the report, a number of Authorities had been identified as having sustainability issues within the media at that time. Since this report, the global pandemic has further impacted Local Authorities with a number identifying short and longer term resilience issues as a result of COVID-19. It is important to note that a number of those Authorities highlighting issues do not have the level of reserves available to support them through this unforeseen event.

1.9 As shown above, the level of Local Authority reserves is a key issue when discussing the funding of Council services and it is therefore considered appropriate to present this Reserves Policy for scrutiny by the Audit Committee.

2 Reserves Policy for 2019/20 to 2020/21

2.1 The 2019/20 to 2020/21 reserves policy has been prepared, following the finalisation of the financial position at the end of 2019/20 and after a risk-based review by the Director of Finance having regard to Corporate Priorities. There are 15 major Earmarked Reserves included in the Policy (to align to the presentation of reserves at Note 14 in the Statement of Accounts which is elsewhere on the agenda). As can be seen from the Statement of Accounts, Revenue Account Earmarked Reserves at the end of 2019/20 were £79.360m, Revenue Grant Reserves were held at a value of £7.933m and Schools Balances were held at £0.571m, therefore the total reserves held at the end of the financial year was £87.865m.

2.2 The level of reserves held at the end of 2019/20 which are detailed within the reserves policy are deemed sufficient to ensure the Council's financial resilience for 2020/21. The Council's financial position has changed since the revenue budget report was approved by Council on 26 February 2020 and as such, the Council will have to rely on reserves in a way that could not have been anticipated and requires some flexibility in the use of reserves.

2.3 The COVID-19 pandemic has resulted in increased expenditure and income losses that are likely to be only partly compensated by Government grant. At the time of preparing this report the details of the most recent Government funding package (2 July 2020) have yet to be announced. The reserves of the Authority are therefore important in providing support for the financial position providing time for any required budgetary adjustments to be made. The Reserves Policy has therefore been amended so that it is clear that the final decision in relation to any of the reserves lies with the Director of Finance (S151 Officer) having regard to the overall financial position of the Council.

2.4 This policy document also sets out the rationale for the creation of the reserves, the arrangements for their management and the approval process for use. The Policy is detailed at Appendix 1.

3 Conclusions

3.1 An appropriate Reserves Policy subject to scrutiny is considered good governance for a Local Authority.

4 **Options**

4.1 Option 1 - That Members approve the approach to the creation and maintenance of reserves as set out in Appendix 1.

4.2 Option 2 – That Members suggest an alternative approach to the creation and maintenance of reserves.

5 **Preferred Option**

5.1 Option 1 is the preferred option.

6 **Consultation**

6.1 To demonstrate the appropriateness of the earmarked reserves maintained by the Council this Reserves Policy is subject to a detailed review by the Audit Committee.

7 **Financial Implications**

7.1 In order to increase the transparency on the Earmarked Reserves held by the Council, a specific reserves policy has been developed which is now subject to annual review. This has enabled the Council to align its Earmarked Reserves to the Corporate and Strategic Objectives of the Council.

7.2 As shown in the Statement of Accounts which is presented to this Committee elsewhere on the agenda, the Council was able to deliver a financial outturn in accordance with its agreed budget for 2019/20. As such, with the proposed Reserves Policy as detailed in Appendix 1, it is in a robust financial position to meet the challenges for this financial year. However, the COVID-19 has changed the financial outlook. In order to manage its medium-term financial position effectively, the Council will have regard to the Government funding packages, any required revisions to budgeted expenditure and income and very careful management of reserves. Appropriate action will be taken to support the financial sustainability of the Council. The Reserves Policy has therefore been amended so that it is clear that the final decision in relation to any of the reserves lies with the Director of Finance (S151 Officer) having regard to the overall financial position of the Council. (Anne Ryans)

8. **Legal Services Comments**

8.1 N/A

9. **Cooperative Agenda**

9.1 N/A

10 **Human Resources Comments**

10.1 N/A

11 **Risk Assessments**

11.1 It is important in managing its finances that an Authority achieves a balance of both setting aside earmarked reserves which are appropriate supporting Corporate Priorities and Objectives whilst retaining financial resilience to secure its medium and long term financial stability. (Mark Stenson)

12 **IT Implications**

12.1 N/A

13 **Property Implications**

13.1 N/A

14 **Procurement Implications**

14.1 N/A

15 **Environmental and Health & Safety Implications**

15.1 N/A

16 **Equality, community cohesion and crime implications**

16.1 None

17 **Equality Impact Assessment Completed?**

17.1 No

18 **Key Decision**

18.1 No

19 **Key Decision Reference**

19.1 N/A

20 **Background Papers**

20.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are included at Appendix 1
Officer Name:	Vickie Crewe
Contact No:	0161 770 3306

21 **Appendices**

21.1 Appendix 1 - Reserves Policy for 2019/20 to 2020/21.

Appendix 1

RESERVES POLICY

FOR

2019/20 TO 2020/21

Oldham Council

RESERVES POLICY

1 Background

1.1 It is important to have a strategic approach to the creation and maintenance of reserves. Having established a reserves policy for the closure of the accounts for 2014/15 and the financial year 2015/16, this updated policy addresses key issues arising from the 2019/20 accounts closure and 2020/21 financial year.

2 Policy

2.1 As financial resources have become more scarce, it is essential to ensure that any funds set aside in reserves are considered appropriately so that they have maximum effect. Following established practice, the process of identifying reserves continues to have regard to the addressing of corporate priorities.

2.2 Corporate Reserves have in the past been created at the discretion of the Director of Finance. Whilst it is essential that some flexibility is maintained, this policy sets out agreed priority reserves. This will enable any identified additional resources to be directed to the priority areas.

2.3 It is also essential to determine by means of a risk based review on a case by case basis, the appropriate level of reserve to be held in each priority area. Clearly there will be the opportunity for the recommended level of required reserve to change, but it is proposed that once each reserve has reached the maximum recommended level, then resources will be directed to the next priority reserve. Once all these reserves have reached the proposed maximum, then any other available resources can be made available for individual budget holder business case requests.

2.4 As the COVID-19 pandemic has changed the financial landscape of Local Government and the Council, it is even more important to ensure that reserves are available to support financial resilience.

3 **Establishing the Priorities**

3.1 The closure of the 2019/20 accounts has enabled a detailed review of the Council's reserves and categorisation of these reserves into 15 major areas as in previous years. There are in most instances, a number of reserves within these major areas including the priority reserves.

For clarity, the **15 major reserves** and the reserves created to support **corporate priorities** within them are set out and explained in this policy as follows.

1) Integrated working – £3.986m at 2019/20 accounts closure

This reserve represents resources that have been set aside to support initiatives arising from the Greater Manchester devolution agenda including joint working with the Oldham Clinical Commissioning Group (CCG) around Adult Social Care, other Greater Manchester Councils and the Greater Manchester Combined Authority.

The priority reserves within this category are:

a) Adult Social Care - Better Care Fund (BCF)

A reserve of £2.500m is available created from Improved Better Care Fund grant resources. This reserve is in the first instance to be held pending the potential cessation or reduction of Improved Better Care Funding at the end of the current funding cycle but with potential to also address pressures within Adult Social Care and to assist with integration.

b) BCF Non Recurrent funding

This reserve holds the balance remaining of funds that were passported to the Council from the CCG in previous financial years. This money has been retained for jointly agreed projects/ priority areas of spend in relation to Adult Social Care over future years.

c) Devolution Reserve

It is considered appropriate to have a reserve to support the devolution agenda. A sum of £0.140m is held in reserve to facilitate expenditure in this area going forward.

d) GMSF/Local Plan

A reserve has been created to fund any external advice, commissions, reviews and consultations that are necessary to complete the evidence base for the Local Plan and GM Spatial Framework in order to deliver the Local Plan and ensure that Oldham feeds into GM Spatial Planning.

2) Transformation Reserve - £7.809m at 2019/20 accounts closure

This reserve holds resources set aside to provide for any costs of implementing the Council's budget requirements for 2020/21 and earlier years and also the on-going programme of change as the Council moves to address funding reductions in future years by the continued transformation of its services.

The priority reserves within this category are:

a) Transformation/Invest to Save Reserve

In order to facilitate transformational change across the Council, some funding is needed for pump priming items such as dual running of systems and project management. During 2019/20, £0.890m was used to support transformational projects in year, £1.420m was committed for future projects and £0.662m was left uncommitted for future developments. At the end of the financial year, £0.339m was transferred to reserve to enable the organisation to continue with its transformation agenda. The total held within the reserve at 31 March 2020 was £2.421m.

b) Redundancy/Efficiency Reserve

As part of the agreed budget strategy for 2015/16, the corporate redundancy base budget was reduced by £2.000m. As a consequence, funding for redundancy costs will be provided by utilising a reserve. The reserve balance at the end of the 2019/20 financial year was £3.000m. If the reserve is utilised then it will be replenished the following the year.

c) Resident First Reserve

As part of the Council's Customer Service Transformation Programme, the Resident First Programme has been developed and split into specific phases. This Programme was designed to help the Council achieve its ambition of moving to a 'Self-serve, Self-help' service delivery model and the way it interacts with residents. This will require transformation of the delivery of the Council's services to enable residents to serve themselves and ultimately improve their 'customer experience'.

The programme has moved from implementing single service solutions to identifying strategic and sustainable solutions that provide the digital capabilities identified as necessary to enable a full end to end re-designed customer journey together with efficient automated business processes. At the end of 2019/20 there was £0.050m of resources available to support the programme.

d) Public Health Reserve

A reserve was set aside at the year-end 2015/16 of £0.809m to mitigate future issues arising from a reduction in the Public Health Grant received by the Council. As part of the 2017/18 budget process, £0.373m of this reserve was identified for use to support an agreed public health budget reduction and was transferred to the balancing budget reserve. The balance held within this reserve is to be used to support the Public Health offer for future years.

e) Social Care Budget Reserve

As social care services face unprecedented demand it has been deemed appropriate to hold a reserve to support the social care service area. During 2019/20 £0.257m was utilised to support revenue expenditure. The balance remaining at the end of the financial year was £0.455m. This will be used for initiatives in support of the integration agenda. Such initiatives will require a full evidence based business case.

f) Dedicated Schools Grant (DSG) Recovery Plan

A reserve, which has a balance of £1.000m, was set aside to smooth the implications arising from the realignment of General Fund and DSG resources, in part resulting from changes in Government policy around the costs that can be charged to the DSG.

3) Adverse Weather Reserve - £1.000m at 2019/20 accounts closure

The 2015/16 budget setting process approved the reduction in the Winter Maintenance base budget by £0.100m and an increase of the already established adverse weather reserve to compensate. A reserve of £1.000m is considered sufficient to fund the costs of several severe winters and the reserve was held at this value at the closure of the 2019/20 accounts.

4) Regeneration Reserve - £4.661m at 2019/20 accounts closure

The Council has an extensive and ambitious regeneration agenda and resources have been set aside to support a number of regeneration projects which span more than one financial year. The priority reserves within this category are:

a) General Capital Reserve

There is a significant Capital Programme arising from the Council's Corporate Plan and the recently approved 'Creating a Better Place' strategy. The Council's Capital Strategy approved on 26 February 2020 was prepared to take account of the ambition for the borough including major regeneration developments within the Town Centre and borough-wide, to ensure that new school buildings and extensions can be delivered as well as ensuring that the highways network and the corporate estate are adequately maintained. Due to the complexities around a number of the schemes, it is possible that there could be variations from the planned level of expenditure which will need to be supported. It has been deemed prudent to set a reserve aside to support such initiatives.

b) Property Strategy

At the Council meeting of 18 December 2017, Members approved the creation of a reserve at a value of £0.250m to provide for up front / abortive costs with regard to the Commercial Property Investment Strategy.

c) Town Centre Development

A report was presented to Cabinet on 28 March 2018 approving revenue resources of £2.879m to support the Town Centre Masterplan. A subsequent report increased this requirement to £3.147m. These funds have been aligned to take forward initiatives within the Creating a Better Place strategy which was approved during 2019/20 and revised the regeneration agenda.

d) Alexandra Park Depot Site

In 2018/19, Cabinet approved the establishment of a specific reserve in relation to the Alexandra Park Depot Site project at value of £0.300m. During the 2019/20 financial year draw down from this reserve totalled £0.181m leaving £0.119m within the reserve to support the scheme in 2020/21.

5) Demand Changes Reserve - £2.000m at 2019/20 accounts closure

The Council has set funds aside to allow for the unbudgeted increase in demand, including costs associated with looked after children which are difficult to predict and can fluctuate from year to year.

In anticipation that there will be demand pressures in future years, a £2.000m reserve has been setup to deal with unexpected demand rises. Of this, in accordance with the budget report approved on 26 February 2020, £1.660m is specifically held to support Children's Social Care if the agreed budget reduction for Children's Efficiencies is not delivered to the initially agreed timeline. The use of the reserves will enable the service to move towards delivery of the saving for 2021/22.

6) Emergency and External Events Reserve - £2.251m at 2019/20 accounts closure

This reserve was established in 2015/16 to ensure that the Council has sufficient resources to address costs arising from events such as flooding including the requirement to undertake emergency repairs. The priority reserves in this category are:

a) Commissioning and Legal Challenges Reserve

In recent years, the Council has changed from being a deliverer in many service areas to becoming a commissioner of services including Private Finance Initiative (PFI) schemes, Adult Social Care and Public Health. Whilst this aims to drive efficiencies and removes the Council from the day to day direct delivery of services, it introduces a range of contract management challenges which require close monitoring. There are instances where this process has led to disputes and the Council has had to seek expert advice to support and defend its position. A reserve has therefore been created to address such one off costs.

b) Equipment Replacement/Building Maintenance Costs Reserve

To fund requests for the emergency replacement of equipment or the undertaking of immediate building maintenance work a reserve was set-up in 2014/15. This ensures a source of funds is readily available to support such costs in an emergency.

c) Flood Protection Reserve

Following the floods of December 2015 and the impact on neighbouring Authorities, a reserve of £0.250m was set aside to fund required flood protection measures in the Borough.

d) Emergency Incident, Threat or Hazard Reserve

In order to discharge its Statutory Responsibility for Emergency Planning, the Council prepared a financial procedure to facilitate the incurring of expenditure in the case of an emergency or incident in the Borough which may result in hardship to a group of residents or the Council having to incur expenditure in the interests of public safety. This procedure required the creation of a reserve of £0.250m and this was established in 2015/16 and has been retained for 2019/20. It will be necessary to ensure that a fund of £0.250m is permanently available in order to comply with the financial procedure rule.

e) Water Courses and Culverts

This reserve has been set aside for unforeseen/emergency works on Water courses and culverts that would otherwise be unfunded.

7) Levy Reserve - £0.402m at 2019/20 accounts closure

This reserve is held to address unbudgeted variances in the levies charged by the Greater Manchester Combined Authority (GMCA). Initially set up specifically for the waste levy, this reserve with a balance at a value of £0.402m at the year end will used to support any variances arising from the GMCA waste and transport levies.

8) Council Initiatives Reserve - £3.531m at 2019/20 accounts closure

There are a number of projects and programmes of work which the Council considers to be priority initiatives. Reserves have been set aside to ensure that these can be undertaken during future years. The major priority reserves are:

a) Learning and Attainment Reserve

There is a political priority to support the learning and attainment agenda to promote the improvement of results in schools. A reserve of £1.000m was created in 2014/15 to be used over future years. At the end of 2019/20, £0.605m remained in the reserve.

b) Career Advancement Service

This reserve was established to fund the Career Advancement Service Pilot scheme during the period 2016/17 to 2019/20. The strategy seeks to improve population skills and outcomes to support Oldham's strategic goals. Due to the success of this scheme during the pilot years, the service has now been extended for a further two years.

c) Flytipping

This fund was established to address the issues around flytipping within the Borough and will help to deliver a co-operative approach.

d) Northern Roots

On 28 January 2019 Cabinet approved a report with regard to Northern Roots which required revenue resources over a two year period. External funding will partly support the scheme with resource of £0.475m held in reserve at the end of the financial year to support this project in 2020/21.

9) Fiscal Mitigation Reserve - £26.977m at 2019/20 closure

This reserve has been established to fund future costs expected to arise from reforms to Central Government Funding, pressures that result from legislative changes and was extended at the end of 2019/20 to include pressures arising from COVID-19. The priority reserves within this category include:

a) Business Rates Reserve

The income from Business Rates remains volatile and therefore it is prudent to have resources available to support the General Fund should business rates income be reduced in future years' budget processes. Also, with the introduction of the 100% Business Rates retention pilot from 2017/18, this reserve also holds resources that may be paid over to or received from the Greater Manchester Combined Authority in accordance with the pooling of the benefits of the Business Rates retention pilot scheme. It was expected that this pilot would end in 2019/20 with 75% of Business Rate Retention being implemented in 2020/21, however due to other priorities, this was extended for a further year.

b) COVID-19 Reserve

On 27 March 2020 the Council received £7.641m of Government grant funding to support the additional costs and lost income due to the COVID-19 pandemic. At the end of the 2019/20 financial year all of the resource was transferred to an Earmarked Reserve to support the Council in 2020/21. Subsequently, it was also agreed, in a report approved at Cabinet on 23 April 2020, that this reserve be increased from Council resources by £2.359m to support the Council's response to COVID-19. The balance held at the end of the financial year was £10.000m.

c) Brexit

The impact on Local Authorities as a result of the Brexit vote remains unknown. It is appropriate to hold a reserve to support any financial implications arising from leaving the European Union.

d) Capital Receipts - Flexible Use and Other shortfall in capital financing

The 2020/21 revenue budget relies on taking advantage of the Ministry of Housing, Communities and Local Government's (MHCLG) flexibility in the use of capital receipts. As such, the 2020/21 revenue budget is underpinned by the use of £3.750m of capital receipts to support transformational revenue expenditure. The Capital Programme also relies on capital receipts as a major financing source.

This reserve has been created at a value of £4.000m to fund any shortfall in the level of capital receipts available or in supportable qualifying expenditure which can be financed by the flexible use of capital receipts.

e) Pay Award

At the end of the 2019/20 financial year end the NJC pay award for 2020/21 had not yet been agreed. An initial offer of 2% had been rejected by Trades Unions with negotiations continuing. The 2020/21 revenue budget included provision for a potential 2.5% increase, however as no agreement has been reached it was considered necessary to create a reserve to support any increase above the amount budgeted.

f) Bus Reform

During 2019/20, the Greater Manchester Combined Authority (GMCA) proposed a bus franchising scheme for the whole of Greater Manchester. The financial case for the 'bus reform' proposals included a full assessment of how the GMCA could afford to make and operate the proposed scheme. The assessment set out a range of credible funding sources which exceeded the net modelled costs to operate the scheme over the proposed transition period to 2024/25. The assessment also concluded the proposed franchising scheme was affordable and would represent value for money. Following the outcomes of the consultation on Bus Reform, should the GMCA proceed with its proposal, a contribution from GM Local Authorities may be required. A reserve has been established to support this in 2020/21 if approved.

g) Income Generation

As a result of the COVID-19 pandemic, it is anticipated that a large proportion of the Council's income from fees and charges will not be received. This will have a significant impact on the 2020/21 budget and as such a reserve has been established to support the revenue budget over the next financial year if required.

h) Budget Reductions

Whilst the 2020/21 budget was based on the full delivery of all budget reductions, this reserve is to support any potential shortfall.

10) Balancing Budget Reserve - £10.008m at 2019/20 accounts closure

During the budget setting process for 2020/21, a reserve was established at a value of £10.008m to balance the 2020/21 budget. The creation and use of this reserve in 2020/21 was approved by Council on 26 February 2020.

11) Contractual Life Cycle Costs Reserve – £1.580m at 2019/20 accounts closure

The Council has a number of PFI and other schemes that operate in a similar manner to PFIs. The life cycle costs of these schemes vary over the period of the contract and sinking funds are required to support the transition of the asset back into Council ownership at the end of the contract life. The life-cycle costs have been smoothed for budget purposes and therefore require a transfer to and from reserves to meet the commitments.

12) Insurance Reserve - £12.165m at 2019/20 accounts closure

It is essential that reserves are held to ensure that there are adequate resources available to support insurance claims against the Council. The requirement for this reserve is closely linked to the claims profile of the Council and was assessed as part of the 2019/20 year-end closedown process.

13) District Partnership Reserve - £0.629m at 2019/20 accounts closure

This reserve represents sums set aside to fund projects already agreed by the District Executives which are either programmed for a future financial year or span more than one financial year.

14) Taxation / Treasury Reserve - £0.500m at 2019/20 accounts closure

This reserve holds funding set aside for any future taxation liabilities e.g. from HM Revenues and Customs and any Treasury Management issues.

15) Directorate Reserve - £1.860m at 2019/20 accounts closure

There are a wide range of Directorate initiatives which span more than one financial year or for which funds have been budgeted but not yet utilised. The Directorate Reserve will ensure that such initiatives can be completed.

4 Management of Reserves

Creation/ Decommissioning of Reserves

4.1 A list of areas/initiatives for which an additional reserve might be created or where an existing reserve might be increased in value will be presented to the Senior Management Team (SMT) for consideration before the year end. The approval or otherwise of the reserve requests will be considered on a case by case basis and in the context of the overall projected financial position of the Council. These SMT recommended reserves will be considered by the Director of Finance at the year-end and action taken as appropriate.

4.2 The report will also give consideration to those reserves no longer required or no longer considered to be priority areas. This will allow for the utilisation of the resources for other purposes, either the reallocation to other reserves, or to support the budget.

4.3 The financial resilience of the Council is a key issue going forward, especially given the pressures of resulting from COVID-19. The level of reserves available is an important part in maintaining financial resilience. As such, the Director of Finance has delegated authority to decommission any reserves where it is deemed necessary to do so to support the Council in ensuring a balanced financial position can be delivered.

Schools Related Reserves

4.4 There are some schools related initiatives which may require funding on an academic year basis rather than financial year. It is proposed that such reserves are created as required.

District Partnership Reserve

4.5 It should be noted that District Partnership reserves operate under separate arrangements.

Flexibility at the Year End

4.6 In addition, given the accelerated timeline for the closure of the accounts, decisions will need to be taken around the use and creation of reserves without the opportunity to formally report these to SMT/Members in advance. Key issues arising in relation to reserves in such instances will be determined at the discretion of the Director of Finance and reported after the Council's accounts have closed.

5 Approval of the Use of the Reserves

5.1 Reserves can only be recommended for use as follows:

a) After a review and agreement by SMT as to the rationale for their use:

- Integrated Working Reserve
- Adverse Weather Reserve
- Regeneration Reserve
- Council Initiatives

b) After review and agreement by the Strategic Design and Delivery Board:

- Transformation Reserve

c) After review and agreement by the Deputy Chief Executive, Strategic Director or Managing Director and the Director of Finance:

- Directorate Reserve

d) After review and agreement of the Director of Finance:

- Demand Changes Reserve
- Emergency and External Events Reserve
- Levy Reserve
- Fiscal Mitigation
- Balancing Budget Reserve
- Life Cycle Costs Reserve
- Insurance Reserve
- Taxation Reserve

e) After review and agreement of District Executives:

- District Partnership Reserve

5.2 **The decision to utilise any reserve will only be made once the in-year and future impact of use on the overall financial position of the Council has been considered by the Director of Finance.**

5.3 The use and creation of reserves in year will be incorporated into the revenue budget monitoring report which is discussed with the Deputy Leader and Cabinet Member for Finance and Green and presented to Cabinet for approval. At the end of the financial year, as advised at 4.6, there will be a requirement to allow the Director of Finance discretion to address reserve issues as deemed appropriate in the context of the overall financial position of the Council.

6 Other Key Reserves Matters

6.1 There is an accounting requirement to identify two separate reserves outside the scope of this policy:

a) Schools Reserve – this includes the balances held by Schools under the scheme of delegation. The use of these reserves is at the discretion of schools and as at the 31 March 2020 was held at £0.571m (Schools balances of £5.487m offset by the deficit on the DSG of £4.916m).

b) Revenue Grants Reserve – this represents income from grants received which have no conditions attached or where the conditions have been met but no expenditure has yet been incurred. The use of these reserves will be determined by the relevant service Director and the Director of Finance. The balance held in this reserve at the end of the financial year was £7.934m.

7 Conclusion

7.1 Maintaining an adequate level of reserves and controlling their use has never been more important. Hence, any decision to use reserves will be carefully considered and made once the overall financial position of the Council has been considered by the Director of Finance.

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