

AUDIT COMMITTEE

Agenda

Date Thursday 21 January 2021
Meeting adjourned on Monday, 18 January 2021

Time 6.00 pm

Venue Virtual Meeting - Virtual address

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 Mark Hardman in advance of the meeting.

2. CONTACT OFFICER for this Agenda is Mark Hardman, 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 Monday, 18 January 2021.

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.

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 meeting of the Audit Committee held on 3rd November 2020 are attached for approval.
- 6 External Audit Progress Report (Pages 9 - 24)
- 7 Data Protection Update (Pages 25 - 32)
- 8 Treasury Management Strategy Statement 2021/22 (Pages 33 - 84)

Item includes the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators.
- 9 Audit and Counter Fraud Progress Report (Pages 85 - 96)
- 10 Cabinet Office National Fraud Initiative Arrangements for 2020/21 (Pages 97 - 100)
- 11 Proposed Audit Committee Work Programme for 2020/21 (Pages 101 - 106)
- 12 Exclusion of Press and Public

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 the Annual Governance Statement for 2019/20 and new issues (Pages 107 - 126)
- 14 Update on General Matters in 2020/21 (Pages 127 - 192)
- 15 Business Grant Schemes Assurance Report - Small Business Grant Fund, Retail Hospitality, Leisure Grant Fund and Discretionary Grant Fund (Pages 193 - 204)



AUDIT COMMITTEE
03/11/2020 at 6.00 pm

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

Also in Attendance:

Anne Ryans	Director of Finance
Mark Stenson	Head of Corporate Governance
Sabed Ali	Assistant Manager - Internal Audit
Andrew Bloor	Assistant Manager - Counter Fraud
Lee Walsh	Finance Manager - Capital and Treasury
Karen Murray	Mazars (External Auditors)
Mark Hardman	Constitutional Services
Lori Hughes	Constitutional Services

1 APOLOGIES FOR ABSENCE

There were no apologies for absence received.

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 10th September 2020 be approved as a correct record.

6 VARIATION OF ORDER OF BUSINESS

RESOLVED that agenda item 7 (2019/20 Annual Statement of Accounts) have precedence over the remaining items of business.

7 2019/20 ANNUAL STATEMENT OF ACCOUNTS

Consideration was given to a report of the Director of Finance providing an update on the auditing and approval of the 2019/20 Annual Statement of Accounts.

Further to reports considered by the Committee at meetings on 21st July and 10th September 2020, Members were advised that

while the audit of the 2019/20 Statement of Accounts was substantially completed, there was still assurance required by the external Auditor on the Greater Manchester Pension Fund's valuation of their investments. The External Auditor advised that the final elements of the work will be concluded in the coming days and that the delay was due to consideration of technical issues outside of the Council's control which should not reflect adversely on the Council's preparation of the accounts which had been completed in good time. It was noted that the Committee had already delegated the final approval of the Council's Statement of Accounts, once there had been a satisfactory resolution to the outstanding items, to the Vice Chair after consultation with the Director of Finance.

RESOLVED that

1. the progress on the audit of the Accounts be noted;
2. the delegation of the approval of the Council's 2019/20 Statement of Accounts to the Vice Chair of the Audit Committee after consultation with the Director of Finance and on receipt of advice from the External Auditor be confirmed.

8

EXTERNAL AUDIT PROGRESS REPORT

The Committee gave consideration to a report which presented the External Audit Progress Report, prepared by the External Auditor, Mazars LLP and attached as Appendix 1 to the submitted report.

The External Audit Progress Report provided the Committee with an update on the progress made by Mazars LLP in delivering their responsibilities as the Council's External Auditors. It was noted that work to complete the audit of the Council's financial statements had been ongoing, with liaison discussions being held with Council Officers on the remaining items to be finalised which, as had been noted previously, related to the Council's Pension Fund liability. The Report also highlighted a number of recent publications relevant to the work of the Committee, with particular attention being drawn to the recommendations of the Redmond review which had considered the effectiveness of external audit and transparency of financial reporting in local authorities.

RESOLVED that the External Audit Progress Report be noted.

9

TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2020/21

The Director of Finance advised on the performance of the Treasury Management function of the Council for the first half of 2020/21 and provided a comparison of performance against the 2020/21 Treasury Management Strategy and Prudential Indicators.

It was noted that the Council is required to consider the performance of the Treasury Management function in order to

comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) and the submitted report set out the following key Treasury Management issues for Members' consideration –

- an economic update for the first six months of 2020/21;
- a review of the Treasury Management Strategy Statement and the Annual Investment Strategy;
- the Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- a review of the Council's investment portfolio for 2020/21;
- a review of the Council's borrowing strategy for 2020/21;
- why there had been no debt rescheduling undertaken during 2020/21; and
- a review of compliance with Treasury and Prudential Limits for 2020/21.

The report was presented to the Audit Committee to give opportunity to review the report prior to its presentation to Cabinet and Council. In this regard, particular attention was drawn to the Treasury Management Strategy Statement and Annual Investment Strategy Update wherein it was noted the Treasury Management Strategy Statement approved in February 2020 now required revision in light of economic and operational movements which were considered at paragraph 2.4 to the submitted report.

In response to a query as to any opportunity to audit or to assess the deal, it was reported that the purchase by the Council of the Spindles Shopping Centre had been funded through funds set aside in the Capital Programme as presented in a report on the 'Creating a Better Place' initiative approved by Cabinet in August. The Committee was advised that the External Auditor made assessments of value for money, though not normally focused on one specific activity, and that an assessment of the benefits and risks of the purchase had been made by Officers having regard to analysis provided by the Council's external advisors where appropriate. The Committee was advised that the purchase was a key element of the regeneration programme and vision for the Borough and was part of a plan of activity that would take several years to deliver in full.

It was suggested by some members of the Committee that, in light of public comment, the position needed explanation. The Committee was asked to note that some aspects of this matter would be subject to commercial sensitivities, but consideration could be given as to what papers might be available for review if required.

RESOLVED that the Treasury Management Mid-Year Review Report be commended to the Cabinet, noting

- (i) the Treasury Management activity for the first half of the financial year 2020/21 and the projected outturn position;

- (ii) the amendments to both Authorised Limit and Operational Boundary for external debt as set out in the table at paragraph 2.4.5 of the report; and
- (iii) the amendments to the Capital Financing Requirement as set out in the table at paragraph 2.4.5 of the report.

10

UPDATE ON EXTERNAL AUDIT MATTERS

The Director of Finance reported on the publication of the Sir Tony Redmond Report into Local Audit and the Transparency of Local Authority Financial Reporting and on the Audit Scale Fee for the financial year 2020/21.

Members were advised that Sir Tony Redmond had been requested to undertake a review into the effectiveness of the local audit regime for local authorities and the transparency of the financial reporting regime. This review had been completed and the report to the Secretary of State for Housing, Communities and Local Government had made 23 recommendations covering External Audit Regulation; Smaller Authorities Audit Regulation; Financial Resilience of local authorities; and Transparency of Financial Reporting. A suggested Council approach to these recommendations, which was considered to be broadly supportive, was presented within the submitted report. While noting comment of the External Auditor that the proposed Office of Local Audit and Regulation, if established as proposed, would not supply audit services, Members commented on the need for such a body to fulfil that central role in local authority audit.

On a further matter, the Committee was reminded that the Council was notified of the Audit Scale Fee on an annual basis. The fee level set by Public Sector Audit Appointments for 2020/21 had remained at £104,428, with a caveat that fee variations might need to be identified and agreed for individual audits.

RESOLVED that the report be noted.

11

AUDIT AND COUNTER FRAUD PROGRESS REPORT

The Head of Corporate Governance reported on the work carried out by the Audit and Counter Fraud Team in the period to 30th September 2020.

Due to the pandemic, in the period 1st April to 31st July 2020, Internal Audit had provided significant non-audit related administration support to Revenues and Benefits services in the processing of Business Grants and in providing advice to support the Council in considering its response to managing Supplier Relief. Members were reminded that a revised Internal Audit Plan had been presented to the Audit Committee on 10th September 2020 which covered the eight-month period from 1st August 2020 to 31st March 2021.

Other Audit and Counter Fraud Team work in this period included:

- contributing to the review of controls around processing Business Grants and discretionary Business Grants in quarter one and two;
- carrying out investigations around potential fraud and error on Business Grants;
- delivering advisory work to colleagues, including those managing the People Programme and the implementation of the ICT solution to reflect the potential issues with the system;
- undertaking preliminary Business Grant Assurance reviews around the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund administered by the Council;
- undertaking audits of Direct Payments; and
- collaborating with colleagues to procure and implement a cost-effective solution to the Audit Management System.

Members sought further information related to the 'inadequate' opinion arising from the Homelessness Review; the nature of, and work-related to, the European REDWOLF grants; and the implications of the pandemic on the planned work programme. Members were further assured that work related to recovery of direct payment monies, which remained high, would be picked up.

RESOLVED that the report be noted.

12 **PROPOSED AUDIT COMMITTEE WORK PROGRAMME FOR 2020/21**

Further to the submitted work programme, the Head of Corporate Governance advised that it was intended to report to the next meeting on a recently issued Public Interest Report which had highlighted failings in financial control at the subject Council and which impacted on the audit role and scrutiny.

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

13 **EXCLUSION OF 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.

14 **INTERNAL CONTROL MATTERS FOR PAYROLL: UPDATE**

The Director of Finance provided an update on the internal control matters for Payroll arrangements, an update on the implementation of the new system and reported to provide assurance that the issues on administration previously

highlighted to the Committee are being dealt with appropriately by the Council. Members sought assurance that the new system would in time permit the roll out of additional benefits, such as the Bike to Work Scheme, not currently offered by the Council. Subject to maintenance of system control, it was hoped to be able to roll out developments in the system.

RESOLVED that the report, including the revised Implementation date and the importance of the first internal audit opinion on the new system under Fundamental Financial Systems review, be noted.

15

UPDATE ON THE ANNUAL GOVERNANCE STATEMENT FOR 2019/20 AND NEW ISSUES

The Head of Corporate Governance provided an update on progress made to reduce the risk of issues arising for the Council to address where matters were identified as areas requiring improvement in internal control within the Annual Governance Statement for 2019/20 and in identifying new risks which are considered appropriate for potential inclusion in the Annual Governance Statement when it is produced for the financial year 2020/21. In considering the issues identified, the Committee was advised that the submitted report had been prepared prior to the announcement of a new national lockdown which might have impacted on the presented Red/Amber/Green (RAG) risk ratings assigned to those issues. Reference was made to emergent issues which were considered by Members alongside issues raised in the submitted report.

RESOLVED that the report be noted.

16

BUSINESS GRANT SCHEMES ASSURANCE REPORT

The Director of Finance reported on the assurance data provided by the Council to the Department for Business, Energy and Industrial Strategy (BEIS) on the administration of the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund regimes. These grant funds allowed payments to be made to eligible businesses and had been introduced by Government to provide emergency support due to the COVID-19 pandemic. In considering and seeking clarification as to ongoing action being taken by the Council in respect of Business and other grants, the Committee also queried the usefulness of previous applications in delivering support available in the new national lockdown. While specific guidance was still awaited, it was noted that the nature of and eligibility for the grant schemes had changed over time and that business ownerships, locations etc did not stay static meaning that new application processes were likely to be required.

RESOLVED that the report be noted.

PARTNERSHIP RISK DASHBOARD

Further to the meeting of the Committee held on 10th September 2020 and a request made for the Head of Corporate Governance to undertake a review of the risks facing the Council from partnership arrangements, the Head of Corporate Governance reported accordingly, advising of the partnerships identified in which the Council has an interest and of the outcome of an exercise to apply a Red/Amber/Green (RAG) risk rating as at 31st October 2020. Members gave a consideration as to the risks associated with individual partnership arrangements and the frequency of reporting that would be required for the Committee to maintain an assurance on risks associated with partnership arrangements generally.

RESOLVED that the report be noted, and further updates be submitted on a twice-yearly basis.

The meeting started at 6.00 pm and ended at 7.57 pm

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Report to Audit Committee



External Audit Progress Report

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green / MAZARS

Officer Contact: Anne Ryans, Director of Finance/ MAZARS

Report Author: Mark Stenson, Head of Corporate Governance /MAZARS

Ext. 4783

18 January 2021

Reason for Decision

To present to the Audit Committee, the Audit Progress Report for January 2021 (attached at Appendix One) produced by our external auditor Mazars.

Executive Summary

The report presents to the Council the key information that the external auditor feels appropriate to bring to your attention.

Recommendation

It is recommended that the Audit Committee notes the Audit Progress Report.

Appendix One

External Audit Progress Report January 2021

Audit Progress Report

Oldham Metropolitan Borough Council

Page 11
January 2021



1. Audit Progress

2. National Publications

Page 12

01

Section 01: **Audit Progress**

Audit Progress

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

We completed our external audit of the Council’s 2019/20 financial statements and value for money conclusion in November 2020, signing the audit report on 10 November. Audit Committee members were sent an updated Audit Completion Report with the completed audit findings.

We are now undertaking the required audit work on the Council’s Whole of Government Accounts (WGA) submission. This work is carried out to instructions issued by the National Audit Office and we report to the NAO our conclusions from this work. Should there be any significant findings from this work we will report these to the Audit Committee in a subsequent Audit Update Report. We expect to complete this work and report to NAO in January 2021.

We will commence our audit planning for the 2020/21 audit in January/February 2021 and will present our Audit Strategy Memorandum to a subsequent Audit Committee meeting. We have held regular discussions with the Council’s Director of Finance and these help us to keep up to date with emerging issues that may impact on our external audit.

External audit work on the Council’s arrangements to deliver value for money in its use of resources

We reported during 2019/20 that the National Audit Office had updated their Code of Audit Practice and that this new Code applies from 2020/21. The new Code changes the work that auditors will be required to do, and the related reporting, on Councils arrangements to deliver value for money in their use of resources.

Audit Progress

External audit work on the Council's arrangements to deliver value for money in its use of resources (continued)

The changes to the reporting requirements means that from 2020/21 we will no longer include a value for money conclusion in our Financial Statements Audit Report. We will report our commentary on the Council's arrangements to deliver value for money in a new Auditor's Annual Report (which replaces the Annual Audit Letter). The NAO Code requires that where auditors identify weaknesses in Council's arrangements they should report recommendations to the Council promptly through the year.

In carrying out our work we will comply with the NAO's guidance on value for money work, which identifies that the work must have regard to the following specific criteria:

- **Financial sustainability**: how the body plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**: how the body ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

We will keep Audit Committee up to date on our progress as we complete our audit work.

02

Section 02: **National Publications**

National Publications

	Publication/update	Key points	Page
CIPFA			
1	Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts	2020/21 Disclosure checklist	8
2	Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts	2020/21 Code Guidance Notes	8
3	Service Reporting Code of Practice for Local Authorities 2021/22	2020/21 SeRCOP Guidance	8
4	Guidance for Head of Internal Audit Annual Opinions 2020/21	Guidance	9
5	A Guide to Local Authority and Public Sector Asset Management	Step-by-step guide	9
6	Planning to Deliver Good Value in Demand-led Services (social care)	Good practice framework	9
National Audit Office			
7	Local auditor reporting application	Data on local auditor reporting presented through an interactive map	10
MHCLG			
8	Local authority financial reporting and external audit: government response to the Redmond review	MHCLG's response to Sir Tony Redmond's independent review	11
Financial Reporting Council			
9	Local Audit Inspections	FRC Audit Quality report	12

NATIONAL PUBLICATIONS

CIPFA

1. Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2020/21 Accounts, January 2021

The 2020/21 version of the disclosure checklist has been updated to reflect the reporting requirements introduced by the 2020/21 Code of Practice. This annual publication is for finance practitioners in local authorities and external audit agencies and firms in England, Scotland and Wales.

The checklist is in the form of a series of questions. If the answer to any question is no, then a justification for departing from the Code should be given and potentially disclosed in the accounts, where the impact of departures is material.

<http://www.cipfa.org/policy-and-guidance/publications/d/disclosure-checklist-202021-print>

2. Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for 2020/21 Accounts, January 2021

This edition of the Guidance Notes provides detailed guidance on the key accounting changes introduced by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2020/21, and includes amendments to implement amendments to accounting standards, reference to arrangements for the application of accounting standards arising as a consequence of the UK's withdrawal from the EU and legislative amendments. The example financial statements have also been updated to reflect these changes.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-guidance-notes-202021-print>

3. Service Reporting Code of Practice for Local Authorities 2021/22, January 2021

Modern local government is constantly developing and adapting to its current economic climate. Transparency initiatives, performance and best value regimes are evolving in expectation of the government becoming more sophisticated.

SeRCOP is reviewed annually to ensure that it develops in line with the needs of local government, transparency, best value and public services reform.

In England, SeRCOP is given legislative backing under the Local Government Act 2003. In Scotland SeRCOP's Service Expenditure Analysis (SEA) and guidance is used by the Scottish Government as the basis for specifying the requirements of the Local Financial Returns (LFRs).

<https://www.cipfa.org/policy-and-guidance/publications/s/service-reporting-code-of-practice-for-local-authorities-202122>

NATIONAL PUBLICATIONS

CIPFA

4. Guidance for Head of Internal Audit Annual Opinions 2020/21, November 2020

The annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control is a requirement of the Public Sector Internal Audit Standards (PSIAS). It is an important source of assurance that supports a local government body’s annual governance statement.

If sufficient assurance is not available from internal audit work completed and other sources of assurance that the head of internal audit may seek to place reliance on then they should publish a limitation of scope to explain the position and impact on the annual opinion. The guidance sets out the steps heads of internal audit, together with the leadership team and audit committee, should take.

To further support the guidance CIPFA held a free webinar on 15 December.

<http://www.cipfa.org/policy-and-guidance/standards/guidance-for-head-of-internal-audit-annual-opinions-202021>

5. A Guide to Local Authority and Public Sector Asset Management, November 2020

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

<https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide>

6. Planning to Deliver Good Value in Demand-led Services (social care), November 2020

Several local authorities successfully deliver good value in these areas, and this publication draws on their experience and best practice. It sets out a three step framework, based on a number of essential elements that recognise the challenges involved. This framework emphasises the importance of business partnering and ensuring plans reflect reality to enable improved operational and financial resilience.

<https://www.cipfa.org/policy-and-guidance/publications/p/planning-to-deliver-good-value-in-demand-led-services-social-care>

NATIONAL PUBLICATIONS

National Audit Office

7. Local auditor reporting application, December 2020

The local auditor reporting application presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

<https://www.nao.org.uk/other/local-auditor-reporting-application/>

NATIONAL PUBLICATIONS

MHCLG

8. MHCLG's response to Sir Tony Redmond's independent review, December 2020

The response of the Ministry of Housing, Communities and Local Government to Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they “do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission”. They added that they “will commit to explore the full range of options as to how best to deliver Sir Tony's finding that a ‘system leader’ is required. This will include close consideration of whether existing bodies could take on this function.”

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

NATIONAL PUBLICATIONS

Financial Reporting Council

9. Major Local Audits – Audit Quality Inspection, October 2020

The framework for the inspection of local audit work

Responsibility for the inspection of local audit work is now with the Financial Reporting Council (FRC) for 'major local audits' (those with annual expenditure which exceeds £500m) and the ICAEW for those bodies which do not meet the major local audit definition. As part of their inspection of major local audits for the 2018/19 financial year, the Audit Quality Review (AQR) team of the FRC reviewed two of our major local audits and found these to require significant improvements in respect of our audit of the financial statements. The same reviews indicated that our work on value for money arrangements for those audits was of a good standard. Our non-major local audits for 2018/19 were not subject to inspection by the ICAEW.

Our response to the FRC's findings

We are committed to delivering high-quality audits to all of our clients and have responded robustly to the AQR's findings. Our Local Audit Quality Plan incorporates the risks to audit quality identified from a range of sources and identifies that actions we have put in place, or are taking, to mitigate these risks. Our Audit Quality Team is responsible for the maintenance of the plan which is also subject to oversight and scrutiny from the firm's Audit Board.

In addition, we have undertaken a detailed root cause analysis project to identify and understand the drivers of poor audit quality in some of our local audit work. This has focused on all local audits where the need for improvement or significant improvements have been identified either through external inspections or our programme of internal quality monitoring reviews.

We have taken steps to respond to the AQR's specific findings in relation to our work in the following areas of the audit:

- Testing the valuation of property assets;
- Exercising appropriate oversight of group audits, including the direction, supervision and review of the work of component auditors; and
- Document judgements made as part of the audit process, specifically those in relation to our testing of income and expenditure.

We have also strengthened our standard procedures in relation to the audit of net defined benefit pension liabilities arising from our clients' membership of local government pension schemes.

The FRC's report on its inspection findings in relation to the quality of major local audits for the year ended 31 March 2019, can be found [here](#). This also includes our detailed response to their findings on our financial statement audits.

NATIONAL PUBLICATIONS

Financial Reporting Council

9. Major Local Audits – Audit Quality Inspection, October 2020 (continued)

What this means for the Council

As outlined above, we take the weaknesses identified by the FRC extremely seriously, and our response to the improvement areas has been robust. It is clear that on areas of the audit such as the valuation of property assets (including investment properties) and the audit of defined benefit pension liabilities, we must do more to meet the regulator’s expectations. This means the time we spend on these areas of the audit will increase and the level of challenge we apply in auditing these areas will also increase. Your finance team and your experts will have seen the increase in the scope and scale of work we have undertaken in 2019/20 in terms of the granularity and depth of testing and changes to our sample sizes in a number of key areas.

Going forward, our response and the increase in the challenge we make, is likely to include the engagement of our own experts (for example, property valuation experts) to fully consider the methodologies and judgements applied by the Council’s own experts. There will be consequential effects on the fee that we are likely to request from the Council to undertake the audit.

Contact

Mazars

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Report to Audit Committee

Data Protection Update

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

Officer Contact: Anne Ryans – Director of Finance

Report Author: Barbara Mulvihill – Data Protection Officer

18 January 2021

Purpose of Report

To update Members of the Audit Committee on the Council's management and assurance in relation to data protection.

Recommendations to the Audit Committee

The Audit Committee is asked to consider and note the contents of the report.

Data Protection Update**1 Background**

- 1.1 The Audit Committee, as the appropriate Committee within the Council has received a previous Data Protection Officer (DPO) report and agreed to receive reports twice yearly thereafter.

2 Current Position

- 2.1 The Council DPO continues to provide advice and guidance to the Council and through formally agreed service level agreements (SLA) to Unity Partnership Ltd (UPL), MioCare Community Interest Company (CIC) and 56 schools (directly maintained and academies) based primarily in Oldham.
- 2.2 Under the same SLAs, the Information Management Team continues to provide support and expertise across the wider information governance arena for these organisations e.g., data protection, information security, Freedom of Information, records management.
- 2.3 The Information Management Team also delivers an Information Governance Plus model SLA with Children's Services to drive the implementation of information governance on a variety of services/projects including Oldham Family Connect, Early Help, Multi-Agency Safeguarding Hub (MASH) and the Oldham Partnership. This arrangement is expected to come to a natural conclusion at the end of March 2022 when the current funding stream comes to an end.
- 2.4 The Data Protection Board continues to meet every two months to receive data protection plan progress updates and to discuss information management requirements in relation to local and wider Greater Manchester Combined Authority (GMCA) activities.
- 2.5 As a consequence of the increased number of localised and GMCA activities/initiatives that require the use of personal information, there is a requirement to ensure that data protection implications are fully considered.
- 2.6 Examples of the joint working of organisations, e.g., Council, health, Police, voluntary sector, housing providers, community groups etc. include, but are not limited to:
- Co-location and integration of services, particularly within health & social care
 - Sharing of personal data
 - Joining up individual's records
 - Development of IT systems to facilitate the above
 - Communicating to individuals about the use of their personal data
 - Handling of information rights requests within integrated services
- 2.7 These activities can be illustrated below:
- a) Oldham Cares has an integrated approach to 'systems of care' in relation to health and social care services. The key aims include, but are not limited to:
- Improving health outcomes and performance
 - Focusing on prevention and for people to live healthy lives
 - Enabling people to make informed choices

-
- Working jointly with partners and be needs led
 - Develop community resilience through the Thriving Communities project
 - A key element of Oldham Cares surrounds the implementation of the Greater Manchester Care Record (Integrated Care Record) and the wider Local Health and Care Record Exemplar (LHCRE) programme.

- b) Place Based Integration and Reform focusses on how mainstream services should be delivered across the whole system and in partnership with residents. This will be achieved through the implementation of the Our Oldham Place Based Operating Model. The model aims to create integrated services working in an asset- based way to delivery better outcomes for people and the places where they live. These changes in delivery will work in partnership with the Thriving Communities project which is part of Oldham Cares.

This area of work feeds into the GM Place and Reform Executive and towards the implementation of the Place Based Reform Greater Manchester Model.

- 2.8 The Council's Information Management Team is working closely with colleagues from other organisations to ensure that information governance requirements are considered and built into initiatives as they are developed. There is a particular focus currently on ensuring that data protection requirements continue to be met, whilst ensuring data sharing supports the COVID-19 efforts.
- 2.9 The DPO has been working alongside the Information Management Team and other services to further develop a wider assurance role in order to evidence compliance and best practice in relation to the handling of personal data and compliance with data protection.
- 2.10 The annual submission for the Council's PSN (Public Services Network) annual mandatory accreditation was confirmed March 2021 and demonstrates how the Council's security controls are sufficiently rigorous to use the PSN network to collaborate and share information with other public services. The next submission is in progress and one key issue to consider is improving the password posture of the Council.
- 2.11 The submission of the Council's Data Security and Protection (DSP) annual mandatory accreditation is usually made before the end of March, however, as a result of the coronavirus pandemic, the deadline was extended to the end of September 2020. Both the Council and MioCare CIC submitted and successfully met the mandatory standards. This submission demonstrates how the Council's information management controls, (with a focus on Adult Health and Social Care), meet the standards set out in the toolkit. It is a requirement of the Department of Health that all organisations who handle adult health and social care personal data complete the toolkit. Work to prepare for the next submission is in train.
- 2.12 Changes within the Data Protection Act 2018 had a significant impact on how requests for information should be handled by the Council. The Information Management Team is implementing the Data Protection Compliance Improvement Project, that aims to ensure systems and processes are suitable to support the implementation of these changes. The project is currently focussing on the process for managing subject access requests. Phase 1 of this work has now concluded, with the current process analysed and feedback gained from all stakeholders on how the processes and overall performance could be improved. Phase 2 is focusing initially on identifying a route for a new IT solution before moving onto implementation.
- 2.13 There have been a number of incidents since the beginning of the financial year and these have been and continue to be actively managed by the Information Security Manager. A summary is attached at Appendix 1.

-
- 2.14 Cyber-attacks on public bodies have been elevated on the national risk register as a growing risk. The overall cyber threat, including that to Local Government, has risen during the coronavirus pandemic as malicious cyber criminals look to exploit the opportunity to generate money or cause disruption. The Information Management Team has introduced Cyber Awareness guidance for staff and is supporting Unity ICT in introducing measures to reduce the risk of a cyber incident. Cybercriminals are also preying on fears of the coronavirus and sending 'phishing' emails with the aim of getting users to click on a malicious link. It is important to remember that a single malicious link could lead to a successful attack, which could in turn compromise the Councils IT network and put information at risk. Communications have been sent to all employees and Councillors requesting completion of the Council's interactive Cyber Security training course, available through the MeLearning e-learning platform.
- 2.15 The Council's Central Records service has relocated from a site at Vulcan Street to a new location at the Meridian Centre. At the Vulcan Street site there was a mixture of records in archive boxes and in filing cabinets (approx. 35000+ records). At the Meridian Centre the records are located on a mixture of static racking and a state-of-the-art mobile racking system. This mixture maximizes the space available. The normal records service has resumed after a period of reduced service (whilst the records were transferred between sites).
- 2.16 Support is provided to the Council, MioCare CIC, UPL and schools in the delivery of their data protection responsibilities. Focus has been on providing tools and advice in the following areas:
- Training and awareness
 - Assurance Framework
 - Data Protection Policies
 - Privacy Notices
 - Records of Processing Activities (ROPA)
 - Information Governance Logging Systems Development
 - Delivery of Continuing Support to Key Partners

It is envisaged going forward that the focus of the plans will be to build on existing 'business as usual' by continuing to support the Council, MioCare CIC, UPL and schools in their day to day application of data protection and best information practice. The focus of the next phase of the plan will be on bringing to conclusion any residual items in progress at the time of writing and develop a stronger framework around assurance.

- 2.17 The UK has now ended the 12-month transitional period in relation to leaving the European Union. In terms of data protection, the General Data Protection Regulation (GDPR) will be retained in domestic law but the UK will have the independence to keep the framework under review. The 'UK GDPR' will sit alongside an amended version of the DPA 2018.
<https://ico.org.uk/for-organisations/data-protection-at-the-end-of-the-transition-period/>

3 Options/Alternatives

- 3.1 The options presented for consideration are:

Option 1 - The Committee considers and notes the contents of this report.

Option 2 - The Committee considers the report but requests further information

4 Preferred Option

-
- 4.1 The preferred option is Option 1 - The Committee considers and notes the contents of this report.
- Consultation**
- 5.1 Relevant officers of the Council have been consulted in the preparation of this report.
- 6 Financial Implications**
- 6.1 N/A
- 7 Legal Services Comments**
- 7.1 N/A
- 8 Co-operative Agenda**
- 8.1 Committed to the Borough - to visibly demonstrate that the Council is taking steps to ensure legal compliance.
- 9 Human Resources Comments**
- 9.1 N/A
- 10 Risk Assessments**
- 10.1 It is good practice for those charged with governance to consider matters relating to data protection (Mark Stenson)
- 11 IT Implications**
- 11.1 N/A
- 12 Property Implications**
- 12.1 N/A
- 13 Procurement Implications**
- 13.1 N/A
- 14 Environmental and Health & Safety Implications**
- 14.1 N/A
- 15 Equality, community cohesion and crime implications**
- 15.1 N/A
- 16 Equality Impact Assessment Completed?**
- 16.1 No, as a result of an EIA screening it was determined that a full EIA was not required.
- 17 Key Decision**

17.1 No

18 **Key Decision Reference**

18.1 N/A

19 **Background Papers**

19 The following is 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 in Appendix 1
Officer Name: Barbara Mulvihill
Contact No 1311

20 **Appendices**

20.1 Appendix 1 - Information Security Breaches by Directorate 2020/2021 as at end November 2020

Information Security Breaches by Directorate 2020/21 to the end of November 2020

Directorate	Quarter 1 Apr – Jun 2020	Quarter 2 Jul – Sep 2020	Quarter 3* (as at end November 20)	Total by Directorate
Chief Executive & Legal Services	1	2	1	4
Children's Services	3	6	5	14
Commissioning	0	2	0	2
Community Health Services & Adult Social Care	3	4	2	9
People and Place	2	1	3	6
Communities & Reform	1	1	0	2
Others	1	2	2	5
Total	11	18	13	42

Incidents can be categorised as follows

- 31 instances of information being disclosed in error
- 2 instances of stolen / lost / misplaced records or equipment
- 2 instances of technical failure
- 2 instances of unauthorised access/disclosure
- 0 instances of uploading to a website/system in error
- 5 other minor issues

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Report to Audit Committee

Treasury Management Strategy Statement 2021/22

**Including the Minimum Revenue Provision Policy Statement,
Annual Investment Strategy and Prudential Indicators**

Portfolio Holder: Cllr 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

18 January 2021

Reason for Decision

To present to Council, the strategy for 2021/22 Treasury Management activities including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

Executive Summary

The report outlines the Treasury Management Strategy for 2021/22 including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

The Council is required through regulations supporting the Local Government Act 2003 to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. It is also required to produce an annual Treasury Strategy for borrowing and to prepare an Annual Investment Strategy setting out the Council's policies for managing its investments and for giving priority to security and liquidity of those investments.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2017 (the Code) also requires the receipt by full Council of a Treasury Management Strategy Statement.

The Strategy for 2021/22 covers two main areas.

Capital Issues

- The Capital expenditure plans and the associated Prudential Indicators
- The Minimum Revenue Provision (MRP) Policy Statement

Treasury Management Issues:

- The Current Treasury Position
- Treasury Indicators which limit the treasury risk and activities of the Council
- Prospects for Interest Rates
- The Borrowing Strategy
- The Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Investment Strategy
- The Creditworthiness Policy
- The Policy regarding the use of external service providers.

The report therefore outlines the implications and key factors in relation to each of the above Capital and Treasury Management issues and makes recommendations with regard to the Treasury Management Strategy for 2021/22.

The report includes an economic background commentary which has been updated to reflect the latest position, especially in relation to the UK leaving the EU on 31 December 2020.

As the body charged with the detailed scrutiny of Treasury Management activities, the proposed Treasury Management Strategy report is presented to the Audit Committee to allow it the opportunity to scrutinise the Strategy before it's further consideration in the budget setting cycle. It will also be presented to the Overview and Scrutiny Performance and Value for Money Select Committee on 28 January 2021. Any comments from the Audit Committee and the Overview and Scrutiny Performance and Value for Money Select Committee will be incorporated into the report presented to Cabinet on 23 February 2021 and Council on 4 March 2021.

Recommendation

That the Audit Committee considers and comments on:

- 1 Capital Expenditure Estimates as per paragraph 2.1.2;
- 2 MRP policy and method of calculation as per Appendix 1;
- 3 Capital Financing Requirement (CFR) Projections as per paragraph 2.2.4;
- 4 Projected treasury position as at 31 March 2021 as per paragraph 2.3.3;
- 5 Treasury Limit's as per section 2.4;
- 6 Borrowing Strategy for 2021/22 as per section 2.6;

- 7 Annual Investment Strategy as per section 2.10 including risk management and the creditworthiness policy at section 2.11; and
- 8 Level of investment in specified and non-specified investments detailed at Appendix 5.

Treasury Management Strategy Statement 2021/22 Including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators**1 Background**

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low investment risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the Treasury Management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 1.5 Treasury management is defined as:

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

Source: The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Service's Code of Practice.

1.6 Reporting Requirements – Capital Strategy

- 1.6.1 The CIPFA Prudential and Treasury Management Codes (2017) require all Local Authorities to prepare a capital strategy report which will provide the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - an overview of how the associated risk is managed; and
 - the implications for future financial sustainability.
- 1.6.2 The Councils capital strategy (which will be presented to the Overview & Scrutiny Performance & Value for Money Select Committee) is therefore prepared following the

required Codes of Practice to ensure that all Council Members are presented with the overall long-term capital investment policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.6.3 The Council's capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security of capital, liquidity and yield principles, and the policy around commercial investments, usually driven by expenditure on an asset. Specifically, in relation to non-treasury investments, the capital strategy includes, where appropriate:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution to support the Councils budget;
- The debt related to the activity and the associated interest costs;
- The payback period (Minimum Revenue Provision (MRP) policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

1.6.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.6.5 The Council will also follow the most recent guidance by CIPFA entitled Prudential Property Investment which was issued in November 2019. Having regard to all relevant guidance, the Council's Capital Strategy has been revised to take into account the recent change to the Public Works Loan Board (PWLB) lending criteria. Alongside, the 2020 Spending Review in November 2020, the Government largely confirmed the proposals set out in its consultation document issued in March 2020 that there would be stricter conditions associated with the approval of PWLB loans to Local Authorities. The PWLB will now no longer provide loans to a Local Authority if their Capital Strategies include any plans to buy investment assets primarily for income generation. The Council's Capital Strategy has therefore been revised so that it does not include income generation/commercial yield as a core principle.

1.6.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy (to date there have been no such losses).

1.6.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.7 Treasury Management Reporting

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

a. Prudential and treasury indicators and treasury strategy (this report), the first and most important report which is a forward look to the year ahead and covers:

- The capital plans, (including prudential indicators);
- A minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);

The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

- An investment strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report

This is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report

This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

- 1.7.2 The above reports are required to be adequately scrutinised before being commended to Cabinet and Council. The scrutiny of this report by the Audit Committee is a key part of the Committee's role. The Overview and Scrutiny Performance and Value for Money (PVFM) Select Committee will also scrutinise the Treasury Management Strategy Statement for 2021/22 on 28 January 2021 alongside all the other reports which are presented to the annual Budget Council meeting. The Audit Committee also considers the mid-year and annual review reports prior to presentation to Cabinet and Council.

1.8 Treasury Management Strategy for 2021/22

- 1.8.1 The strategy for 2021/22 covers two main areas:

1.8.2 Capital issues:

- The capital expenditure plans and the associated prudential indicators;
- The minimum revenue provision (MRP) policy.

1.8.3 Treasury management issues:

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- The policy on use of external service providers.

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

1.9 Training

- 1.9.1 The CIPFA Code requires the responsible officer (in Oldham the Director of Finance) to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Due to the impact of the Covid-19 pandemic it has not been possible to deliver Treasury

Management training during the financial year 2020/21 as initially envisaged therefore the most recent training was provided to Audit Committee Members on 1 October 2019. However, it must be noted that Members of the Audit Committee receive regular updates regarding any all issues that affect Treasury Management. Training was also provided for Cabinet Members and Senior Officers in October 2018. The Council is planning external training session for Cabinet and Audit Committee Members during the financial year 2021/22.

- 1.9.2 The training needs of treasury management officers are periodically reviewed. The team is staffed by professionally qualified accountants with extensive Local Government finance experience. Team members attend all relevant training courses, workshops and events to ensure that their knowledge and skills are up to date and the Council is in a position to address all new technical developments. During 2020/21 these have all been held remotely via zoom or another online platform. All staff follow a Continuous Professional Development (CPD) Plan as part of their individual accountancy body accreditation. The overall responsibility for capital and treasury activities lies with the Council's Section 151 Officer (Director of Finance) who, in accordance with statute, is professionally qualified and is suitably experienced to hold the post.

1.10 Treasury Management Consultants

- 1.10.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.
- 1.10.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.
- 1.10.3 It is also recognised that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
- 1.10.4 When looking at a commercial element within a particular capital scheme that has a main focus on public services, housing, regeneration, preventative objectives or treasury management investments, the Council will require specialist advice that Link Asset Services may not provide. As part of the evaluation process and if required, appropriate external advice will be sought, and an extensive due diligence exercise will be undertaken.

2 Capital Plans & Prudential Indicators 2021/22 – 2023/24

2.1 Capital Plans

- 2.1.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in Prudential Indicators, which are designed to assist Members' overview and confirm capital expenditure plans. These indicators as per the Capital Programme include previous years' actual expenditure, forecast expenditure for this current year 2020/21 and estimates for the next three year period, the timeframe required by CIPFA's guidance.

Capital Expenditure Estimates

- 2.1.2 This first Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Audit Committee

is asked to consider the capital expenditure forecasts included the table below presented to reflect previous years and current Portfolio management arrangements. The capital spending plans included in the Capital Strategy and Programme translate the ambition and vision for Oldham that were set out in the Cabinet reports.

Table 1 - Capital Expenditure Estimates

Capital Expenditure / Portfolio	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Corporate Services *	913	13,195	5,320	69	69
Children's Services	17,548	10,457	6,110	13,200	13,742
Community Health & Adult Social Care	2,407	2,011	3,131	400	400
People & Place	27,317	46,190	64,046	68,770	46,093
Communities & Reform	107	125	637	0	0
Emerging Priorities	0	342	1,442	4,200	3,200
General Fund Services	48,292	72,320	80,687	86,639	63,504
Housing Revenue Account (HRA)	2,134	4,952	3,412	8,127	7,914
HRA	2,134	4,952	3,412	8,127	7,914
Commercial Activities / Non-Financial Investments **	3,957	3,741	0	0	0
Commercial Activities / Non-Financial Investments	3,957	3,741	0	0	0
Total	54,383	81,013	84,099	94,765	71,418

* Excludes any commercial activities which were included in the Corporate Services capital programme.

** Relates to areas such as capital expenditure on investment properties, loans to third parties, purchase of equity shares etc.

- 2.1.3 The capital expenditure shown above excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments. It should be noted that any new expenditure commitments are likely to increase the borrowing requirement.
- 2.1.4 Table 2 below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).
- 2.1.5 The borrowing need for capital expenditure in 2021/22 is currently expected to be £42.871m. This will however change if there is a revision to the spending profile of the capital programme.
- 2.1.6 During 2020/21, the Council purchased the Spindles & Town Square Shopping Centres in borough. The purchase of the Shopping Centres was a key strand in the plan to regenerate the town centre of Oldham, as the shopping centres are a major strategic asset in the heart of the town. The purchase was made following a substantial due diligence process. Since the purchase, the Centres continue to be operated in their present format in the short term while regeneration plans are prepared to remodel the asset, so it becomes a multi-functional town centre hub combining shopping, entertainment and office accommodation in one development.

Table 2 - Funding of the Capital Programme

Capital Expenditure	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund Services	52,249	76,061	80,687	86,638	63,504
HRA	2,134	4,952	3,412	8,127	7,914
Commercial Activities	0	0	0	0	0
Total	54,383	81,013	84,099	94,765	71,418
Financed by:					
Capital receipts	(9,914)	(2,335)	(3,999)	(7,178)	(2,502)
Capital grants - Ringfenced	(42,091)	(5,998)	(21,973)	0	0
Capital grants – Un-ringfenced		(13,829)	(11,793)	(4,605)	(8,971)
Revenue	(244)	(323)	(51)	0	0
HRA Resources	(2,134)	(4,974)	(3,412)	(8,127)	(7,914)
Net financing need for the year	0	53,553	42,871	74,856	52,031

2.1.7 All other prudential indicators included within this report are based on the above capital estimates.

2.2 The Council's Borrowing Need - the Capital Financing Requirement (CFR)

2.2.1 The second Prudential Indicator is the Council's CFR. The CFR represents total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been financed from cash backed resources, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the Council makes 'prudent' provision for debt repayment which broadly reduces indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used. The approach to making prudent provision is set out in the MRP Policy Statement at Appendix 1.

2.2.3 The MRP policy for 2021/22 has not been amended since the policy was approved at Council on 28 February 2020.

2.2.4 The CFR includes other long term liabilities (e.g. Private Finance Initiative (PFI) schemes, finance leases etc.). Whilst these arrangements increase the CFR, and therefore the Council's borrowing requirement, such schemes also include a 'loan' facility meaning the Council is not required to make separate borrowing arrangements. The Council currently estimates a net figure of £213.357m of such schemes within the CFR for 2021/22, decreasing to £193.773m by 2023/24. From 2021/22 and future years an estimated of £0.644m has been included in the CFR to reflect anticipated costs associated with the implementation of IFRS 16 (see paragraph 2.15.3).

Table 3 Capital Financing Requirement (CFR)

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Financing Requirement (CFR)					
CFR - Services	472,377	504,935	525,647	579,968	608,139
CFR - Commercial Activities	0				
Total CFR	472,377	504,935	525,647	579,968	608,139
Movement in CFR	(21,503)	32,558	20,712	54,321	28,171
Movement in CFR represented by					
Net financing need for the year	0	53,553	42,871	74,856	52,031
PFI Repayments	(9,688)	(9,496)	(10,868)	(8,908)	(10,666)
Less MRP/VRP and other financing movements	(11,815)	(11,499)	(11,291)	(11,627)	(13,194)
Movement in CFR	(21,503)	32,558	20,712	54,321	28,171

- 2.2.5 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Authority's overall financial position. The capital expenditure figures shown in Table 1 at paragraph 2.1.2 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

2.3 Borrowing

- 2.3.1 The capital expenditure plans set out in section 2.1 to a large extent drive the borrowing estimates included in this report. The Treasury Management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant Treasury and Prudential Indicators, the current and projected debt positions and the Annual Investment Strategy.

Current Borrowing Portfolio Position

- 2.3.2 The overall treasury management portfolio as at 31 March 2020 and for the position as at December 2020 are shown below for both borrowing and investments.

Table 4 Current Treasury Position

Treasury Investments	Actual 31/03/2020 £'000	Actual 31/03/2020 %	Current December 2020 £'000	Current December 2020 %
Banks	37,500	31.75%	20,000	24.43%
Local Authorities	28,500	24.13%	10,000	12.22%
Money Market Funds	37,120	31.43%	36,850	45.02%
Total Managed in House	103,120	87.30%	66,850	81.67%
Property Funds	15,000	12.70%	15,000	18.33%
Total Managed Externally	15,000	12.70%	15,000	18.33%
Total Treasury Investments	118,120	100.00%	81,850	100.00%
Treasury External Borrowing				
PWLB	35,482	21.14%	35,482	20.53%
LOBO'S	85,500	50.94%	85,500	49.47%
Market	46,600	27.76%	46,600	26.96%
Temporary other	261	0.16%	5,261	3.04%
Total Treasury External Borrowing	167,843	100.00%	172,843	100.00%
Net Treasury Investments / (Borrowing)	(49,723)		(90,993)	

2.3.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, the Treasury Management operations, against the underlying capital borrowing need, the CFR, highlighting any over or under borrowing. Table 5 shows the forecast position of gross borrowing as at 31 March 2021 at £402.195m (debt at 31 March 2021 at £177.598m plus Closing OLTL at 31 March 2021 of £224.597m) and an under borrowed position of £102.740m.

Table 5 Current and Forecast Treasury Portfolio

	2019/20 Actual £'000	Forecast position as at 31/3/21 £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
External Debt					
Debt at 1 April	147,846	167,843	177,598	197,593	250,988
Actual/Expected change in debt	19,997	9,755	19,995	53,395	24,995
Debt at 31 March	167,843	177,598	197,593	250,988	275,983
Opening OLTL* at 1 April	246,610	235,867	224,597	213,729	204,816
Expected change in OLTL	(10,743)	(11,270)	(10,868)	(8,912)	(10,672)
Closing OLTL at 31 March	235,867	224,597	213,729	204,816	194,145
Actual/ Forecast gross debt (borrowing requirement) at 31 March	403,710	402,195	411,322	455,804	470,128
The Capital Financing Requirement	472,377	504,935	525,647	579,968	608,139
Under / (over) borrowing	68,667	102,740	114,325	124,164	138,011

* Other Long-Term Liabilities

2.3.4 Table 5 above shows the Council will need to undertake significant additional borrowing in

future years if capital programme expenditure matches the anticipated spending profile. The borrowing requirement is a key driver of the borrowing strategy as set out in section 2.6 below. The timing of any additional borrowing given the amounts indicated in the table above will be closely monitored. Members will recall that capital spending plans have been reprofiled year on year and it is possible that the trend could be repeated in 2021/22 and future years.

- 2.3.5 There are a number of key Prudential Indicators to ensure that the Council operates its activities within well-defined limits. The Council must ensure that gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes. It is clear from the table above that the Council's gross borrowing position remains within these limits.
- 2.3.6 The Council has complied with this Prudential Indicator in the current year and does not envisage any difficulties with compliance in the future. This view takes into account current commitments, existing plans, and the proposals set out in this report.
- 2.3.7 The Council should include within the forecast gross borrowing figures in Table 5, any debt that relates to commercial activities / non-financial investment. The Council has no external debt for commercial activities/non-financial investment that is included in the gross borrowing figures in Table 5. Under the Prudential Code, there is a requirement to provide the information in the Treasury Management Strategy which shows that to date there has been a minimal impact on debt from potential investments in commercial activities compared to the Council's overall borrowing (excluding long-term liabilities).

2.4 Treasury Limits for 2021/22 to 2022/23

- 2.4.1 The Council is required to determine its Operational Boundary and Authorised Limit for external debt for the next three financial years.

Operational Boundary

- 2.4.2 The forecast Operational Boundary for 2020/21 together with the proposed operational boundaries for 2021/22 to 2023/24 are set out in Table 7 below. The boundary reflects the maximum anticipated level of external debt which is not expected to be exceeded. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on levels of actual debt and the ability to fund under-borrowing by other cash resources. This boundary will be used as a management tool for ongoing monitoring of external debt and may be breached temporarily due to unusual cash flow movements. However, a sustained or regular trend above the Operational Boundary should trigger a review of both the operational boundary and the authorised limit.

Table 6 Operational Boundary

Operational boundary	2020/21 Forecast £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	285,000	301,500	378,500	417,500
Other long term liabilities	227,500	215,000	207,500	196,500
Commercial activities / non-financial investments	0	0	0	0
Total	512,500	516,500	586,000	614,000

Authorised Limit

- 2.4.3 A further key Prudential Indicator, the Authorised Limit controls the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit may only be determined by full Council. It reflects the level of external debt which, while not desirable, is affordable in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.
- 2.4.4 The Audit Committee is asked to consider the proposed Operational Boundary for each financial year from 2020/21 to 2023/24 as set out in Table 6 above and Authorised Limit as set out in Table 7 below:

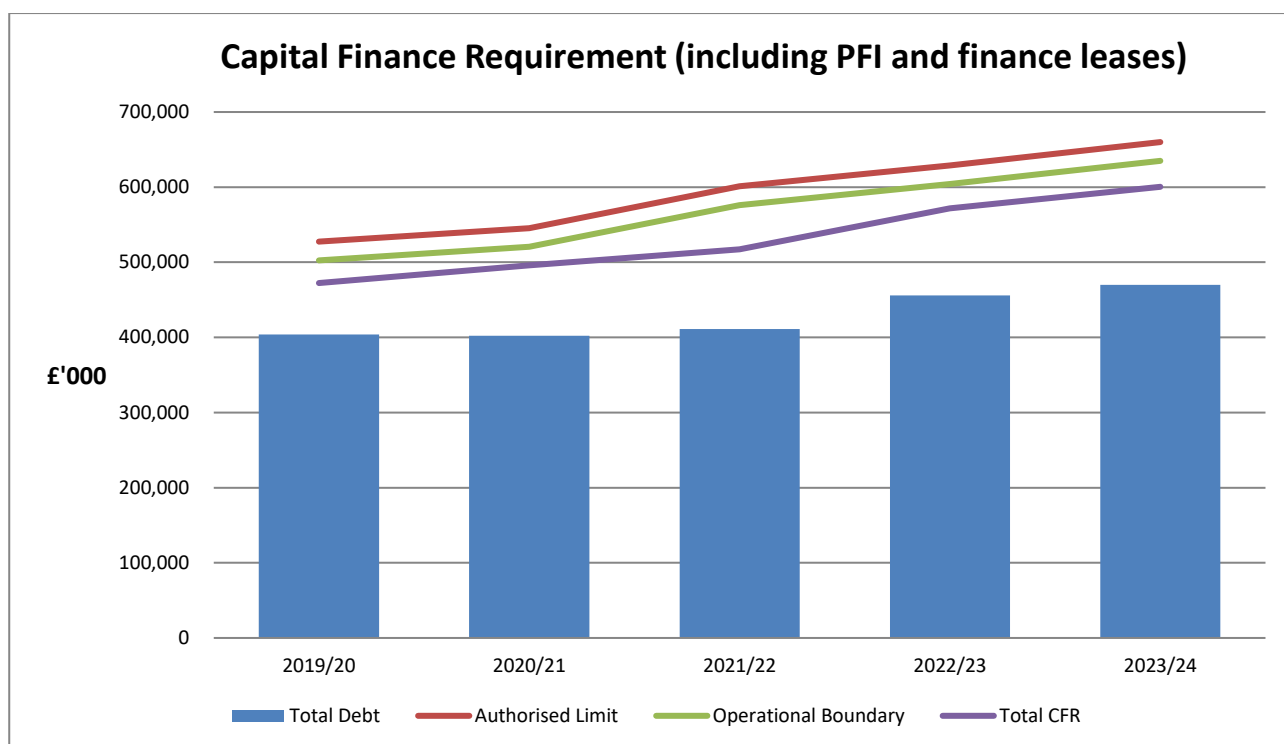
Table 7 Authorised Limit

Authorised Limit	2020/21 Forecast £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	305,000	321,500	398,500	437,500
Other long term liabilities	232,500	220,000	212,500	201,500
Commercial activities / non-financial investments	0	0	0	0
Total	537,500	541,500	611,000	639,000

- 2.4.5 Table 8 and the graph below show how the two indicators above, the Operational Boundary and the Authorised Limit compare to actual external debt and the CFR.

Table 8 Estimated Capital Financing Requirement, Debt and Treasury Indicators

Capital Financing Requirement (CFR) including PFI and finance leases	Actual 2019/20 £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund CFR	472,377	504,935	525,647	579,968	608,139
Commercial activity / non-financial investments	0	0	0	0	0
Total CFR	472,377	504,935	525,647	579,968	608,139
External Borrowing	167,843	177,598	197,593	250,988	275,983
Other long term liabilities	235,867	224,597	213,729	204,816	194,145
Total Debt	403,710	402,195	411,322	455,804	470,128
Operational Boundary	495,000	512,500	516,500	586,000	614,000
Authorised Limit	512,000	537,500	541,500	611,000	639,000



2.5 Prospects for Interest Rate

2.5.1 The Council has appointed Link Asset Services as its Treasury Adviser and part of its service is to assist the Council to formulate a view on interest rates. The table below gives Link Asset Services central view of interest rates from December 2020 to March 2024. The rates are based on the PWLB Certainty Rate. The Certainty Rate is 80 basis points over gilt yields, and is a reduced rate offered to Local Authorities who qualify providing their plans for long-term borrowing and associated capital spending meet the criteria. The Council has applied for and been approved for the Certainty Rate which covers the period November 2020 to October 2021. The rates included in Table 9 are based on the Certainty Rate and include the 1% reduction announced as part of the change to the PWLB lending criteria.

Table 9 Interest Rate Forecast

Period Ending	Bank Rate	PWLB Borrowing Rates %			
	%	5 year	10 year	25 year	50 year
December 2020	0.10	0.80	1.10	1.50	1.30
March 2021	0.10	0.80	1.10	1.50	1.30
June 2021	0.10	0.80	1.10	1.60	1.40
September 2021	0.10	0.80	1.10	1.60	1.40
December 2021	0.10	0.80	1.10	1.60	1.40
March 2022	0.10	0.90	1.20	1.60	1.40
June 2022	0.10	0.90	1.20	1.70	1.50
September 2022	0.10	0.90	1.20	1.70	1.50
December 2022	0.10	0.90	1.20	1.70	1.50
March 2023	0.10	0.90	1.20	1.70	1.50
June 2023	0.10	1.00	1.30	1.80	1.60
September 2023	0.10	1.00	1.30	1.80	1.60
December 2023	0.10	1.00	1.30	1.80	1.60
March 2024	0.10	1.00	1.30	1.80	1.60

- 2.5.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5 November 2020, although some forecasters had suggested that a cut into negative territory could happen.
- 2.5.3 However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.
- 2.5.4 As shown in the forecast table above, no increase in Bank Rate is expected as economic recovery is expected to be only gradual and, therefore, prolonged.

Gilt Yields / PWLB Rates.

- 2.5.5 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 a heightened expectation that the US could have been heading for a recession in 2020.
- 2.5.6 In addition, there were growing expectations 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. Combined, these conditions were conducive to very low bond yields.
- 2.5.7 While inflation targeting by the major central banks has been successful over the last thirty 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years.
- 2.5.8 Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.
- 2.5.9 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 had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, these yields have fallen sharply to unprecedented lows as investors panicked during March 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 However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of Government bonds: this also acted to put downward pressure on Government bond yields at a time when there has been a huge and quick expansion of Government expenditure financed by issuing Government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

- 2.5.12 As the interest forecast table for PWLB Certainty Rate above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment (as shown on 9 November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- 2.5.13 Investment returns are likely to remain low during 2021/22 with little increase in the following two years.
- 2.5.14 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21.
- 2.5.15 The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 basis points (bps) in October 2019, required an initial major rethink of Local Authority treasury management strategy and risk management.
- 2.5.16 However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of Local Authority capital expenditure. (It must be noted that the Council and other Local Authorities had concerns over this approach, as the fundamental principle of Local Authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects). It also introduced the following rates for borrowing for different types of capital expenditure:
- PWLB Standard Rate – gilt plus 200 basis points (G+200bps)
 - PWLB Certainty Rate - gilt plus 180 basis points (G+180bps)
 - PWLB HRA Standard Rate - gilt plus 100 basis points (G+100bps)
 - PWLB HRA Certainty Rate - gilt plus 80bps (G+80bps)
 - Local Infrastructure Rate - gilt plus 60bps (G+60bps)
- 2.5.17 As a consequence of these increases in margins, many Local Authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.
- 2.5.18 On 25 November 2020, alongside the Spending Review, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any Local Authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows:
- PWLB Standard Rate - gilt plus 100 basis points (G+100bps)
 - PWLB Certainty Rate - gilt plus 80 basis points (G+80bps)
 - PWLB HRA Standard Rate - gilt plus 100 basis points (G+100bps)
 - PWLB HRA Certainty Rate - gilt plus 80bps (G+80bps)
 - Local Infrastructure Rate - gilt plus 60bps (G+60bps)

Borrowing for capital expenditure

- 2.5.19 As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows.
- 2.5.20 However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.
- 2.5.21 The Council will not be able to avoid borrowing to finance new capital expenditure with the rundown of reserves. However, due to timing of the borrowing there may be a cost of carry (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

2.6 Borrowing strategy

2.6.1 The factors that influence the 2021/22 strategy are:

- The movement in CFR as set out in Table 3 above;
- Forthcoming 'Option' dates on £54m of Lender Option Borrower Option loans (LOBO's) in 2021/22;
- The interest rate forecasts (set out in Table 10 above);
- Aiming to minimise revenue costs to reduce the impact on the Council Tax Requirement; and
- The impact of the Council's Capital and Property Investment Programmes.

2.6.2 The Council is currently maintaining an under-borrowed position. This means that the CFR has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

2.6.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Treasury Management team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances so that:

- if it was considered 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 borrowing will be postponed.
- if it was considered that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, 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 will be re-appraised. The likely action would be that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

- 2.6.4 The forecast gross borrowing requirement in Table 5 at 2.3.3 above shows, based on current estimates, that the Council will need to drawdown a significant amount of new borrowing, to support the capital programme. Any additional borrowing will be completed with regard to the limits, indicators and interest rate forecasts set out above. As noted earlier, initial estimates of borrowing have changed in previous years due to the reprofiling of the capital programme once the financial year has begun.
- 2.6.5 During 2021/22, £54m of LOBO (Lender Option Borrower Option) debt will reach the option renewal date. Table 10 below, sets out the maturity structure of fixed rate debt. At the renewal date the loans will either:
- Move to the option rate of interest, which in all cases will be the same as the current rate; or
 - Be offered at a rate above the option rate, in which case the Council has the option to repay. This would then require refinancing at the prevailing market rates.

Table 10 Maturity Structure of Fixed Rate Debt

Maturity Structure of fixed interest rate debt	2021/22 Actual
under 12 months	32.47%
12 months and within 24 months	9.89%
24 months and within 5 years	12.81%
5 years and within 10 years	4.47%
10 years to 20 years	7.59%
20 years to 30 years	2.98%
30 years to 40 years	2.98%
40 years to 50 years	14.89%
50 years to 60 years	11.92%
60 years and above	0.00%

- 2.6.6 Due to the current interest rate forecast it is not anticipated that any of these LOBO loans will be called.
- 2.6.7 The 2021/22 Capital Programme now shows anticipated prudential borrowing of £42.871m with £74.856 in 2022/23, £52.031m in 2023/24. These figures have been reflected in this report and factored into the borrowing strategy for 2021/22 and future years.
- 2.6.8 Members are advised that indicators for interest rate exposure are no longer a requirement under the Treasury Management Code. However, as interest rate exposure risk is an important issue, officers will continue to monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.
- 2.6.9 This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.
- 2.6.10 The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

2.7 Policy on Borrowing in Advance of Need

- 2.7.1 The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Any borrowing will follow the most recent guidance issued by CIPFA.
- 2.7.2 Borrowing in advance will be made within the constraint that the Council would not look to borrow more than 24 months in advance of need.
- 2.7.3 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting arrangements.

2.8 Debt Rescheduling

- 2.8.1 In preparing the Treasury Management Strategy for 2021/22, it was important to consider publication by HM Treasury in March 2020 of a consultation document seeking views on proposed changes to the lending terms of the PWLB. The Government launched the consultation as it was concerned that PWLB resources were being used to fund commercial investments solely for income generation purposes and carried a significant degree of risk. To address this issue, the consultation proposed revising the terms of PWLB lending to ensure that Local Authorities continue to invest in housing, infrastructure, and public services whilst discouraging investment solely for income generation purposes. The Council provided its response to the consultation in July 2020.
- 2.8.2 Alongside the 2020 Spending Review in November 2020, the Government largely confirmed the proposals set out in the original consultation meaning there would be stricter conditions associated with the approval of PWLB loans to Local Authorities. The PWLB will now no longer provide loans to a Local Authority if their Capital Strategies include any plans to buy investment assets primarily for income generation.
- 2.8.3 These new terms apply to all loans arranged on or after 26 November 2020. Further guidance has been provided to help Local Authorities determine whether a proposed project meets the new lending criteria. The key features of the new lending terms are:
- As a condition of accessing the PWLB, Local Authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. This will clearly align to the approved capital strategy;
 - As part of this process, the PWLB will ask the Director of Finance (Section 151 Officer) to confirm that there is no intention to buy investment assets primarily for yield at any point during the next three years. This assessment must be based on the Director of Finance's professional interpretation of guidance issued alongside these lending terms.
 - As it is impossible to reliably link individual loans to specific capital spending, this restriction of purchasing investment assets primarily for yield applies on a 'whole plan' basis. This means that the PWLB will not lend to any Local Authority which plans to buy investment assets primarily for yield anywhere in their Capital Strategy, regardless of whether the transaction would notionally be financed from a source other than the PWLB.
 - When applying for a new loan, the Local Authority will be required to confirm that the plans they have submitted remain current and provide assurance that they still do not intend to buy investment assets primarily for yield.
 - If HM Treasury has concerns that a loan may be used in a way that is incompatible with HM Treasury's duties to ensure that public spending represents good value for money

to the taxpayer, it will contact the Local Authority to gain a better understanding of the situation. Should it transpire that a Local Authority has deliberately misused the PWLB, HM Treasury has the option to suspend access to the PWLB, and in the most extreme cases, to require that loans be repaid.

- 2.8.4 The Government will monitor the implementation of these reforms to make sure that the new lending arrangements are operating as intended. The Ministry of Housing, Communities and Local Government (MHCLG) is reviewing the effectiveness of the Local Government borrowing and investment framework and is developing options to intervene directly where there are concerns that Authorities are not complying with the intent of the Prudential regime. Any future amendments that effect the Council's Treasury Management Strategy will be reported to Members at the appropriate time.
- 2.8.5 The Councils Capital Strategy has been prepared to ensure it complies with requirements so that it has access to PWLB resources.
- 2.8.6 Rescheduling of current borrowing in the debt portfolio will be considered where appropriate given the changes to the PWLB borrowing criteria, however it must be stated that the 100 basis points reduction in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.
- 2.8.7 The reasons for any rescheduling to take place will include:
- the generation of cash savings and/ or discounted cash flow savings;
 - helping to fulfil the treasury strategy;
 - enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).
- 2.8.8 All re-scheduling will be reported to the Audit Committee, Cabinet and Council at the earliest meeting following its action.
- 2.9 New Financial Institutions as a Source of Borrowing
- 2.9.1 Following the reduction in PWLB rates announced in November 2020, alternative sources of funding are under review whilst Councils look at the impact of the PWLB rate reduction. It will make it more challenging for these alternative sources of funding to be a more competitive option than PWLB on the financing costs associated with new loans. However, consideration will still be given to sourcing funding from the following:
- Local Authorities (primarily shorter dated maturities);
 - Financial institutions (primarily insurance companies and pension funds but also some banks. These deals may include borrowing based on forward dates and an agreed future market rate);
 - UK Municipal Bonds Agency (which has recently negotiated its first bond issue). Members will recall that the Council has invested £0.100m in the UKMBA and would seek to make use of this new source of borrowing as and when appropriate.
- 2.9.2 The degree which any of these options proves cheaper than the PWLB Certainty Rate is still evolving, however, all funding options will be fully evaluated, and the most appropriate option will be taken. Link Asset Services the Council's treasury advisors will keep the Council informed regarding different options available when borrowing is undertaken.

2.10 Annual Investment Strategy

Investment Policy – Management of Risk

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

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

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

- 2.10.2 The Council's investment priorities will be:

- firstly, the security of capital;
- secondly, the liquidity of its investments;
- thirdly, the optimum return on its investments commensurate with proper levels of security and liquidity; and
- finally, ethical investments.

- 2.10.3 In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

- 2.10.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- 2.10.4 This report defines the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 5 under the categories of 'specified' and 'non-specified' investments.

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
 - Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
- 2.10.5 For non-specified investments, the Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.
- 2.10.6 Lending limits, (amounts and maturity), for each counterparty, will be set through applying the matrix table in paragraph 2.11.3.
- 2.10.7 Transaction limits are set for each type of investment in 2.11.3.
- 2.10.8 The Council has set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 2.13.12).
- 2.10.9 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 2.12.3) and Appendix 6.
- 2.10.10 The Council has engaged external consultants, (see paragraph 1.10), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- 2.10.11 All investments will be denominated in sterling.
- 2.10.12 As a result of the change in accounting standards for 2020/21 under IFRS 9, consideration will be given to the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, MHCLG concluded a consultation for a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018, ending March 2023).
- 2.10.13 However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 2.14). Regular monitoring of investment performance will be carried out during the year.
- 2.10.14 The risk management criteria are unchanged from last year.
- 2.11 Creditworthiness policy
- 2.11.1 Oldham Council utilises the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach, utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.11.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration and maximum investment value for each counterparty.

2.11.3 Institutions are split into colour bandings and the Council will therefore use counterparties within these colours, durational bands and investment limits. Table 12 below shows these limits.

Table 12 Investment Criteria

Counter Party	Link Colour Band and Long Term Rating where applicable	Maximum Duration	Maximum Principal Invested per Counterparty
Banks	Yellow (Note 1)	5 Years	£10m
Banks	Dark Pink (Note 2)	5 Years	£10m
Banks	Light Pink (Note 3)	5 Years	£10m
Banks	Purple	2 Years	£20m
Banks	Blue (Note 4)	1 Year	£20m
Banks	Orange (Note 5)	1 Year	£15m
Banks	Red	6 months	£10m
Banks	Green	100 days	£10m
Banks	No Colour	Not to be used	Not to be used
Local Authorities/ Public Bodies	Internal Due Diligence	5 Years	£10m
GMCA	Internal Due Diligence (Note 6)	5 Years	£30m
Debt Management Account Deposit Facility (DMADF)	UK Sovereign rating	6 months	£40m
	Fund Rating	Maximum Duration	Maximum Principal Invested per Counterparty
Money Market Fund			
Constant	AAA	Liquid	£20m
Low Volatile	AAA	Liquid	£20m
Variable	AAA	Liquid	£20m

Note 1 – UK Government debt or equivalent

Note 2 – Enhanced money market funds (EMMF) with a credit score of 1.25

Note 3 – Enhanced money market funds (EMMF) with a credit score of 1.5

Note 4 – Blue Institutions only applies to nationalised or semi nationalised UK Banks, which currently include the RBS Group (Royal Bank of Scotland, NatWest Bank and Ulster Bank).

Note 5 - Includes the Council's banking provider (currently Barclays), if it currently falls into category below this colour band.

Note 6 – The higher maximum principal is to facilitate joint initiatives and activities related to the devolution agenda.

2.11.4 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

2.11.5 Typically the minimum credit ratings criteria the Council uses will be a Short-Term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In this instance consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

2.11.6 All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn or notice given to withdraw immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap Index against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in the downgrading of an institution or its removal from the Council's lending list.

2.11.7 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on any external support banks to help support the decision making process.

Creditworthiness

2.11.8 Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks.

2.11.9 However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.)

2.11.10 This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is

predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the UK banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

- 2.11.11 All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS Price

- 2.11.12 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to the end of February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to Local Authorities and the Council has access to this information via its Link-provided Passport portal.

2.12 Country and Sector Limits

- 2.12.1 It is not proposed to restrict the Council’s investment policy to only UK banks and building societies. In addition to the credit rating criteria set out above consideration will be given to the sovereign rating of the country before any investment is made.
- 2.12.2 In February 2013 the UK lost its AAA rating and moved to an AA rating. The sovereign rating of the UK may come under more pressure due to COVID-19. The Council will however continue to invest with UK Banks, providing the individual institutions still meet the relevant criteria.
- 2.12.3 The Council has determined that it will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy, therefore for illustrative purposes the appended list is extended to also show AA- i.e. the countries currently assessed to be in the rating below those that currently qualify. It is important to note that although able to, the Council has chosen not to invest overseas in recent years.

2.13 Investment Strategy

- 2.13.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, any cash identified that could be invested for longer periods will be carefully assessed.
- If it is thought that bank rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that bank rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

2.13.2 The Council currently has one investment totalling £5m which spans the financial year as shown in Table 13.

Table 13 The Investment maturing in 2021/22

Counterparty	Amount	Maturity Date	Rate
Santander UK Plc 180 Notice Account	£5,000,000	28/05/2021	0.58%
Total	£5,000,000		

2.13.3 Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

2.13.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%
- Longer term later years 2.00%

2.13.5 The overall balance of risks to economic growth in the UK is probably now tilted to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by the trade deal recently negotiated as part of Brexit.

2.13.6 There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative Interest Rates

2.13.7 While the Bank of England reported in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November the Bank of England omitted any mention of negative rates in the minutes of the meeting of the MPC, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdowns, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks.

- 2.13.8 In addition, the Government has provided large sums of grants to Local Authorities to help deal with the Covid-19 pandemic. This has caused some Local Authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those grants were paid out.
- 2.13.9 As for money market funds (MMFs), yields have continued to drift lower. Some fund managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is an excess of money in the market at the very short end of the market. This has seen a number of market operators, now including the Debt Management Accounting Deposit Facility (DMADF), offer nil or negative rates for very short-term maturities.
- 2.13.10 This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.
- 2.13.11 Inter-Local Authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many Local Authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Investment Treasury Indicator and Limit

- 2.13.12 This indicator considers total principal funds invested for greater than 365 days. These limits have regard to the Council's liquidity requirements and reduce the need for the early redemption of investments and are based on the availability of funds after each year end.

Table 14 – Maximum principal sum invested greater than 365 days

Upper Limit for principal sums invested for longer than 365 days	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Principal sums invested for longer than 365 days	£50m	£50m	£50m	£50m
Current investments as at December 2020 in excess of 1 year	£15m	£15m	£15m	£15m

- 2.13.13 For cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short dated deposits (overnight to 100 days), in order to benefit from the compounding of interest.

2.14 Investment Risk Benchmarking

- 2.14.1 These benchmarks provide simple guides to maximum risk, and may be breached from time to time, depending on movements in interest rates and counterparty criteria. These benchmarks provide officers with a baseline against which current and trend positions can be monitored. It may be necessary to amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report to Members.

Liquidity – in respect of this area the Council seeks to maintain:

- A Bank overdraft facility of £0.100m;
- Liquid short term deposits of at least £10m available with a week's notice.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID (London Interbank Bid Rate) rate multiplied by 5%
- Investments – internal returns above the 1 month LIBID rate multiplied by 5%
- Investments – internal returns above the 3 month LIBID rate multiplied by 5%
- Investments – internal returns above the 6 month LIBID rate multiplied by 5%
- Investments – internal returns above the 12 month LIBID rate multiplied by 5%

2.14.2 The Council is aware that the provision of London Inter-Bank Offered Rate (LIBOR) and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to Members accordingly.

2.14.3 At the end of the financial year, the Council will report on its investment activity as part of the Annual Treasury Report, which is in accordance with required practice and is presented the Audit Committee for scrutiny and then to Cabinet and Council for approval.

2.15 Other Treasury Management Issues

Legal Action being taken by the Council

2.15.1 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.

Brexit

2.15.2 The Council is mindful of the UK's exit from the EU and will continue to ensure that treasury activity is managed to minimise any risk to the Council.

International Financial Reporting Standard (IFRS) 16 – Leases

2.15.3 IFRS 16 is a new standard for lease accounting which came into force in January 2019. The changes apply to the accounting arrangements for lease agreements that organisations take out property, plant and equipment (PPE). It had previously been reported that the standard for the public sector would commence from 1 April 2020, however this date has been put back a further year and will be implemented in 2022/23, this will require implementation from 1 April 2021 to allow prior year comparison. Previously, leases were split into finance leases and operating leases however, from 1 April 2021 they will now be accounted for as finance leases. Under the current regime, operating leases were not included in Balance Sheets as assets and expenditure were charged to Comprehensive Income and Expenditure Statement in the Council's accounts. Under IFRS 16 all leases must now be accounted for on the Balance Sheet. Work is currently ongoing to assess the full impact, but an estimate has been included in the Council's CFR so that the Council's prudential indicators are not adversely affect by the implementation of IFRS 16.

3 Options/Alternatives

- 3.1 In order to comply with the CIPFA Code of Practice on Treasury Management, the Audit Committee is requested to scrutinise and comment upon the content of this report. Therefore, no other options/alternative have been presented.

4 Preferred Option

- 4.1 The preferred option is that the Audit Committee considers the report and advises of any comments.

5 Consultation

- 5.1 There has been consultation with Link Asset Services, the Council's Treasury Management Advisors. The consideration of the Treasury Management Strategy for 2021/22 by the Audit Committee on 18 January 2020 and the Overview and Scrutiny Performance and Value for Money Select Committee on 28 January 2020 are key strands in the consultation process. The Cabinet and Council will also consider the report.

6 Financial Implications

- 6.1 Financial Implications are detailed within the report.

7 Legal Services Comments

- 7.1 There are no legal implications.

8 Co-operative 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 co-operative ethos of the Council.

9 Human Resources Comments

- 9.1 There are no Human Resource Implications.

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 the Internal and External Auditors' reports presented to the Audit Committee. An issue dependent upon market developments which may need to be considered in the future is refinancing some of the long-term loans. This can be mitigated by effective monitoring of the market.

11 IT Implications

- 11.1 There are no IT Implications.

12 Property Implications

- 12.1 There are no Property Implications.

13 Procurement Implications

13.1 There are no Procurement Implications.

14 Environmental and Health & Safety Implications

14.1 There are no Environmental and Health & Safety Implications.

15 Equality, community cohesion and crime implications

15.1 There are no Equality, community cohesion and crime implications.

16 Equality Impact Assessment Completed?

16.1 No

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FG-10-20

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 - 8
Officer Name: Lee Walsh / Talei Whitmore
Contact No: 0161 770 6608/ 4924

20 Appendices

Appendix 1	Minimum Revenue Provision (MRP) Policy Statement
Appendix 2	Prudential and Treasury Indicators 2021/22 – 2023/24
Appendix 3	Link Asset Services - Treasury Advisor's Interest Rate Forecast 2019-20221
Appendix 4	Economic Background
Appendix 5	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Appendix 6	Approved Countries for Investments
Appendix 7	Treasury Management Scheme of Delegation
Appendix 8	Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

Appendix 1 – Minimum Revenue Provision (MRP) Policy Statement

1.1 General Principles and Practices

- 1.1.1 Local Authorities are required to set aside ‘prudent’ provision for debt repayment where they have used borrowing or credit arrangements to finance capital expenditure. Ministry for Housing, Communities and Local Government (MHCLG) regulations require the full MRP Statement to be decided upon at least annually and reported to the Council Meeting. The Council has to ensure that the chosen options are prudent.

1.2 Link to Asset Life/Economic Benefit

- 1.2.1 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or MHCLG Guidance.
- 1.2.2 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the MHCLG guidance (paragraph 24), these periods will generally be adopted by the Council.
- 1.2.3 Where certain types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.
- 1.2.4 Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

1.3 Methods for Calculating MRP

- 1.3.1 Any of the methods for calculating MRP that are set out below may be used. MRP will commence in the financial year after the completion of assets rather than when expenditure is incurred. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. These methods include but are not limited to:

The Annuity Method

- 1.3.2 This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to ‘principal’, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to either prevailing or average PWLB rates.

Equal Instalments of Principal

- 1.3.3 MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

Previously Supported General Fund Borrowing

- 1.3.4 General Fund Borrowing that was previously supported through the Revenue Support Grant (RSG) system will be provided for in equal annual instalments over a 50 year period commencing 1 April 2016. As at 1 April 2016, the value of this borrowing equalled

£134,376,866 and results in an equal annual minimum revenue provision of £2,742,385; the final instalment of which will be provided for by no later than 31 March 2066. In the event of:

- transfers of Capital Financing Requirement between the General Fund element and Housing element;
- additional voluntary revenue provision being made

the annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2066.

Bespoke Repayment Profiles:

- 1.3.5 With regard to credit arrangements that are implicit in Finance Lease or PFI arrangements, any 'debt' repayment element (notional or otherwise) included in charges associated with these arrangements will be classified as MRP.

1.4 Voluntary Revenue Provision

- 1.4.1 The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. Where the Council has made additional VRP's for debt repayment in previous years, in year MRP charges may be adjusted to reflect this provided it does not result in a negative MRP charge. To the extent charges are adjusted, current and future year's charges will be recalculated to ensure the Council continues to make prudent provision for debt repayment in relation to historic capital expenditure. The Council may in some circumstances apply VRP to relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

1.5 Local Exceptions to the Guidance

- 1.5.1 The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the MHCLG guidance are not appropriate to local circumstances. Examples include:

Assets Under Construction

- 1.5.2 No MRP charge will be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

Local Authority Mortgage Scheme (LAMS)

- 1.5.3 The Council operated a Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five-year deposit from the Local Authority to match the five-year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending and is treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the Local Authority, the returned funds are classed as a capital receipt, which will be applied to reduce the CFR. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside MRP to repay the debt liability in the interim period. All previous LAMS schemes are now completed, with the deposits repaid in full. However, the option is still available should the Council see it as a corporate priority.

Loans to Third Parties

- 1.5.4 The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties, and concluded that provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor and the associated obligation to make repayments. Any loans given are subject to substantial due diligence process by both internal officers and were appropriate external advisors.

1.6 Borrowing in Lieu of Capital Receipts

- 1.6.1 The Council has concluded that MRP provision is not necessary for capital expenditure incurred in lieu of capital receipts. Any such schemes will be classified by the Capital Investment Programme Board (CIPB) as 'Borrowing in Lieu of Capital Receipts'. CIPB will also determine which capital receipts will be allocated to the scheme and as the receipts are achieved, they will be applied to repay the debt.

The Application of Capital Receipts in Lieu of MRP

- 1.6.2 Where the Council has received uncommitted and unapplied Capital Receipts, it retains the option to set aside those Capital Receipts as part of its arrangements for making 'prudent' provision for debt repayment rather than using them for capital financing purposes.
- 1.6.3 As Capital Receipts may form part of the Councils arrangements for making 'prudent' provision, setting aside Capital Receipts in this manner can be carried out in lieu of MRP whereby the MRP charge will be reduced by an amount equal to that set aside from Capital Receipts.

1.7 HRA Capital Financing Requirement (CFR)

- 1.7.1 MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146) as if they had not been revoked. This approach is consistent with paragraph 7 of the MHCLG Guidance on MRP.
- 1.7.2 The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make 'Voluntary Revenue Provision' provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

Appendix 2 Prudential and Treasury Indicators 2021/22 – 2023/24

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

Capital Expenditure / Portfolio	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Corporate Services *	913	13,195	5,320	69	69
Children's Services	17,548	10,457	6,110	13,200	13,742
Community Health & Adult Social Care	2,407	2,011	3,131	400	400
People & Place	27,317	46,190	64,046	68,770	46,093
Communities & Reform	107	125	637	0	0
Emerging Priorities	0	342	1,442	4,200	3,200
General Fund Services	48,292	72,320	80,686	86,639	63,504
Housing Revenue Account (HRA)	2,134	4,951	3,412	8,127	7,914
HRA	2,134	4,952	3,412	8,127	7,914
Commercial Activities / Non-Financial Investments **	3,957	3,741	0	0	0
Commercial Activities / Non-Financial Investments	3,957	3,741	0	0	0
Total	54,383	81,012	84,098	94,766	71,418

* Excludes any commercial activities which were included in the Corporate Services capital programme.

** Relate to areas such as capital expenditure on investment properties, loans to third parties, purchase of equity shares etc.

The Audit Committee is asked to consider the following indicators:

Affordability prudential indicators

The table above presents the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

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.

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund excluding DSG*	13.41%	14.67%	14.34%	13.38%	13.82%

*Dedicated Schools Grant

The estimates of financing costs include current commitments and the proposals in the budget report.

Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Audit Committee is asked to consider the following treasury indicators and limits:

Maturity Structure of fixed interest rate debt 2021/22	Lower Limit	Upper Limit
Under 12 months	0.00%	40.00%
12 months and within 24 months	0.00%	40.00%
24 months and within 5 years	0.00%	40.00%
5 years and within 10 years	0.00%	40.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years to 60 years	0.00%	50.00%

Control of interest rate exposure

Members are advised that indicators for interest rate exposure are no longer a requirement under the new Treasury Management Code. However, as interest rate exposure risk is an important issue, officers will continue to monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

Appendix 3 – Link Asset Services Interest rate forecast 2020 – 2024

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View		9.11.20 (The Capital Economics forecasts were done 11.11.20)													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20															
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Bank Rate															
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate															
Link	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-	
10yr PWLB Rate															
Link	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate															
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate															
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

Appendix 4: Economic Background

Set out below is a more detailed analysis of the Economic Background used to support the preparation of the 2021/22 Treasury Management Strategy Statement.

UK.

The key quarterly meeting of the Bank of England Monetary Policy Committee kept Bank Rate unchanged on 5 November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5 November to 2 December which would obviously put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE announced in March to June, runs out. The aim is that announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target.

Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expected there to be excess demand in the economy by Q4 2022.
- CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the inflation risks were judged to be balanced.

Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it stands ready to adjust monetary policy, the MPC this time said that it will take whatever additional action was necessary to achieve its remit. The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

One key addition to the Bank's forward guidance in August was a new phrase in the policy statement, that it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably. What this indicates is that even if inflation rises to 2% in a couple of years' time, there should be no expectation of any action from the MPC to raise Bank Rate, until they can clearly see that level of inflation is going to be persistently above target should it takes no action to raise Bank Rate. Link's Bank Rate forecast currently shows no increase or decrease through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. Inflation is expected to briefly peak at 2% towards the end of 2021, but this is a temporary short-lived factor and therefore not a concern.

However, the MPC minutes did contain several references to downside risks. The MPC reiterated that the recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside. The minutes also mentioned, the risk of a more persistent period of elevated unemployment remained material. Downside risks could well include severe restrictions remaining in place in some form during for most of January and February – the new lockdown period has been announced from 5 January for an initial 6 week period. Upside risks included the early roll out of vaccines.

It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown or third lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of April 2021 will limit the degree of damage done.

Covid-19 vaccines we had been waiting expectantly for news that various COVID19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on

9 November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, vaccine has demanding cold storage requirements of minus 70C that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60 million doses on order and is aiming to vaccinate at a rate of 2 million people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production. A new UK production facility is due to be completed in June.

These announcements plus expected further announcements that other vaccines will be approved soon have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, this will help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, beginning possibly in Q2 2021, once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed. Effective vaccines would radically improve the economic outlook once they have been widely administered and it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and therefore PwLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

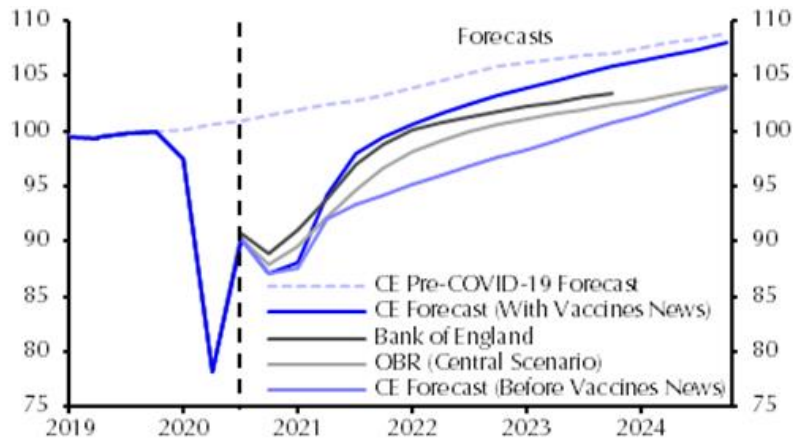
Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by 18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5 November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

December 2020 / January 2021

Since end of the 2nd national lockdown there has been a rapid back tracking on easing restrictions due to the spread of a new mutation of the virus by the imposition of severe restrictions across all four nations. These restrictions were changed on 5 January 5 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide areas of the UK will remain under severe restrictions for some months. This means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant

caveat is that another mutation of COVID-19 does not appear that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

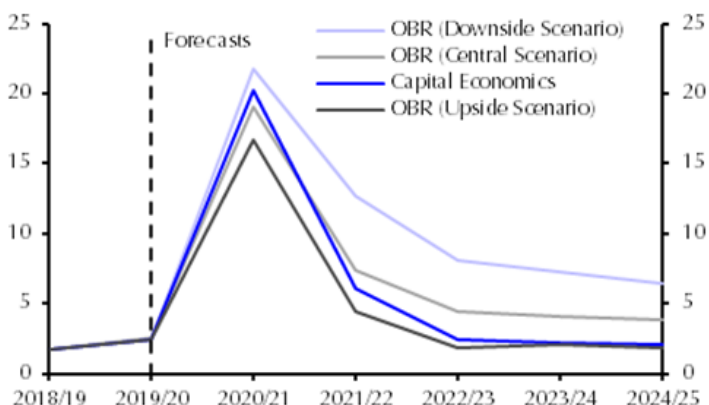
Chart: Level of real GDP (Q4 2019 = 100)



(if unable to print in colour..... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.)

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



(if unable to print in colour..... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.)

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

Brexit

While the UK has been gripped by the long running saga of whether or not a deal would be made by 31st December, the final agreement on 24 December, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU. That now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

Monetary Policy Committee meeting of 17 December

All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy it had highlighted in November. But this was caveated by stating that, although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case. Therefore, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme with additional incentives for small and medium size enterprises for six months from 30 April until 31 October 2021. The MPC had assumed that a Brexit deal would be agreed.

Fiscal Policy

In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy:

- An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March 2021.
- The furlough scheme was lengthened from the end of March 2021 to the end of April 2021.
- The Budget on 3 March 2021 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, which could hold back the speed of economic recovery.

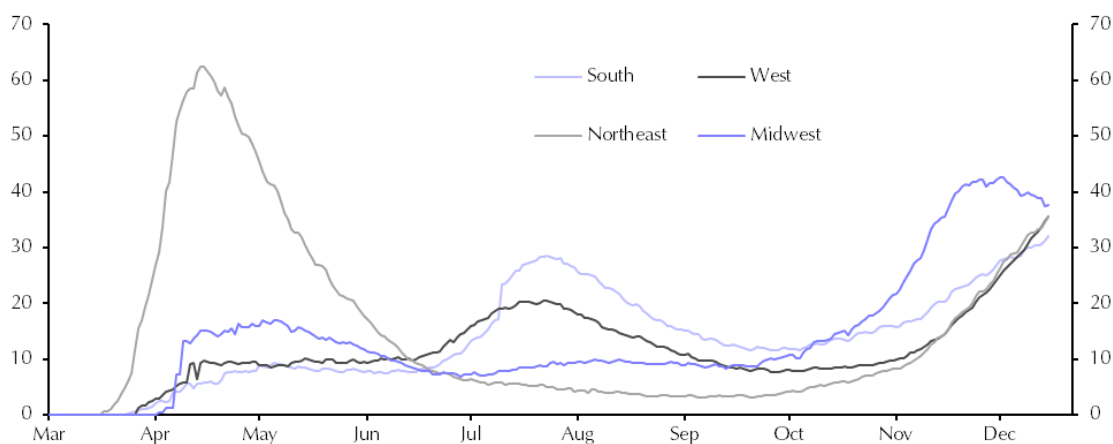
The Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the banking sector to somewhat less than £80bn. It stated that in its assessment, banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

US

The result of the November elections means that the Democrats gained the presidency and a majority in the House of Representatives and are on the verge of taking a majority of seats in the Senate. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4 2020, to the highest level since mid-August 2020, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook, a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



The restrictions imposed to control its spread are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a \$900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth \$600 per person and a three-month extension of enhanced unemployment insurance (including a \$300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards, as vaccines are rolled out on a widespread basis and restrictions are loosened.

After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, at the mid-September 2020 meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech, that it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time. This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary trap like Japan. It is to be noted that inflation has actually been under the 2% target significantly for most of the last decade, so financial markets took note that higher levels of inflation are likely to be in the pipeline. As a result, long-term bond yields duly rose after the meeting. The Federal Open Market Committee's (FOMC) updated economic and rate projections in mid-September 2020 showed that officials expect to leave the Fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is

likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

The Fed's meeting on 5 November was unremarkable but at a politically sensitive time around the elections. At its 16 December meeting the Fed tweaked the guidance for its asset purchases in the statement issued after the conclusion of today's FOMC meeting, with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the Fed funds rate to be still at near-zero until 2024 or later. Furthermore, the new rate forecast tables reveal that officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country

EU

In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% Quarter on Quarter (q/q) leaving GDP down by “only” 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate Q1 of 2021, as a second wave of the virus has affected many countries it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and will make a difference in the worst affected countries.

With inflation expected to be unlikely to get much above 1% over the next two years, the European Central Bank (ECB) has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme (purchase of government and other bonds) and extended the duration of the programme to March 2022 and re-investing maturities until December 2023. Three additional tranches of TLTRO (cheap loans to banks) were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The current Pandemic Emergency Purchase Programme (PEPP) scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support.

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before Q2 of 2021.

China

After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4. This has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan

A third round of stimulus in early December took total fresh fiscal spending in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal arrow should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

World Growth

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

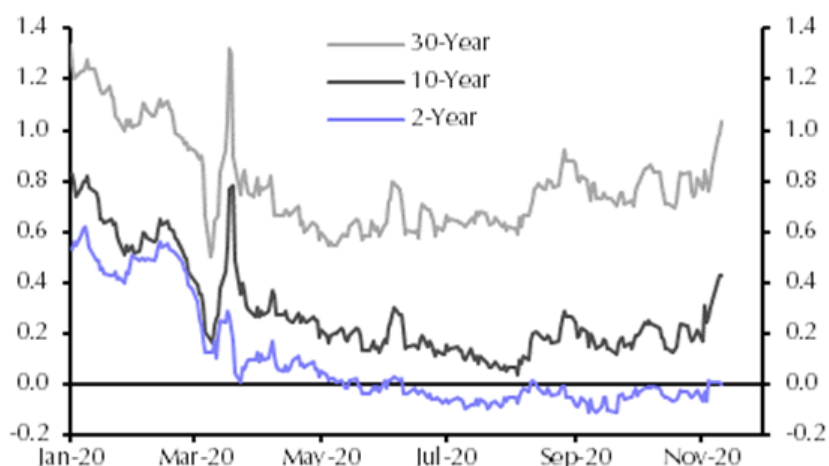
Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering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

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt. This would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

The graph below as at 10 November 2020, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -



Interest Rate Forecasts

Brexit

The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31 December 2020. There is therefore no need to revise these forecasts now that a trade deal has been agreed.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK:

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quickly vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for weaker countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual

balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the support of the SPD party, as a result of the rise in popularity of the AfD party. The CDU has done badly in subsequent state elections, but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader, but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly bloc within the EU which had threatened to derail the 7-year EU budget until a compromise was agreed in late 2020.
- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- UK - a significant rise in inflationary pressures, for example caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population leading to a rapid resumption of normal life and a return to full economic activity across all sectors of the economy.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

Appendix 5: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

Non-specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments

	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
DMADF – UK Government Debt Management Account Deposit Facility	N/A	£40m	6 months
UK Government gilts	UK sovereign rating	£20m	12 months
UK Government Treasury bills	UK sovereign rating	£20m	12 months
Bonds issued by multilateral development banks	AAA	£10m	6 months
Money Market Funds Constant Net Asset Value (CNAV)	AAA	£20m	Liquid
Money Market Funds Low Volatility Net Asset Value (LVNAV)	AAA	£20m	Liquid
Money Market Funds Variable Net Asset Value (VNAV)	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.25	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.5	AAA	£20m	Liquid
Local Authorities	Yellow	£10m	12 months
Public Bodies	N/A	£10m	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£10m	12 months

REPO's (Collateralised deposit)	100% Collateral	£5m	12 months
GMCA	Internal Due Diligence	£30m	12 months
GM Public Bodies	Internal Due Diligence	£30m	12 months

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

Non-specified Investments: A maximum of 50% will be held in aggregate in non-specified investments

Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	£ limit per institution	Max. maturity period
Term deposits – local authorities and other public institutions	Yellow	In-house	£10m	5 years
Term deposits – banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Short-term F1 Long-term AA	Fund Managers	£5m	2 years
Collateralised deposit	UK sovereign rating	In-house and Fund Managers	£5m	2 years
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	£10m	5 years
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	£10m	3 years
Sovereign bond issues (other than the UK Government)	AAA	In-house and Fund Managers	£5m	2 years
Corporate bonds	Short-term F1 Long-term AA	In-house and Fund Managers	£5m	5 years
Green Energy Bonds	Internal Due Diligence	In-house and Fund Managers	£10m	10 years
Property Funds	Internal Due Diligence	In-house	£30m	10 years
Floating Rate Notes	Long Term A	In-house	£5m	5 years
REPO's (Collateralised deposit)	100% Collateral	In-house	£5m	5 years
GMCA	Internal Due Diligence	In-house	£30m	5 years
Covered Bonds	Long term A	In-house	£5m	5 years
UK Municipal Bonds Agency	Internal Due Diligence	In-house	£1m	10 years
Local Authority Fixed Income Fund	Internal Due Diligence	In-house	£5m	10 years
Unrated Bonds, backed by securitised Assets	Internal Due Diligence	In-house and fund managers	£5m	5 years
Asset Backed Pooled Investment Funds	Internal Due Diligence	In-house and fund managers	£5m	5 years
Fixed term deposits with variable rate and variable maturities	Internal Due Diligence	In-house and External Advice	£20m	50 years
Debt Financing	Internal Due Diligence & External Advice	In-house and External Advice	£30m	10 years

Appendix 6: Approved Countries for Investments (as at January 2021)

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- France
- U.K.

AA-

- Belgium

Appendix 7: Treasury Management Scheme of Delegation

The scheme of delegation is as follows:

Full Council is the responsible body for:

- receiving and reviewing reports on Treasury Management policies, practices and activities;
- the approval of the annual strategy, mid-year review and outturn report.
- approval of/amendments to the organisation's Treasury Management Policy Statement;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

Cabinet is the responsible body for:

- considering the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- considering Treasury Management reports and commending to Council.

Audit Committee is responsible for scrutiny:

- reviewing the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- Reviewing Treasury Management reports and making recommendations to the responsible body.

Cabinet Member for Finance and and Green is responsible for:

- approving the selection of external service providers and agreeing terms of appointment

Note : The Overview and Scrutiny Performance and Value for Money Select Committee reviews and scrutinises the Annual Treasury Management Strategy report along with the suite of other budget reports (including the Capital Strategy).

Appendix 8: The Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

The Statutory Chief Financial Officer will discharge the Treasury Management role by:

- recommending Treasury Management Policy/Practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing Treasury Management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- ensuring the adequacy of internal audit processes, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- the provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that Members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- the creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following -
 - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
 - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
 - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Ensuring appropriate training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.



Report to Audit Committee

Audit and Counter Fraud Progress Report

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

Officer Contact: Mark Stenson – Head of Corporate Governance

Report Author: Mark Stenson – Head of Corporate Governance

Ext. 4783

18 January 2021

Reason for Decision

To provide Members with a high-level progress report on the work of the Audit and Counter Fraud team up to 31 December 2020.

Executive Summary

The report summarises the work carried out by the Audit and Counter Fraud Team to 31 December 2020.

The team have continued to prioritise work on the Fundamental Financial Systems (FFS) reviews related to 2020/21 transactions and work to support the 2020/21 audit of the financial accounts. The FFS audits are well underway, and the initial stage is near completion in reviewing total of 14 systems with throughput value of over £10m.

Due to the ongoing pandemic, Internal Audit continue to provide non-audit related administration support to Revenues and Benefits services in the processing Business Grants; and continued advice to support the Council in considering its response to managing Supplier Relief.

In addition, other Audit and Counter Fraud Team highlights include:

- Contribution to reviewing and controls around processing Winter Grants, and continued support around Business Grants and discretionary Business Grants.
- Carrying out investigations around potential fraud and error on Business Grants.

- Advisory work has been delivered by the Internal Audit Team to colleagues, including those managing the People Programme and the implementation of the ICT solution to reflect the potential issues with the system.
- Business Grant Assurance review around the Small Business Grant Fund (SBGF), the Retail, Hospitality and Leisure Grant Fund (RHLGF) and Discretionary Grant Fund (DFG) administered by the Council.
- The Counter Fraud and Direct Payments Audit Teams (Adults and Children) have continued to deliver outcomes which have generated £198,645 and £1,421,626 (respectively) during the first 9 months of the year to 31 December 2020.
- The Team continues to collaborate with colleagues to procure and implement a cost-effective solution to the Audit Management System, to ensure an appropriate mix of external and internal resources to achieve value for money.

Recommendations

Members are requested to note the 2020/21 High Level Audit and Counter Fraud Progress Report up to 31 December 2020.

Audit and Counter Fraud Progress Report**1. Background**

- 1.1 This report summarises the work carried out for the period 1 April to 31 December 2020 by the Audit and Counter Fraud Team and the team's key performance against agreed performance indicators.
- 1.2 The main content of the report is structured as follows:
- Section 2: 2020/21 Audit and Counter Fraud Plan: Progress Update.
 - Section 3: Corporate Counter Fraud.
 - Section 4: Audit of Direct Payments.

2 2020/21 Audit and Counter Fraud Plan: Progress Update

- 2.1 The priorities for the 2020/21 Audit and Counter Fraud Plan are to:
- Complete the Fundamental Financial Systems (FFS) work on 2020/21 transactions and work to support the 2020/21 audit of the financial accounts.
 - The team continues to work on the Fundamental Financial Systems (FFS) reviews related to 2020/21 transactions and work to support the 2020/21 audit of the financial accounts. A different approach has been applied as all audits have been completed remotely. This in the main has worked well given the challenges faced around working in a different way. The Stage 1 FFS audits are well underway, and is near completion, in reviewing total of 14 systems with throughput value of over £10m
 - The FFS audits are being undertaken in two stages to provide earlier assurance:
 - Interim (Stage 1) Audits which commenced in October 2020; and
 - Final (Stage 2) Audits to commence in February 2021 and to be completed by 31 March 2021.

Internal Audit and Counter fraud will continue work through the plan and carry out unplanned worked in order to:

- Provide assurance that the systems and procedures in place within Oldham Council are financially sound and in line with best practice.
 - A process of "Continuous Audit" for several key financial systems. This includes Payroll and Adults Financial Systems.
 - Complete audits which are classed as "high" in the Annual Audit Needs Assessment.
 - Undertake a programme of Counter Fraud work to identify fraud risks within the corporate systems.
 - Undertake specific fraud investigations on Council Tax Reduction and Corporate Fraud.
 - Deliver the financial audits of Direct Payments in line with service plans and targets.
- 2.2 The Audit team also carry work around EU funded grant scheme and this report includes work carried out on Innova Foster. The grant is related to local stakeholders' engagement and joint research into improvement of regional and local policies and programmes to support the growth of high-potential SMEs assist them in growth. All partners identify, analyse, exchange knowledge, good practices about regional situation of start-ups. For example, to strengthen the productivity of enterprises, boost research and innovation, enable the shift towards a more low-carbon and environmentally friendly economy.

- 2.3 The team has issued several draft reports and briefing papers since 1 April 2020, including those issued to the Council's Group Companies Reports are listed in **Appendix 1** together with the audit "opinion". At the time of drafting the report the Internal Audit Team continues to perform the Interim Stage 1 financial system reviews, with seven reports at its draft stage which are also included for completeness, with draft opinions subject to review by the Director of Finance and Head of Corporate Governance.
- 2.4 A new Audit Management System has been selected accordance with the Council's Contract Procedure Rules.
- 2.5 The software selected is called Pentana Audit System which is, a is a fully configurable Audit Management System that provides comprehensive functionality with a range of components such as Annual Planning including Risk Assessment, Audit Management and working paper platform. Further updates will be reported to the Audit Committee around the progress of implementation. In the meantime, the data to support this report has been prepared using manual spreadsheets, which have been subject to quality assurance and some performance indicators will be measured and fully reported as part of the 2020/21 Year End Report by the Head of Corporate Governance.
3. **Corporate Counter Fraud**
- 3.1 The Corporate Counter Fraud Team continues to perform well. In addition to carrying out investigations around potential fraud and error on Business Support Grants, **Appendix 2** sets out the key outcomes from other work conducted. The location by Ward of the results obtained can be made available.
- 3.2 The key highlights are set out in **Appendix 2** and include:
- 78 positive cases of Council Tax Reduction (CTR) Fraud and Error identified;
 - £83k of Council Tax Reduction (CTR) misuse and savings has been uncovered;
 - 77 Warning Letters and 1 Administration Penalty have been issued to Council Tax customers;
 - £61k of Housing Benefit Fraud and Error Overpayments identified as part of the CTR investigations;
 - 103 positive cases of non-CTR fraud/misuse including Direct Payment Misuse, Employee Abuse of Position, Council Tax Discount Fraud (SPD) and:
 - £52k of non-CTR/misuse and savings uncovered.
- 3.3 In line with the priorities agreed by the Audit Committee, the Counter Fraud Team will continue to:
- collaborate with the Internal Audit Team and;
 - ensure the delivery of the Internal Audit and Counter Fraud Plan 2020/21.
4. **Audit of Direct Payments**
- 4.1 The Direct Payments Audit team verifies that spending of the Direct Payment is in line with the agreed Support Plan and that client contributions to their care have been made. This team has a dual role as a compensating control, tasked with the responsibility to recover overpayments/unrecovered client contributions and also to ensure the client is spending the agreed funds in accordance with the agreed Support Plan.
- 4.2 **Appendix 3** sets the monthly Direct Payments Audit volumes and financial outcomes arising from Adults Services and Children's Services, which are £1,364,422 and £57,203 (respectively). Following the Direct Payment Audit, in approximately 66% of cases, an invoice

is raised to recover an under spend, expenditure not in line with the support plan, or misuse of the Direct Payments.

4.3 In summary, by 31 December 2020, the team had carried out 733 Adults and Children's Direct Payment Audits.

4.4 The Direct Payment Audit Team continue to conduct audits of Personal Health Budgets (24) with colleagues from the NHS England (Clinical Commissioning Groups (CCGs) and Oldham Cares.

5 Options/Alternatives

5.1 The Audit Committee can either:

- a) chose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team
- b) decline to accept and note the progress achieved and performance by the Audit and Counter Fraud Team and suggest an alternative approach

6 Preferred Option

6.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit and Counter Fraud Team.

7 Consultation

7.1 N/A.

8 Financial Implications

8.1 N/A.

9 Legal Services Comments

9.1 N/A.

10 Cooperative Agenda

10.1 N/A.

11 Human Resources Comments

11.1 N/A.

12 Risk Assessments

12.1 The 2020/21 Audit and Counter Fraud Plan is prepared, reviewed and updated using a risk-based approach. The Terms of Reference for each agreed project are also determined using a risk-based methodology. (Mark Stenson)

13 IT Implications

13.1 N/A.

14 Property Implications

14.1 N/A.

15 **Procurement Implications**

15.1 N/A.

16 **Environmental and Health & Safety Implications**

16.1 N/A.

17 **Equity, Community Cohesion and Crime Implication**

17.1 N/A.

18 **Equality Impact Assessment Completed**

18.1 No.

19 **Forward Plan Reference**

19.1 N/A.

20 **Key Decision**

20.1 No.

21 **Background Papers**

21.1 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 as Appendices 1 to 3
Officer Name:	Mark Stenson
Contact No:	4783

22 **Appendices**

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Summary of Reports – 1 April to 31 December 2020
- **Appendix 2:** Counter Fraud Results – 1 April to 31 December 2020
- **Appendix 3:** Direct Payments Results – 1 April to 31 December 2020

Audit and Counter Fraud 2020/21

Summary of Reports 1 April to 31 December 2020

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Quarter	Opinion
1	People and Places	Homelessness Review	Report	Q2	Inadequate
2	Commissioning Services	Supplier Review	Briefing Note	Q2	Advisory
3	Commissioning Services	Reconciliation - Cash Grants Duplications	Briefing Note	Q1	Advisory
4	Commissioning Services	Purchase Order Review Analysis	Briefing Note	Q2	Advisory
5	Commissioning Services	Accounts Payable – Covid 19 Assurance	Briefing Note	Q2	Advisory
6	Commissioning Services	Self-isolation payments control review	Briefing Note	Q2	Advisory
7	Commissioning Services	Interim Business Grant Assurance Review	Report	Q2	Adequate
8	Commissioning Services	REDWOLF Grant (1)	Grant Assurance	Q1	Assurance
9	Commissioning Services	Reduces Grant (EU Grant)	Grant Assurance	Q1	Assurance
10	Commissioning Services	Safer Roads Grant	Grant Assurance	Q2	Assurance
11	Commissioning Services	Local Growth Fund Grant	Grant Assurance	Q3	Assurance
12	Commissioning Services	REDWOLF Grant (2)	Report Submission	Q3	Assurance
13	Commissioning Services	Payroll Assurance Highlight Report	Report	Q1-2	Assurance
14	External MioCare	Follow up AW High Complex Case	Report	Q2	Adequate
15	Commissioning Services	Inova Foster Grant	Grant Assurance	Q3	Advisory
16	Commissioning Services	Payroll Assurance Highlight Report	Report	Q3	Assurance
17	Commissioning Services	Draft Accounts Payable	Report	Q3	Adequate
18	Commissioning Services	Draft Bank Reconciliations	Report	Q3	Good
19	Commissioning Services	Draft Council Tax	Report	Q3	Adequate
20	Commissioning Services	Draft NDR	Report	Q3	Adequate
21	Commissioning Services	Draft Fixed Asset	Report	Q3	Adequate

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Quarter	Opinion
22	Commissioning Services	Draft Treasury Management	Report	Q3	Good
23	Commissioning Services	Draft Business Grant	Report	Q3	Adequate

Audit and Counter Fraud 2020/21

Counter Fraud Results 1 April to 31 December 2020

Counter Fraud Team - Performance Monitoring 2020/21	Quarter 1	Quarter 2	Quarter 3	Total
Corporate Cases - Positive Results	25	53	25	103
Fraud and Error Overpayments identified as part of Corporate Cases (£)	£18,705.39	£18,672.15	£15,518.45	£52,895.99
CTR cases amended as a result of an investigation	26	32	20	78
HB Fraud and Error Overpayments identified as part of a CTR investigation (£)	£8,743.58	£17,495.99	£35,569.89	£61,809.46
CTR Fraud and Error Overpayments identified (£)	£34,551.00	£31,316.48	£18,072.27	£83,939.75
Financial Outcomes	£61,999.97	£67,484.62	£69,160.61	£198,645.20

Audit and Counter Fraud 2020/21

Direct Payments Results 1 April to 31 December 2020

Adults Social Care

Financial Year 2020/21	Number of Audits Reviewed	Amount of Underspend for Recovery (£)	Financial Contribution (FC) for Recovery (£)	Total Direct Payment and FC for Recovery (£)
April	77	£99,275.24	£10,521.53	£109,796.77
May	84	£125,105.89	£6,387.33	£131,493.22
June	44	£89,524.41	£7,628.96	£97,153.37
July	82	£68,008.95	£5,986.14	£73,995.09
August	60	£128,319.95	£4,712.36	£133,032.31
September	70	£155,437.33	£18,768.74	£174,206.07
October	104	£233,745.24	£35,462.65	£269,207.89
November	92	£277,742.37	£4,438.67	£282,181.04
December	48	£80,050.94	£13,305.67	£93,356.61
Total	661	£1,257,210.32	£107,212.05	£1,364,422.37

Audit and Counter Fraud 2020/21

Direct Payments Results 1 April to 31 December 2020

Children's and Young People

Financial Year 2020/21	Number of Audits Reviewed	Total Direct Payment for Recovery (£)
April	17	£11,528.04
May	14	£6,692.31
June	19	£19,809.68
July	6	£7,659.43
August	7	£6,325.47
September	1	£264.48
October	8	£4,924.46
November	0	£0.00
December	0	£0.00
Total	72	£57,203.87

NB: There are no financial contributions paid by the recipients of Children's Direct Payments.

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Report to Audit Committee

Cabinet Office National Fraud Initiative Arrangements for 2020/21 - Information for Elected Members

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

Officer Contact: Mark Stenson – Head of Corporate Governance

Report Author: Andrew Bloor – Assistant Manager Counter Fraud
Ext. 1205

18 January 2021

Reason for Decision

The aim of this report is for Members to note the Council's participation in the Cabinet Office National Fraud Initiative (NFI) 2020/21 exercise.

Executive Summary

The report summarises the proposed work to be carried out by the Audit and Counter Fraud Team in conjunction with the Cabinet Office National Fraud Initiative.

Recommendation

That Members of the Audit Committee note the Cabinet Office National Fraud Initiative Arrangements for 2020/21 - Information for Elected Members Report.

**Cabinet Office National Fraud Initiative Arrangements for 2020/21
Information for Elected Members****1 Background**

- 1.1 The National Fraud Initiative (NFI) is a long-standing data matching exercise run initially by the Audit Commission, and latterly, from April 2015, by the Cabinet Office. The purpose of the exercise is to match electronic data within, and between, participating bodies to prevent and detect fraud and error. This has been conducted primarily through matching sets of prescribed data that each local authority maintains, with similar data sets submitted by other local authorities, public bodies and a number of private sector bodies.

2 Arrangements for NFI Exercise 2020/21

- 2.1 The biennial matching for NFI will be undertaken in January 2021. The Audit and Counter Fraud Team is the central coordinator for the data matches received from the Cabinet Office and ensures matches are investigated, liaising as required with Departments within the Council, other Authorities and multi agencies. The Key Contact within Audit and Counter Fraud will also maintain the web-based application provided by the Cabinet Office which tracks progress on matches reported.
- 2.2 The value to the Council of the NFI, in addition to the identification and recovery of both fraud and error, is in its role as a deterrent for fraud and as a measure of assurance for the various systems to prevent and detect fraud or loss.
- 2.3 The legitimate use of personal data in this initiative is covered by the Data Protection Act and as such there are requirements to explain to individuals providing this information that their data will be used for the prevention and detection of fraud. To satisfy these requirements the Council has included 'fair processing notices' on all application forms, letters and bills. A privacy notice is also included on the Council's website.
- 2.4. It has been agreed that the existing mandatory data matches listed below would continue to be part of the NFI 2020/21. However, the Private Supported Care Homes and Personal Budgets Social Care data sets will be excluded from the main NFI 2020/21 exercise. The Cabinet Office has identified that this data matching has been blocked due to concerns about patient data but has indicated that the data sets will be collected and matched to a later timetable than that of the main exercise. The Cabinet Office has also identified a new data specification for Covid-19 grant recipients. This data will be collected on the 29 January 2021.
- 2.5 The Council is required to submit the following datasets to the Cabinet Office for the main NFI 2020/21 exercise.
- Payroll
 - Pensions
 - Trade Creditors History
 - Trade Creditors Standing
 - Council Tax Reduction Scheme
 - Council Tax (Single Person Discount)
 - Housing Benefit Claimants (externally provided)
 - Electoral Register
 - Student Loans (externally provided)

- Resident Parking Pass
 - Blue Badges Pass
 - Business Rates
 - Concessionary Travel Pass
 - Taxi Driver Licenses
 - Covid 19 Grant Recipients
- 2.6 A detailed data specification of the information required for each of the above datasets has been provided by the Cabinet Office. The data above has been obtained, reviewed and uploaded to the Cabinet Office web-based application by the key contact within the Audit and Counter Fraud Team.
- 2.7 The results of the matching exercise arising from the Council's data being submitted to the Cabinet Office in December 2020 will be made available for investigation from 28 January 2021 apart from the Covid 19 Grant Recipients data match which will be made available on 31 March 2021.
- 2.8 As in previous years, reports will be brought to future meetings of the Audit Committee to provide Members with updates on the outcomes from the investigations undertaken regarding NFI 2020/21 data matches.
- 3 Options/Alternatives**
- 3.1 N/A
- 4 Preferred Option**
- 4.1 N/A
- 5 Consultation**
- 5.1 N/A
- 6 Financial Implications**
- 6.1 The exercise is a significant contribution to the Council's responsibility for the prevention and detection of fraud. The cost to the Council of participation in NFI 2020/21 has increased marginally and the standard fee of £3,750 for NFI will rise to £3,800. It should also be noted that a penalty fee of 5% of the standard fee (£190) has been introduced and may be levied for late or inaccurate data submissions. The Council as required has submitted all its data within the specified timescale.
- 7 Legal Services Comments**
- 7.1 The Council is required to participate in the NFI under Part 6 of the Local Audit and Accountability Act (LAAA) 2014.
- 7.2 The legal basis for processing personal data is that processing is necessary for the performance of a task carried out in the public interest. Certain public sector bodies are required to provide data for the NFI on a mandatory basis. In addition, bodies can provide data for matching on a voluntary basis.

8	Cooperative Agenda
8.1	N/A
9	Human Resources Comments
9.1	N/A
10	Risk Assessments
10.1	Participation in this exercise remains a positive and integral part of the Council's commitment to the detection and prevention of fraud and error and successfully illustrates the benefit of collaboration between the organisations involved. (Mark Stenson)
11	IT Implications
11.1	N/A
12	Property Implications
12.1	N/A
13	Procurement Implications
13.1	N/A
14	Environmental and Health & Safety Implications
14.1	N/A
15	Equality, community cohesion and crime implications
15.1	N/A
16	Equality Impact Assessment Completed?
16.1	N/A
17	Key Decision
17.1	N/A
18	Forward Plan Reference
18.1	N/A
19	Background Papers
19.1	N/A
20	Appendices
20.1	None

Proposed Audit Committee Work Programme for 2020/21

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Thursday 10 September 2020, 6.00pm.	Audit Findings Report.	Updated report to support the external audit of the 2019/20 Statement of Final Accounts.
	2019/20 Statement of Final Accounts.	This is a progress report on the updated financial position as per the Statement of Final Accounts.
	External Audit Progress Report August 2020.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Update on Audit Matters.	An update on the proposed external tender process to appoint one external auditor and the proposal to defer the recruitment of an independent chair to the Audit Committee until the calendar year 2021.
	Proposed Audit Committee Work Programme for 2020/21.	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
	Private Report; Update on Annual Governance Statement for 2019/20 and New Issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Head of Corporate Governance highlights to the Audit Committee.
	Private Report; 2020/21 Internal Audit and Counter Fraud Plan.	This sets out for the Committee the planned programme of work from 1 August 2020 to 31 March 2021 following the pandemic.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
	Private Report; Update on General Matters in 2020/21.	This report details key governance issues highlighted to the Committee including a public interest report issued to another local authority.
Tuesday 3 November 2020, 6.00 pm	External Audit Progress Report November 2020.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Final Accounts Update Report	An update on the process to sign off the final accounts
	Treasury Management Mid-Year Review	The planned scrutiny of the Treasury Management processes before submission to Cabinet in November.

Proposed Audit Committee Work Programme for 2020/21

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Update on External Audit Matters	This report considers the Redmond Review has been produced with 23 recommendations currently under consideration impacting on the production of the accounts and external audit. This report sets out the Council view on these recommendations.
	Audit and Counter Fraud Progress Report.	This is the routine report on the progress made against the agreed plan.
	Proposed Audit Committee Work Programme for 2020/21.	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
	Private Report; Internal Control Matters for Payroll: Update.	This updates the Audit Committee on the key internal control matters supporting the administration of the payroll system identified as a key area for improvement.
Page 102	Private Report; Update on the Annual Governance Statement for 2019/20 and new issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Head of Corporate Governance highlights to the Audit Committee.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
	Private Report; Partnership Risk Dashboard.	This is the follow up work requested by the Committee on partnership governance considering potential issues identified on governance in a public interest report issued elsewhere.
Tuesday 18 January 2021, 6.00pm.	External Audit Progress Report January 2021.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Data Protection Update.	Routine GDPR report by the Data Protection Officer as required under GDPR Legislation.
	Treasury Management Strategy Statement 2021/22	This sets out the Proposed Strategy for 2021/22 to support the Corporate Objectives of the Council.
	Audit and Counter Fraud Progress Report	This is the routine report on the progress made against the agreed Internal Audit and Counter Fraud Plan.
	Cabinet Office National Fraud Initiative Arrangements for 2020/21 - Information for Elected Members	This is a report to brief members of the current initiative which is ongoing to detect potential fraud and loss in the Authority.

Proposed Audit Committee Work Programme for 2020/21

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Proposed Audit Committee Work Programme for 2020/21	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
	Private Report; Update on the Annual Governance Statement for 2019/20 and new issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Head of Corporate Governance highlights to the Audit Committee.
	Private Report; Update on General Matters in 2020/21	This report details key governance issues highlighted to the Committee including a public interest report issued to another local authority.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
Thursday 25 March 2021, 9.00 pm		
103	External Audit Progress Report March 2021.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Audit of Teachers' Pensions Agency Return 2019/20.	This report considers the feedback following the external Audit of the Teachers' Pension Agency.
	Audit of Housing Benefit Subsidy 2019/20	This report considers the feedback on the audit of the housing subsidy grant claim.
	Update of Local Code of Corporate Governance to June 2021	Update of the previously agreed Local Code of Corporate Governance.
	Update on Redmond Review and its implications.	A follow up review as the implications for the external audit process is clarified.
	Update on Local Authority Financial Resilience	The Chartered Institute of Public Finance and Accountancy produce an index of Local Authority Financial Resilience and this report will detail the findings for the Council.
	2020/21 Proposed Accounting Policies and Critical Judgements.	In advance of the approval of the accounts an opportunity for the Audit Committee to review the Proposed Policies and Judgements for 2020/21 Statement of Accounts.
	Audit and Counter Fraud Progress Report	This is the routine report on the progress made against the agreed Internal Audit and Counter Fraud Plan.

Proposed Audit Committee Work Programme for 2020/21

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Proposed Audit Committee Work Programme for 2020/21.	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
	Private Report; Update on the Annual Governance Statement for 2019/20 and new issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Head of Corporate Governance highlights to the Audit Committee.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
	Private Report; Feedback on Desktop Audit undertaken by the Surveillance Commissioner	This report sets out the feedback from the desktop audit undertaken during lockdown.
	Private Report; Update on the Corporate Risk Management Framework including the Corporate Risk Register.	This updates the Audit Committee on the implementation of the Framework previously agreed and the issues identified in the Corporate Risk Register.
Thursday early June 2021, 6.00pm	Data Protection Update	Routine six monthly report by the Data Protection Officer as required under GDPR.
	External Audit Progress Report May 2021.	An update produced by the external auditor of issues to be brought to the attention of the Committee.
	Informing the Risk Assessment 2020/21 (Director of Finance).	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Informing the Risk Assessment 2020/21 (Vice Chair of the Audit Committee).	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Review of System of Internal Audit by the Audit Committee	Annual Review of the system of internal audit using the balanced scorecard.
	2021/22 Internal Audit and Counter Fraud Plan.	The proposed plan of work for the financial year 2020/21 to enable review by the Committee.
	Internal Audit Charter 2020/21	Proposed update to the Audit Charter for 2020/21 to reflect any changes required
	Proposed Audit Committee Work Programme for 2020/21	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.

Proposed Audit Committee Work Programme for 2020/21

Meeting Date & Venue	Agenda Item	Summary of Report Issue
Late June 2021, 6.00pm	2020/21 Annual Report by the Head of Corporate Governance	Annual Report based on the work conducted by Audit and Counter Fraud Team, Insurance/ Risk and Information Governance to determine the overall control environment of the Council.
	Annual Governance Statement 2020/21	Draft Annual Governance Statement included within the Statement of Accounts for review and scrutiny.
	2020/21 Draft Annual Statement of Accounts	Draft Statement of Accounts subject to external audit for approval by the Committee.
	Review of Corporate Fraud Policies	An annual review of the Counter Fraud Suite of policies to reflect the recent legislation.
	Private Report; Senior Information Risk Officer (SIRO) Update	Annual report of the SIRO including an overview of reported data breaches.

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