Notice of Meeting

Governance & Audit Committee
Councillor Allen (Chairman),
Councillor Wade (Vice-Chairman),
Councillors Gbadebo, Mrs Hayes MBE, Heydon, Leake, Neil and Tullett
David St John Jones, Independent Member

Wednesday 27 January 2021, 7.30 - 9.30 pm
Online Only - Mircosoft Teams

Bracknell Forest Council

Agenda

Item	Description	Page
1.	**Apologies for Absence**	
	To receive apologies for absence and to note the attendance of any substitute members.	
2.	**Declarations of Interest**	
	Members are asked to declare any disclosable pecuniary or affected interests in respect of any matter to be considered at this meeting. Any Member with a Disclosable Pecuniary Interest in a matter should withdraw from the meeting when the matter is under consideration and should notify the Democratic Services Officer in attendance that they are withdrawing as they have such an interest. If the Disclosable Pecuniary Interest is not entered on the register of Members interests the Monitoring Officer must be notified of the interest within 28 days. Any Member with an affected Interest in a matter must disclose the interest to the meeting. There is no requirement to withdraw from the meeting when the interest is only an affected interest, but the Monitoring Officer should be notified of the interest, if not previously notified of it, within 28 days of the meeting.	
3.	**Minutes of previous meeting**	3 - 6
	To approve as a correct record the minutes of the meetings of the Committee held on 16 September 2020.	
4.	**Risk Management Strategy**	7 - 28
	To receive the Risk Management Strategy for approval. **Reporting:** Sally Hendrick	
5.	**Internal Audit Update**	29 - 50
	To note the update on progress on the Internal Audit Plan for 2020/21. **Reporting:** Sally Hendrick	

EMERGENCY EVACUATION INSTRUCTIONS
If you hear the alarm, leave the building immediately. Follow the green signs. Use the stairs not the lifts. Do not re-enter the building until told to do so.

6.	**Treasury Management Report 2021/22 and 2020/21 Mid Year Review**	51 - 78
	To consider and review the Mid-Year Review Report. **Reporting:** Calvin Orr	

Sound recording, photographing, filming and use of social media is permitted. Please contact Hannah Stevenson, 01344 352308, Hannah.stevenson@bracknell-forest.gov.uk, so that any special arrangements can be made.

Published: 19 January 2021

EMERGENCY EVACUATION INSTRUCTIONS
If you hear the alarm, leave the building immediately. Follow the green signs. Use the stairs not the lifts. Do not re-enter the building until told to do so.

GOVERNANCE & AUDIT COMMITTEE
16 SEPTEMBER 2020
7.30 - 8.28 PM

Bracknell Forest Council

Present:
Councillors Allen (Chairman), Wade (Vice-Chairman), Gbadebo, Mrs Hayes MBE, Heydon, Leake, Neil and Tullett

Non-Voting Co-optees Present:
David St John Jones

10. **Declarations of Interest**

Cllr Tullett declared an affected interest as he was the managing director of a company that had received a discretionary grant.

11. **Minutes of previous meeting**

RESOLVED that, subject to the amendments above, the minutes of the meeting of the committee held on the 24 June 2020 be approved as a correct record and signed by the Chairman.

The Director: Resources provided an update to the Committee on the Statements of Accounts, which had been expected to be brought to this meeting of the Committee for formal sign off. However, the Council's external auditors, Ernst & Young had not yet completed the audit of the accounts, and they were still waiting for Deloitte's to finish the audit of the pension funds.

It was hoped that this would be brought back to the Committee before the deadline of 30 November 2020, and a special meeting may be required around this date.

12. **Urgent Items of Business**

There were no urgent items of business.

13. **Internal Audit and Risk Management Update**

The Committee received a report, which presented an update on progress on the annual Internal Audit Plan and the latest version of the Strategic Risk Register.

Sally Hendricks, Head of Audit and Risk Management, reported that, progress against the 2020/21 Internal Audit Plan was set out in Appendix 1 and as expected was behind original schedule due to delays in starting audits with departments due to the Covid-19 pandemic which had created a backlog which was now being addressed.

Delivery of the Council's internal audit services have historically been outsourced and at a previous meeting it had been reported that there had been delivery issues with

the contractor, therefore the decision was made to increase in-house capacity and an experienced senior auditor had been assisting us since late July.

Although it was too early in the financial year to comment on progress in improving the control environment especially given the delay in progressing the Audit Plan due to COVID 19, the Head of Audit and Risk Management was able to report that the planned action to set up a working group to identify other approaches that could help address continuing weaknesses in the area of expenses and purchase cards had been implemented and arising from this a number of workshops had already been held providing training on use and controls of purchase cards.

Arising for the Committees comments and questions, the following points were made:

- The Head of Audit and Risk Management was hopeful that the team would be able to catch up with the audit plan as good progress was being made, however it would depend on the service areas being able to accommodate the audits, but Sally was keen for not too many audits to be deferred to quarter 4, as they had the previous year which had been delayed further due to Covid-19.
- The audit plan was being monitored at every DMT meeting.
- Since the Covid-19 pandemic, the government business rate grants had been audited, which was key. Audits on the first tranche of grants around small businesses had been completed, and the arrangements for the discretionary grants were being currently looked at.
- The cash management audit was currently being relooked at, as there were limited cash transactions happening due to the pandemic.
- Since the pandemic, the priorities of audits hadn't changed too much, but the grants being key thing too look at, however there hadn't been too much movement in the plan. It was being addressed at DMT whether there were now additional areas that needed to be included within the plan as a result of the pandemic.

Sally Hendricks, Head of Audit and Risk Management provided an update on the Council's risk register.

The Register had been reviewed by the Strategic Risk Management Group and the Corporate Management Team on 11 and 26 August 2020 and the changes made were detailed at 5.7 in the report.

The adult supply chain risk 6 had been increased for both unmitigated, current residual and target risk score reflecting the changing risk environment under COVID 19.

the Committee often requested for a deep dive into specific risks, and due to the changing environment due to Covid-19, Thom Wilson, Assistant Director: Commissioning was present at the meeting to go through the specific details of the adult supply chain risk.

The risk was currently tied into the Covid-19 pandemic, and the data showed that in quarter 2 the scores had been affected, this was due to a range of pandemic influence factors, mainly that the market of providers accessed were facing impacts, that self funders were avoiding using services, a number of social care uses, both self funders and council funded, were social distancing and self isolating and day centres that couldn't have the number in that they would have had previously. This was why there had been an increase in the lack of sustainability for provider. The target

number had also increased, which was unusual, but this was because at present there were so many factors outside of the Council's control.

Public Health guidance, surrounding Covid-19 outbreaks, was that new referrals couldn't be taken for 28 days. This had the impact that they could come unsustainable financially, but also that the Council were unable to find placements for people that required them. They key issue was that the council could not provide endless financial support for all the providers in the market.

It was thought that Bracknell Forest compared to other authorities was doing a lot to support the market and to mitigate the worst of the risks. A monthly care governance meeting was in place, which Thom chaired which was attended by practitioners from across adults and children services, commissioners, colleagues from the health service and officers from neighbouring authorities. Contract monitoring had been significantly strengthened in the past year, the strategic commissioning team had been rebuilt in the last year and had increased the ability to work with providers. Between March and July 2020, the team were able to provide financial support to those providers who requested it, since then individual discussions were being held with individual providers around their finances and support required. Partnership working throughout the Covid period had been very strong, and the team had worked closely and well with health colleagues and the neighbouring authorities in Slough and Windsor and Maidenhead.

Arising for the Committees comments and questions, the following points were made:

- The members praised the team on the work undertaken on operational process through a very difficult period.
- The basic methodology using for RAG statuses were focusing on the difference between the current residual score and the target risk score, rather than absolute figures. If the current and target score were the same, then the RAG would be green, the further apart the figures, the closer the RAG was to red.
- Concerns were raised that the risks were not being measured on a like o like bases using the risk scoring matrix and there needed to be a common methodology across the departments.
- The RAG statuses were relative, and there were no absolutes when scoring a human element.
- The overview of the Strategic Risk Management Group and the Corporate Management Team gave consistent approach to risk management.
- The unmitigated move in the adult supply chain risk increased because when Covid struck, if national and local government hadn't supported the sector there would have been chaotic failure in the Social Care sector, both through infections and financially.
- The reason that mitigated went up at the same time, was because of the challenges facing the department were so severe that even with the mitigations, the same level of previous risk couldn't be maintained.
- There was a whole series of ways that the team were learning for the future. There was a local resilience forum learning exercise going on which would be fed into. The East Berkshire commissioners were undertaking regular learning being undertaking, and across the leadership teams at all level. In any situation like this you are learning day by day, but the Adult Commissioning team would be undertaking a lesson's learnt exercise in due course.
- Across East Berkshire, a set of criteria were agreed for how to pass money to providers who were adversely affected by Covid. This was published on the Bracknell Forest website and were the same as Slough's and Windsor and

Maidenheads. This was communicated out to all providers and let hem know that the council were here to activity support them. Once a week, the head of commissioning, a finance officer and Thom would go through all the applications of support to approve those who met the criteria for financial support and payments were made as quickly as possible.

- In addition, in June, £600m was provided by the Government specifically for infection control measures. 75% of this was to be passported to local residential care homes, and 25% the team had local discretion. This was distributed to local domiciliary care providers and assisted living providers. This was a bidding process with a quick turnaround, which the providers were really grateful for.
- There wasn't a quantitative measure across all of the services on the toolkit, in order to benchmark against and drive improvement.
- An East Berkshire market position statement was being undertaken and would understand where the market was, understanding capacity and the changes over time. This was being led by Bf for East Berkshire and would help understand the impact of Covid-19.
- The issue was that risk number 1 wasn't fixed at any particular time and at this moment in time the Council didn't have balanced plans for the coming years, at CMT they had started looking at the medium term balanced plan so by December there would be balanced budget. It was becoming more difficult to deliver the savings at the same time as delivering high, quality services.
- Risk 1 was not about how close the Council was to a 114 notice and was not an assessment on this.
- The order of risks in the document was not the order of the risk's priority, it was important to focus on the risk RAG status.
- The IT risks were mitigated, and had supported a massive change over the past few months with a lot of mitigated actions behind the scenes. The risks that were red with unmitigated actions were the ones to focus on.
- The risk of a no deal Brexit was significantly increasing,

RESOLVED that

i. the update on progress on the Internal Audit Plan for 2020/21 be noted.

ii. feedback on the risk scores be provided and completeness of risks and actions, and the deep dive review on adult social care supply chain risk to be given by the Assistant Director: Commissioning be noted.

CHAIRMAN

TO: GOVERNANCE AND AUDIT COMMITTEE
27TH JANUARY 2021

RISK MANAGEMENT STRATEGY
(Head of Audit and Risk Management)

1 PURPOSE OF REPORT

1.1 This report presents the updated Risk Management Strategy to the Governance and Audit Committee for approval.

2 RECOMMENDATION

2.1 The Committee is asked to review and agree the updated Risk Management Strategy at Appendix 1.

3 REASONS FOR RECOMMENDATION

3.1 To ensure that the Risk Management Strategy is consistent with current procedures and focuses on the relevant priorities for risk management.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The decision could be taken to not update the Strategy but it would then not reflect progress made in embedding risk management, would be inconsistent with current procedures for managing risk and would not include the present risk management priorities.

5 SUPPORTING INFORMATION

Risk Management Strategy

5.1 The Risk Management Strategy was last approved by the Governance and Audit Committee in June 2017. It has now been reviewed to reflect the latest Council Plan, clarify responsibilities, include a worked example for the scoring methodology and RAG rating and update the priorities for risk management at the Council. The current priorities as set out in the updated Strategy can be summarised as follows:

1	Developing strategies to address key risks to reaching financial sustainably for the longer term.
2	Monitoring the impact of Brexit for the Council
3	Developing a pandemic recovery strategy, encompassing a long-term delivery and operational model for the Council post Covid.
4	Reviewing the Council's resilience and mitigation strategies in response to increasing cyber threats
5	Revisiting risk appetite in relation to the insurance strategy for insurable risks within the financial constraints of the Council.

6	Mapping climate change risks including identifying the specific risks to the Council's goals for protecting and enhancing the environment.

5.2 Feedback was sought on the updated Strategy from the Strategic Risk Management Group (SRMG) and the Corporate Management Team (CMT). All comments received have been incorporated in the updated Strategy attached at Appendix 1 for the Governance and Audit Committee to review and approve. Changes made as part of the update are marked as tracked changes.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Legal Advice

6.1 There are no specific legal implications arising from this report. However effective risk management helps to ensure compliance with legal and regulatory obligations.

Financial Advice

6.2 There are no direct financial implications arising from this report. The proposal can, however, assist the Council's financial situation by helping ensure that financial risks are understood and considered appropriately as part of an overall framework for managing overall risks.

Equalities Impact Assessment

6.3 Not applicable.

Strategic Risk Management Issues

6.4 An up to date Risk Management Strategy setting out the current priorities for embedding risk management is essential for setting out the direction for effective risk management at the Council.

7 CONSULTATION

Principal Groups Consulted

7.1 The principal groups consulted were CMT and SRMG.

Method of Consultation

7.2 The draft updated Risk Management Strategy was reviewed by SRMG and e CMT on 12th November and 9th December respectively. All amendments suggested have been included in the Strategy attached at Appendix 1.

Contact for further information

Sally Hendrick – 01344 352092
Sally.hendrick@bracknell-forest.gov.uk

Doc. Ref
Risk Management Strategy

BRACKNELL FOREST BOROUGH COUNCIL

RISK MANAGEMENT STRATEGY

The Framework for Managing Opportunity and Risk

VERSION	DATE	APPROVED BY
Version 1	29/11/2011	Governance and Audit Committee
Version 2	1/4/2014	Governance and Audit Committee
Version 3	June 2017	Governance and Audit Committee
Version 4	January 2021	

CONTENTS

BACKGROUND

In 2019 the Council agreed a new plan setting out a clear and focussed approach that will address the financial challenges for the next 4 years.
The plan focuses on the things that matter most to Bracknell residents and is at the heart of everything we do. In challenging times, residents can be assured that we will provide the strong leadership, financial stability and strong corporate governance to ensure that core services are maintained. A key objective is to ensure that Bracknell Forest stays prosperous and remains a good place to live, work and play. We will work with other organisations to deliver good quality local services in a joined-up way, focusing on individuals' needs. Bracknell Forest is a place where diversity and cultural heritage are recognised as a strength. We will encourage vibrant local groups and work to ensure everyone feels connected and able to actively participate. We recognise we spend tax payers money. We will prioritise spending wisely based upon clearly identified needs, targeting in particular:

- Reducing our impact on climate change.
- Ensuring early help is available for our most vulnerable residents to keep them safe and to help them remain independent, whist avoiding loneliness and isolation.
- Reducing homelessness.
- Developing all age learning and life skills.
- Maintaining value for money.

The Council Plan for 2019-2023 sets out six strategic themes which collectively form the vision for the borough.
Theme 1: Value for money
Theme 2: Economic resilience
Theme 3: Education and Skills
Theme 4: Caring for You and Your Family
Theme 5: Protecting and enhancing the Environment
Theme 6: Communities.

The Council recognises that we live in an uncertain world, where the people, environment and communities of Bracknell Forest may be at risk particularly during the pandemic and subsequent recovery period which may prove to be protracted. To help deliver our corporate and future objectives as we move forward in the recovery environment, we must ensure that the management of risk is embedded in the day to day operation of the Council and all decision making processes.

RISK MANAGEMENT

Risk is an unexpected event or action that can adversely affect the Council's ability to achieve its objectives and successfully execute its strategies. The event may be foreseeable but one over which the Council has little or no control other than to manage or mitigate its impacts. It can be a positive (an opportunity) or negative (a threat). The Council recognises that as an organisation accountable to the public we have a duty to manage risks. Risk Management is a framework by which the Council can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way. It is about making the most of opportunities by making the right decisions and about achieving objectives once those decisions are made through controlling, transferring and living with risks.

AIMS AND OBJECTIVES OF THE RISK MANAGEMENT STRATEGY

The environment in which the Council operates has changed considerably in recent times. The organisation has faced a sustained period of significant financial pressures. The Council's transformation programme encompasses the response to this position moving forward. Risk

mitigation will inevitably be limited by how much we have to spend.
The Risk Management Strategy provides focus by clarifying the Council's policy, priorities and approach to identifying and mitigating those risks that might hinder the Council in meeting its Vision.

Staff, residents and partners will be better informed about the role of the Council, the direction of travel and the sought after outcomes. This will help the Council and partners deliver a better service to residents and increase the ability of residents to be involved in the work of the Council.

BENEFITS OF RISK MANAGEMENT

Effective risk management improves strategic, operational and financial management, continuity of knowledge and information management processes, improved statutory compliance, meeting best practice and ultimately improving the services we deliver.
Successful implementation of Risk Management will produce many benefits for the Council if it becomes a living tool. Figure 1 below sets out just a few of the benefits to be gained:

FIGURE 1. BENEFITS OF EFFECTIVE RISK MANAGEMENT

RISK MANAGEMENT POLICY STATEMENT

The Council is committed to adopting best practices in the identification, evaluation and control of risks in order to:

- strengthen the ability of the Council in achieving its vision, priorities, underlying principles and objectives and enhance the value of the services it provides;
- enable Members and senior management to make the best informed decisions based on full knowledge of all known threats and opportunities;
- heighten the understanding of all the positive risks (opportunities) as well as negative risks (threats) that the Council faces;
- help enable the Council to be risk aware and less risk adverse
- integrate and embed proactive risk management into the culture of the Council;
- manage risks cost-effectively and to an acceptable level;
- reduce the risk of injury and damage;
- protect the Council's reputation;
- help secure value for money;
- enhance partnership and project working; and
- raise awareness of the need for risk management.

In terms of the basic principles which underpin our approach to risk management, it is the Council's policy to ensure that:

- There is a single corporate approach to risk management which is adopted consistently by services, projects and partnerships;
- The roles and responsibilities for risk management are clearly defined, communicated and understood by all staff;
- Risk assessments are undertaken as part of all strategic decision-making;
- Risk assessment is an integral part of the corporate and service planning process;
- Risks are identified, evaluated and recorded;
- Risks the Council faces are managed by implementing measures to avoid, reduce and control them to within the Council's risk tolerance level;
- Actions plans to address risks are documented and fit for purpose:
- Collaborative arrangements are subject to risk assessments
- Projects and programmes manage risk throughout their life cycles in line with the corporate programme and project management approaches.

The Council's Strategic Risk Management Group is responsible for the implementation of a unified risk management strategy, the promotion of risk awareness and the monitoring of the effectiveness of risk management measures undertaken.

Risk management is a continuous process that demands awareness and action. It is the responsibility of each Service Area to comply with the Council's Risk Management Policy and the corporate approach to risk management. Senior Managers are accountable for managing risks to which their area is exposed whilst all employees have duty to support the Council's initiative by managing risks within their control.

Figure 2

RISK MANAGEMENT FRAMEWORK

The Civil Contingencies Act 2004 places a duty on local authorities to assess the risk of emergencies occurring and use this to inform contingency planning.
In addition, the Accounts and Audit Regulations 2019 place a wider statutory duty on local authorities to have a sound system of internal control which facilitates the effective exercise of the body's functions and which includes arrangements for management of risk. The Council recognises that risk and risk management is a wider issue and in response to this has put in place a range of measures which feed into an overarching framework for managing threats and opportunities. The key elements of the risk management framework documented in this Risk Management Strategy are shown in Figure 2. The Risk Management Strategy will be reviewed every three years.

KEY ELEMENTS OF THE RISK MANAGEMENT FRAMEWORK

Strategic Risk Management

Strategic risks are those risks that could potentially have a fundamental impact for the Council and its objectives and hence need to be owned and managed by the Corporate Management Team (CMT). These risks are included in the Strategic Risk Register. This Register is maintained by the Head of Audit and Risk Management and is reviewed and updated quarterly by the Strategic Risk Management Group (SRMG) and at least twice a year by CMT. Twice yearly feedback on the Register is sought from the Governance and Audit Committee which has responsibility for ensuring satisfactory risk management arrangements are in place.

Update of the Strategic Risk Register is informed by the other risk registers in place across the Council as it is recognised that some service, project and collaborative arrangement risks may have the potential to impact on corporate objectives.

Operational Risk Management

Risks that are more appropriate to management at service level should be included in Directorate Risk Registers. These should be maintained within each directorate and reviewed on a regular basis, ideally once a quarter, by the Departmental Management Team (DMT) and should be made available to the Head of Audit and Risk Management to inform the Strategic Risk Register.

Project Risk Management

Project Managers should ensure that risk register are in place for all major projects. These should be reviewed on a regular basis throughout the lifecycle of the project as part of the project management process and should be made available to the Head of Audit and Risk Management to inform the Strategic Risk Register.

Collaborative Arrangements

In local government collaborative arrangements include, for example: contracts, strategic delivery partnerships, Joint Ventures, shared service arrangements and so on. Whilst such arrangements can bring significant benefits, they also bring threats and opportunities that must be understood and managed. Risks should be monitored and reported throughout the life-cycle of the partnership arrangement in accordance with a formal documented approach and timetable agreed by all partners.

Risk Management in Reports for Decision

Reports for decision making should include an assessment of risk. Officers must consider any significant risks relating to the proposals contained in the report and provide details of these in the Strategic Risk Management Issues Section together with any action being taken to mitigate these risks.

Health and Safety

The Corporate Safety Team provides support, assistance and guidance to managers on a wide range of health and safety issues. This is achieved mainly via a programme of audits, development of procedures and best practice, proactive project work, promotion and awareness, attendance at a variety of meetings and accident and incident investigation.

Business Continuity

The Council has a statutory duty under the Civil Contingencies Act 2004 to have business continuity plans and ensure they are maintained, exercised and reviewed.

Business continuity management is a process that helps manage risks and ensures the smooth running of an organisation or delivery of a service.

Our plans ensure that we can respond to a significant interruption to key services and continue to provide critical functions. Corporate and departmental plans are now in place for the Council with departmental leads identified to the coordinate the planning process and in the event of need.

In order to be successful, business continuity must be regarded as an integral part of our organisation's normal ongoing management processes therefore ownership and responsibility for ensuring effectiveness of the process rests with the Strategic Risk Management Group.

Emergency Planning

The Civil Contingencies Act 2004 requires each local authority to work with other agencies in order to plan, prepare, respond to and recover from emergencies in the community.

The objectives of Emergency Planning are to:

- save life
- prevent escalation of an emergency.
- relieve suffering.
- safeguard the environment.
- protect property.
- continue to maintain services at an appropriate level.
- inform the public.
- promote self help and recovery.
- restore normality as soon as possible.
- evaluate the response and identify lessons to be learned.
- facilitate criminal investigations or other inquiries.

The emergency planning function identifies the procedures and organisation necessary to ensure the provision, mobilisation and co-ordination of Bracknell Forest Council services and resources when dealing with an emergency. This is achieved through a program of training and exercising so that staff are prepared.

Public Health

Under the Health and Social Care Act 2012, responsibility for improving health and minimising the risk and impact of illness in the local population rests with local authorities. The Act also places responsibility on the Council to provide public health advice and intelligence to the local Clinical Commissioning Groups and NHS England for the commissioning of health services to meet local needs.

Insurance

The purpose of insurance is to provide financial protection against specified contingencies such as injury, damage, or loss. However, the availability of insurance is no substitute for good risk management. By managing risk effectively, service managers can minimise the number and severity of losses and subsequent insurance claims.

The Insurance Section provides specialist expertise in all areas of insurance practice, assisted by external insurance brokers and consultants. This includes:

- Identification of risks to be covered by the purchase of insurance from an external provider
- The maintenance of all insurance databases, including detailed information in respect of claims and losses, together with the production of appropriate reports

to service managers and the Strategic Risk Management Group.

- Giving information and advice to the Council's service managers on insurance matters, including potential risks and liabilities which may need to be considered.
- The processing of insurance claims made on behalf of or brought against the Council, including working with the Council's Insurance Brokers, insurance companies, loss adjusters or solicitors, as appropriate.
- Advise on a funding strategy and management of internal insurance schemes.
- Providing a range of dedicated insurance covers and services for schools.

Reserves and Balances

Reserves and balances provide a financial safety net enabling the Council's services to be maintained following an unexplained event. The level of reserves and balances is linked directly to risk. In short, the greater the unmitigated risks, the more the Council needs to retain in reserves and balances.

Internal Audit of Controls

The responsibility for putting in place satisfactory internal controls to protect assets and maintain effective stewardship of public monies rests with managers.

The Council is required under the Accounts and Audit Regulations 2019 to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." Internal audit is an assurance function that feeds into the risk management framework in providing an independent and objective opinion to the organisation on the adequacy of the control environment. Internal Audit identifies weaknesses in controls and patterns of non-compliance and raises recommendations for improvement in action plans agreed with management.

External Audit and Inspections

External audit provides further assurance on the Council's stewardship of public monies by reporting on the arrangements put in place to ensure the proper conduct of the Council's financial affairs.

The Council's schools and services are subject to inspections by external bodies such as OFSTED and the Care Quality Commission. External inspections provide independent assurance on the effectiveness of risk management, particularly the safeguarding of children and vulnerable adults.

RISK MANAGEMENT PROCESSES

The Council has in place a methodology for evaluating each risk using a five by five scoring system as set out in Figure 3 to determine current residual risk and target risk score. The current residual risk is the present score after existing mitigation measures. The target risk score is the risk score the Council is aiming for and equates to the risk appetite. The Institute of Risk Management (IRM) consider risk appetite an essential element of good risk management practices.

Each risk is analysed as red, amber or green. Whilst this is in the end a judgement view, the principle generally applied is based on how far apart the current risk and the target risk scores are on the risk matrix below. If the current residual score equates or is lower than the target risk score in the risk matrix then the risk is assessed as green and no further action is needed as the risk is deemed to be at an acceptable level. Where current residual risk score is one cell higher than the target risk in any direction, this would be considered amber and if the difference is more than one in any direction the risk would generally be considered red as there is further to go to bring the risk score down to the target risk score that the Council is aiming for. A worked example is shown below:

Example Figure 3

LIKELIHOOD

5					
4					
3		C,Staffing target score		D,Staffing target score	
2	A,Staffing target score	***STAFFING CURRENT RESIDUAL SCORE*** B.Staffing target score			
1					
	1	2	3	4	5

IMPACT

LIKELIHOOD:
5 Very High
4 High
3 Significant
2 Low
1 Almost Imp

IMPACT:
5 Catastrophic
4 Critical
3 Major
2 Marginal
1 Negligible

RISK	RISK RAG RATING			
	OPTION A	OPTION B	OPTION C	OPTION D
Staffing risk	Green	Green	Amber	Red

Red and amber risks both need to be managed and additional mitigation needs to taken to bring them down to the target risk score. Greatest focus should be placed on red risks.

More detailed guidance on identifying and scoring risks in line with the methodology is set out in a separate Risk Management Toolkit.

RISK APPETITE AND TOLERANCE

Our scoring methodology and target risk scores are broadly based on risk appetite which as defined by the Institute of Risk Management (IRM) relates to the pursuit of risk, being the amount of risk that an organisation is willing to seek or accepts in order to meet its long term objectives. The Council continues to assess target risk with the option to shift the target risk score to a risk tolerance basis being the maximum amount of risk that the Council can deal with rather than what it would ideally wish to accept. This acknowledges that there may be circumstances where there is no alternative, such as where severe financial constraints are faced.

RISK MANAGEMENT PRIORITIES

The following key priorities have been identified:

1	Developing strategies to address key risks to reaching financial sustainably for the longer term.
2	Monitoring the impact of Brexit for the Council
3	Developing a pandemic recovery strategy, encompassing a long-term delivery and operational model for the Council post Covid.
4	Reviewing the Council's resilience and mitigation strategies in response to increasing cyber threats
5	Revisiting risk appetite in relation to the insurance strategy for insurable risks within the financial constraints of the Council.
6	Mapping climate change risks including identifying the specific risks to the Council's goals for protecting and enhancing the environment.

RISK MANAGEMENT ROLES AND RESPONSIBILITIES

APPENDIX 1

Executive

- Significant changes to strategic risks will be summarised in the quarterly Corporate Performance Overview Report (CPOR) considered by the Executive; and
- Risk management considerations should be assessed on each report presented to Members, in the same way as financial and legal implications.

Lead Member for Risk Management

- A Member ''Lead" for risk management will be nominated by the Leader;
- The role of Lead Member will include promoting the application of risk management and related training to Members;
- The Lead Member will promote robust risk management in decision making by Members;
- The use of risk assessments within reports for decision making will be encouraged by the Lead Member; and
- The Lead Member will promote robust risk management reporting to the Executive and Governance and Audit Committee.

Members

- Take reasonable steps to consider the risks involved in the decisions taken by them
- Have an understanding of the risks facing the Council and the Borough.

Governance and Audit Committee

- Changes identified as part of CMT's periodic reviews of the Risk Management Strategy and Guidance incorporating the Risk Management Policy will be considered by the Governance and Audit Committee;
- The Governance and Audit Committee will be responsible for monitoring the adequacy of the governance arrangements, including risk management processes, to ensure that the Council is complying with its statutory and regulatory obligations;
- On an annual basis the Governance and Audit Committee will review and approve the Annual Governance Statement (AGS). The AGS is an assessment of the effectiveness of the Council's governance arrangements during the previous financial year which includes review of risk management arrangements as an integral part of good governance;
- The Governance and Audit Committee will review and provide feedback on the Strategic Risk Register twice a year;
- The Governance and Audit Committee will receive updates on risk management arrangements prepared by the Head of Audit and Risk Management twice a year;
- The Governance and Audit Committee will seek assurance that officers are developing and progressing Action Plans to address risks;
- Members will be expected to attend any appropriate training to ensure they have sufficient knowledge of risk management to perform their role on the Governance and Audit Committee.

Chief Executive

The Chief Executive takes overall responsibility for risk management as head of paid service.

Director: Resources

- Acts as the Lead Officer for risk management;
- Chairs the Strategic Risk Management Group;
- Provides assurance to the Governance and Audit Committee on the adequacy of risk management arrangements
- Ensures there is adequate staff resource in place to maintain the Strategic Risk Register and provide central risk management support and advice;
- Promotes the application of risk management to CMT; and
- Ensure that a programme of training for officers is developed to facilitate the embedding of risk management throughout the organisation.

Corporate Management Team (CMT)

- The Risk Management Strategy and Guidance incorporating the Risk Management Policy will be reviewed periodically by CMT;
- Risk management arrangements and initiatives proposed by the Head of Audit and Risk Management will be considered by and agreed with CMT;
- Has ownership of the Strategic Risk Register
- CMT will ensure that significant risks to the achievement of the Council's objectives, as set out in the Strategic Themes, are recorded in a Council wide Strategic Risk Register, that each risk is assigned one or more risk owners and that CMT has collective ownership for the Register.
- CMT will review the Strategic Risk Register at least twice a year;
- CMT will seek assurance that strategic and directorate operational risks and actions to mitigate risk are identified and documented;
- Adequacy and progress of actions to address strategic risks will be overseen by CMT and recommendations made to relevant Directors where appropriate to address gaps in assurance;
- CMT will recommend any risk management issues to be reported to the Governance and Audit Committee; and
- CMT members will be expected to attend any appropriate training to ensure they have adequate knowledge to perform their various roles

Directors/Assistant Directors

- All Directors will promote risk management in their Departments and ensure that risks are properly assessed and managed at all levels in all their services;
- Each Director will ensure that there are adequate actions in place to mitigate strategic risks for which they are the risk owner;
- Directors will ensure that their directorates risk register is a complete and up to date record of all significant risks within their directorate consistent with the scoring methodology in the Toolkit, that appropriate actions are identified to address these risks and that the register is reviewed quarterly by their Departmental Management Team (DMT), updated to address changes in risks and progress in actions and copied to the Head of Audit and Risk Management;
- Each Director will ensure that risk management is considered in any partnerships, shared service arrangements and significant contracts so that risks are

understood and the responsibility for each risk is clear;

- Each Director will ensure that his/her representative on the Strategic Risk Management Group is at the appropriate level (i.e. an officer who sits on the directorate's DMT) and that they contribute actively to the Group's activities and within the Department on all risk management issues;
- Directors will ensure that reports for decision making include an assessment of risk; and
- Risk management performance will be reflected in the appraisal process.
- Each director will be trained and be an active member of the Council's Emergency Management Team (EMT) in order to effectively respond to an emergency situation or business disruption
- Directors will ensure the Corporate Health and Safety Policy and any guidance/procedures are implemented and managed effectively within their areas of responsibility

Strategic Risk Management Group (SRMG)

- The SRMG acts as a "Strategic Risk Board," taking the lead in updating the Strategy, reviewing the Strategic Risk Register and reporting to CMT and Members on progress on risk management;
- SRMG will oversee aspects of risk affecting the Council including but not limited to the Strategic Risk Register and Health and Safety.
- The SRMG will seek to research good practice in risk management and to adopt appropriate good practice in the Council;
- SRMG members must act as the risk management champions in their own Departments and raise awareness of risk management;
- Terms of reference for SRMG are attached at Appendix 1.

Head of Audit and Risk Management

- The Head of Audit and Risk Management has a key role in ensuring that the Strategic Risk Register is up to date/comprehensive and that actions are being taken to address strategic risks;
- The Head of Audit and Risk Management also plays an important part in ensuring Departments have processes in place to identify and address significant operational and project risks;
- The Head of Audit and Risk Management will provide assurance on the risk management process and highlight necessary improvements;
- The risk management arrangements will be reviewed as required under the Internal Audit Plan;
- Internal Audit Plans must be risk-based, with strategic risks being prioritised when reviewing systems;
- Internal Audit reports must identify the perceived risks clearly and make SMART recommendations for mitigating or eliminating those risks.

Emergency Planning Function:-

- To update and maintain the Council's Civil Emergency Plan and to provide the framework and coordinating role to its Business Continuity planning process to ensure the Council is able to respond at corporate level in the event of an emergency or critical incident;
- To report to SRMG quarterly on business continuity strategies, plans and procedures to ensure the organisation can respond to a business critical incident;
- To ensure coordination and training across all departments of

the Council to ensure the ability to implement plans;
- To ensure adequate liaison with all other appropriate agencies and neighbouring authorities in respect of their emergency response plans and the interaction with this Council; and
- To facilitate periodic training and testing of the plans.

Corporate Health and Safety Manager

- To advise and assist line managers throughout the Council's operation on matters relating to their duties and obligations under the provisions of the Health and Safety at Work etc Act 1974 and related legislation;
- To liaise with managers in investigating accidents and in carrying out risk analysis and safety audits and to produce reports as required;
- To provide a lead role in the production and maintenance of the Council's safety policy;
- To develop and implement action plans to reduce health and safety risks identified by risk assessments and inspections; and
- To report to SRMG on a six monthly basis on health and safety inspection visits and incidents reported and investigated.

The Assistant Director: Customer Experience, Digital and ICT

- The Assistant Director: Customer Experience, Digital and ICT advises CMT and SRMG on the risks associated with information technology and information security.

Insurance Manager

- To provide advice and guidance with regard to insurance requirements, indemnities and liabilities and ensure adequate insurance is put in place
- To work with the Council's insurer and provide claims management and investigation services for claims made by and against the Council under its insurance policies.
- To manage the day to day use of the internal insurance fund for payment of self-insured losses

Legal Services

- To support officers in ensuring the Council meets its legal responsibilities by advising on statutory obligations;
- To provide legal advice on potential liabilities; and
- To advise on legal responsibilities connected with collaborative arrangements such as contracted out services and partnership agreements.

Public Health Team

- To promote health awareness and preventative measures to minimise the risk and impact of illness;
- To work with the Emergency Planning function in responding to consequences arising from public health emergencies such as infectious diseases, mass casualties or disruption to medical supplies.
- To provide advice and intelligence to the local Clinical Commissioning Group (CCG) who commission local NHS services to meet local health needs.

Heads of Service/Cost Centre Managers/Project Managers

- These managers are the experts on their services and projects and they must make regular and thorough risk assessments to identify significant strategic risks and mitigation where appropriate;

- Significant risks must be included in Directorate Risk Registers, Project Risk Logs and in any key decision report, report requesting budget provision or proposing savings, changes to service levels etc.
- Risks must be monitored regularly and significant new or changed risks recorded ;
- Any potential risk impacts should be should be considered on matters discussed at team meetings and where significant should be escalated to the relevant DMT.
- Project teams should consider risk management at most, if not all, of their Project Board meetings;
- Managers will ensure that risk management is considered in any partnerships, shared service or contractual arrangements so that risks are understood and the responsibility for each risk is clear;
- Managers will be expected to attend any appropriate training to ensure they have adequate knowledge to perform their role; and
- Risk management will be included in behaviour frameworks.

-

All Staff

- Staff will carry out risk assessments as appropriate;
- Draw to management's attention any risks to the achievement of day-to-day objectives that have not been identified previously so that these can be recorded and action take to mitigate them where required;
- Will be expected to attend any appropriate training to ensure they have adequate knowledge to perform their role; and
- Risk management will be reflected in behaviour frameworks

Partners, Shared Service Providers and Contractors

The Council expects third parties upon which it relies (including contractors, partners, shared service providers, associates and commissioned independents) to

- work safely, comply with all relevant health and safety legislation and have in place appropriate sources of health and safety advice and training; and
- Provide and evidence all Business Continuity procedures that relate to services provided and additional support that has been agreed

APPENDIX 2

STRATEGIC RISK MANAGEMENT GROUP
TERMS OF REFERENCE

1. Object and Functions

The Strategic Risk Management Group shall make recommendations to CMT, the Governance and Audit Committee or any other committee of the Council on matters affecting or likely to affect the organisation's exposure to significant risk. The Strategic Risk Management Group shall:

I. Be responsible for risk assessment matters that relate to Bracknell Forest Council's services, programmes, projects and/or to employees and all other people who may be affected by the Council's activities;

II. Receive reports in respect of Health and Safety incidents and practices.

III. Receive and review updates of the Strategic Risk Register and receive periodic reports on risk areas included within the Risk Register from responsible officers;

IV. Monitor the effectiveness of risk management policies, procedures and practices across the Council, ensuring that pro-active risk management becomes embedded across the Council; and

V. Report quarterly to the Corporate Management Team (CMT).

2. Membership

The membership of the Strategic Risk Management Group shall be determined by CMT and shall include

I. Representatives from each Directorate;
II. The Principal Health and Safety Advisor; and
III. The Head of Audit and Risk Management.
IV. Link to business continuity
V. Link to Information Management Group

Representatives for information management and business continuity/emergency planning will not be required for every meeting but only at one meeting per year at which point a deep dive would be necessary.

It is crucial to ensure that there is representation from ICT as this is vital to services.

3. Chairman

The Group shall be chaired by the Director:Resources.

4. Meetings

The Group shall meet at least four times a year but a special meeting may be called if 24 hours notice is given in the case of emergency. All meetings shall be convened during normal working hours. Additional meetings shall be arranged if necessary as agreed by the Chairman.

For those unable to attend a pro-actively briefed deputy is required.

5. Agendas

I. All items should be submitted to the Secretary of the Group at least five working days before the meeting for inclusion on the agenda.

II. Each Member of the Group shall receive a copy of the agenda and papers at least three working days before the meeting.

6. Reporting

I. Minutes of the meetings of the Group shall be documented as soon as possible after the meeting.

II. Copies of minutes shall be circulated to all members of the Group and CMT.

III. The Director:Resources will ensure that the Strategic Risk Register considered by SRMG is reviewed by CMT at least twice a year.

IV. The Director: Resources will ensure that regular updates on risk management are provided to the Governance and Audit Committee.

.

This page is intentionally left blank

To: Governance and Audit Committee
27th January 2021

Internal Audit Update
Head of Audit and Risk Management

1 Purpose of Report

1.1 This report presents the update on progress on the annual Internal Audit Plan.

2 Recommendations

2.1 To note the update on progress on the Internal Audit Plan for 2020/21.

3 Reasons for Recommendations

3.1 To ensure the Council complies with statutory requirements for internal audit.

4 Alternative Options Considered

4.1 There are no alternatives.

5 Supporting Information

Internal Audit

5.1 Delivery of the Council's internal audit services in 2020/21 is being delivered through a combination of one external contractor (TIAA Ltd), Wokingham Council's Business Assurance team under a S113 agreement and a temporary in-house senior auditor pending the recruitment of a permanent employee.

5.2 Progress against the 2020/21 Internal Audit Plan is set out in Appendix 1. As expected, it is behind original schedule due to delays in starting audits with departments whose normal work has been significantly affected by the Pandemic. The delivery of each area of the Plan is being monitored at Departmental Management Team meetings to bring this back on track wherever possible, while acknowledging that the current wave of Covid is proving at least as challenging to deal with as the initial stages. School audits were put on hold until quarter 4 and a pilot on remote auditing in schools is due to start in January.

6 Consultation and Other Considerations

Legal Advice

6.1 There are no specific legal implications arising from the recommendations in this Report.

Financial Advice

6.2 There are no financial implications arising from this report.

Equalities Impact Assessment

6.3 Not applicable.

Strategic Risk Management Issues

6.4 A robust internal audit service is essential for ensuring proper processes are in place for effective control.

Background Papers
Internal Audit Plan 2020/21
Internal Audit Charter
Risk Management Strategy

Contact for further information
Sally Hendrick, Head of Audit and Risk Management - 01344 352092

BRACKNELL FOREST COUNCIL

HEAD OF AUDIT AND RISK MANAGEMENT'S INTERIM REPORT

JANUARY 2021

Sally Hendrick
Head of Audit and Risk Management
Sally.hendrick@bracknell-forest.gov.uk
01344 352092

1.BACKGROUND

1.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to "maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control." This report summarises the activities of Internal Audit for the period April to December 2020 drawing together progress on the Annual Internal Audit Plan, risk management and other activities carried out by Internal Audit.

2. INTERNAL AUDIT

2.1 The basic approach adopted by Internal Audit falls broadly into four types of audit:

- System reviews provide assurance that the system of control in all activities undertaken by the Council is appropriate and adequately protects the Council's interests.
- Regularity (financial) checking helps ensure that the accounts maintained by the Council accurately reflect the business transacted during the year. It also contributes directly towards the external auditor's audit of the annual accounts.
- Computer/IT audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities
- Certification as required by relevant Government departments that grant monies have been spent in accordance with grant terms and conditions.

2.2 Recommendations are made after individual audits, leading to an overall assurance opinion for the system or establishment under review and building into an overall annual assurance opinion on the Council's operations called the Head of Internal Audit Annual Opinion. The different categories of recommendation and assurance opinions are set out in the following tables.

2.3 Since 1st April 2019 we have been categorising our **audit opinions** according to our assessment of the controls in place and the level of compliance with these controls as follows::

	Good - There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to the achievement of objectives and this is being complied with. Recommendations will only be of low priority.
	Adequate - there is basically a sound system of control but there are some areas of minor weakness and/or some areas of non- compliance which put the system/process objectives at risk. Recommendations will only be low or moderate in priority.
	Partial - there are areas of weakness and/or non- compliance with control which put the system/process objectives at risk and undermine the system's overall integrity.

	Recommendations may include major recommendations but could only include critical priority recommendations if mitigated by significant strengths elsewhere.
	Inadequate - controls are weak across a number areas of the control environment and/or not complied with putting the system/process objectives at significant risk. Recommendations will include major and/or critical recommendations
	None - There is no control framework in place and management is inadequate leaving the system open to risk of significant error or fraud.

2.4 We categorise our recommendations according to their level of priority as set out below:

	Critical - Critical and urgent in that failure to address the risk could lead to factors such as significant financial loss, significant fraud, serious safeguarding breach, critical loss of service, critical information loss, failure of major projects, intense political or media scrutiny. Remedial action must be taken immediately.
	Major - failure to address issues identified by the audit could have significant impact such as high financial loss, safeguarding breach, significant disruption to services, major information loss, significant reputational damage or adverse scrutiny by external agencies. Remedial action to be taken urgently.
	Moderate - failure to address issues identified by the audit could lead to moderate risk factors materialising such as medium financial loss, fraud, short term disruption to non-core activities, scrutiny by internal committees, limited reputational damage from unfavourable media coverage. Prompt specific remedial should be taken.
	Low - failure to address issues identified by the audit could lead to low level risks materialising such as minor errors in system operations or processes, minor delays without impact on service or small financial loss. Remedial action is required.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

3.1 The Annual Internal Audit Plan for 2020/21 was considered and approved by the Governance and Audit Committee on 25th March 2020. The delivery of the individual audits during 2020/21 is being undertaken in-house by a temporary senior auditor, a contractor (TIAA Ltd) and a Section 113 arrangement with Wokingham Borough Council's Internal Audit Team.

3.2 Due to COVID 19, which has significantly affected both workloads and working arrangements for the past 9 months, work on delivery of the 2020/21 Audit Plan did not start in earnest until around August. Progress against the Plan has been steady but slow due to the difficulties in auditing remotely and the need for officers to prioritise delivery of services. The latest COVID position has now resulted in deferral of a number of audits planned for quarter 4 into 2021/22, as set out in Appendix 1. We had already deferred all schools audit until quarter 4 and are now piloting remote audit work at one school, with a view to confirming that this approach is as workable in schools as it has proved to be across the Council's other audits.

3.3 Between April to December 2020, 4 grant audits and 11 reports/memos were finalised, 1 reports/memo were issued in draft awaiting management responses, 1 reports was out for client side discussion, 7 were reports/memos had been submitted for client side review and 7 audits were work in progress. In addition, a memo was issued for an assessment of data maturity was carried out at the request of officers. Due to the pandemic a number of audits have been added to these plan and these

are also shown in Appendix 1. They relate to requirements from central government for certification and high spend, high fraud risk areas.

3.4 Details on the status and outcome of all audits are attached at Appendix A. A summary of the outcome of finalised and audits with reports issued in draft are set out below.

ASSURANCE LEVELS	NUMBER OF AUDITS TO DATE IN 2020/21		NUMBER OF AUDITS IN 2019/20	% AGE CHANGE IN 2019/20 SINCE 2018/19	
Good	1		6	⇧	100%
Adequate	7		28	⇩	7%
Partial	2		9	⇩	47%
Inadequate	0		1		
No assurance	0		0	⇔	0%
Total for Audits with an Opinion	10		44		
Memos and reports with Major Recommendation and no Opinion	1		6	⇧	20%
Other Follow Up Memos/ Reports with no Opinion	2		9	⇧	800%
Total Audits	13		59		
Grant Certifications	4		4	⇩	20%

Identified High Priority Control Issues

3.5 Audits which have identified high priority recommendations will generally be revisited in 2020/21, to ensure successful implementation of agreed recommendations. No critical recommendations have been raised to date in 2020/21 however a number of recommendations falling under our major recommendation category have been raised resulting in inadequate or partial audit opinions as set out below:

AUDITS WHERE HIGH PRIORITY ISSUES HAVE BEEN IDENTIFIED IN 2020/21	
COUNCIL WIDE	
Management of Mileage and Essential Car User Arrangements	• A major recommendation was raised to review policy and arrangements post COVID, reflecting that different working arrangements are likely in future.

RESOURCES	
Agresso Follow Up (Memo)	• Two major recommendations were raised relating to the absence of a Data Protection Impact Assessment (DPIA) for the Agresso system and the need to review the system support package with Unit 4 once the system is moved to the Cloud
PEOPLE	
Breakthrough	• One major recommendation was relating to administration and stages being missed from the Customer Journey, with key objectives of the service inconsistently applied.

Update of 2019/20 Audits with Significant Weaknesses

3.6 Since April 2020, we have re-audited or followed up three audits from 2019/20 where significant weaknesses had been identified. The Head of Audit and Risk Management can report that significant improvement was found in both purchasing cards and officers expenses and adequate assurance opinions were given in both cases.

Quality Assurance and Improvement Programme

3.7 As shown below, 100% of the client questionnaires indicated the auditees were satisfied with the service. In 86% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	
1st April to 31st December 2020	5	100%	86%
2019/20	24	92%	39%

4. PROGRESS ON INTERNAL CONTROL ENVIRONMENT 2020/21

4.1 Under the new CMT approach there is a specific slot for audit and governance every few weeks and monitoring of major recommendations by Directors is continuing. Given delays in progressing the Annual Audit Plan due to the flu pandemic it is too early to indicate what the potential overall opinion will be for the control environment for 2020/21. However, as noted above the Head of Audit and Risk Management has

noted improvement at follow up audits carried out to date on purchase cards and officers' expenses which have been re-audited and where an adequate assurance opinion given in both cases.

5. RISK MANAGEMENT

5.1 The Strategic Risk Register has already been reviewed three times by the Strategic Risk Management Group (SRMG) and the Corporate Management Team and twice by the Governance and Audit Committee in 2020/21. Deep dives on individual risks are now taking place at the Governance and Audit Committee and to date these have been completed on the cyber, business continuity, finance, staffing risks and adult social care supply risks.

5.2 Directorate risk registers are already in place and being reviewed quarterly for all directorates. A risk register was developed for the new directorate for the Chief Executive's Office in December 2020.

6. FRAUD AND IRREGULARITY

Benefits Investigations

6.1 On 1st December 2014, the Council's Benefit Fraud Investigation Officers transferred to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP) as part of the national government programme of centralising the investigation of welfare benefit fraud. The Welfare Service passes cases of overpayments in excess of £3k and cases where fraud is suspected to SFIS for investigation. Members of the public are directed to contact the DWP directly where fraud is suspected and so SFIS refers further fraud information requests where fraud has been reported from another source. During the period April 2020 to 29 December 2020 there were 14 referrals to SFIS however in response to the Covid-19 crisis and redeployment of their staff, DWP suspended all Compliance and Investigation activity and therefore we have not been notified of any actions relating to these cases. During the previous financial year 2019/20, 59 cases were referred and the Welfare Service have been notified of 1 administrative penalty by SFIS.

6.2 If a claimant is notified that they have been overpaid Housing Benefit by £250 or more, which must have occurred wholly after 1st October 2012, Bracknell Forest Borough Council has been able to impose a set Civil Penalty of £50. The £50 Civil Penalty applies if benefit is overpaid because the claimant negligently gave incorrect information and didn't take reasonable steps to correct their mistake or failed to tell the Council about a change or failed to give them information without a reasonable excuse. Between April 2020 and 29 December 2020 the service has not applied any Civil Penalties or Council Tax Penalties.

6.3 Since October 2018 the Verify Earnings and Pensions (VEP) Alerts service has provided the local authority with the capability to prevent fraud and error arising through real time identification of changes in income. The service provides Alerts to users to prompt them to access the service when there is a change in the claimants or partner's employment or pension. Between April 2020 and 8th December 2020, 369 changes of circumstances to Housing Benefit were recorded as actioned due to VEP of which approximately 52.6% resulted in a decrease to Housing Benefit, and approximately 33.9% resulted in an increase to Housing Benefit.

Proactive Counter Fraud Work

6.4 A business plan to pilot additional funding counter fraud was agreed at the Corporate Management team in May 2020 with the assistance of external counter fraud teams. COVID-19 presents difficulties for fraud investigation due to restrictions placed on social distancing which prevents face to face contact and hence interviews under caution. We have therefore not been able to progress the pilot as quickly as intended. However, some initial steps in the pilot are now being taken. A proactive review of the housing waiting list including data matching is being developed which will identify fraudulent applicants to the list. In addition, the suite of counter fraud policies including the Anti-Bribery, Anti-Money Laundering, Fraud Prevention and Whistle Blowing policies are also being reviewed.

Potential Irregularities

6.3 During quarter 3, a bank mandate fraud was committed against one of the Council's social care providers.

APPENDIX 1

2019/20 INTERNAL AUDIT PLAN OUTCOMES NOT PREVIOUSLY REPORTED

*Key indicator- Draft report issued within 15 days of exit meeting
"D"- deferred at management request

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Fostering	2/3/20	23/6/20	Yes		✓					2	1	Final

2020/21 INTERNAL AUDIT PLAN

1.GOVERNANCE

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	inadequate	Critical	Major	Moderate	Low	
Officer Expenses (Ltd 2018/19 and 2019/20)	13/7/20	17/9/20	Yes		✓					4	2	Finalised
Safeguarding governance arrangements												Cancelled
Security camera controls including assignment of responsibility and consistency of and compliance with specification requirements												Quarter 4 audit
Business Continuity												Deferred

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	inadequate	Critical	Major	Moderate	Low	
												to 2021/22
Grant Assurance Reviews(additional work) Business Rates Grants-Covid 19 –Small business and retail, hospitality and leisure **Additional audit**	June 2020	10/7/20	N/A	N/A assurance memo with no opinion given						2	6	Final
Business Rates Grants-Covid 19 –Discretionary grants **Additional audit**	September 2020											Work in progress
Grant Certifications Bus Service Operator	24/9/20	24/9/20	N/A	N/A grant certification								Certified
Integrated Transport Block Allocation	7/9/20	24/9/20	N/A	N/A grant certification								Certified
Troubled Families-September submission	21/9/20	25/9/20	N/A	N/A assurance memo with no opinion given								Certified
Troubled Families-January 2021 submission **Additional audit**												Quarter 4 audit
Track and Trace Grants **Additional audit**												Quarter 4 audit
Home to School Transport COVID support **Additional audit**												Quarter 4 audit
Emergency Active fund **Additional audit**												Quarter 4 audit
Travel demand Management **Additional audit**												Quarter 4 audit
Bus operator Covid												Quarter 4

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	inadequate	Critical	Major	Moderate	Low	
Additional audit												audit

2. COUNCIL WIDE

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Income targets/projects/digital analysis/assessment of statutory responsibilities supporting the budget setting process												Audit cancelled
Purchase Cards (Ltd 2018/19 and 2019/20)	13/7/20	15/12/20	No		✓					2		Finalised
Debt management												Deferred to late quarter 4.
Management of Mileage and Essential Car User	15/8/20	28/9/20	Yes			✓			1	3	1	Finalised
Additional staff payments advisory review – honorariums, retention payments, market premiums, pay protections												Audit cancelled

3. CORE FINANCIAL SYSTEMS

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Main Accounting and Reconciliations	21/9/20	24/10/20	Yes	✓	✓					2	1	Finalised
Cash Management												Cancelled
Council Tax	14/10/20											Report in for client side review
Business Rates	14/10/20											Report in for client side review
Creditors												Deferred to late quarter 4.
Housing Benefit and Council Tax Reduction												Work in progress

4. IT AUDIT

IT AUDIT	Start Date	Date of Draft Report	Key Indicator Me*	Assurance Level								Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Cyber liability												Report in for client side review
Data Maturity	1/9/20	17/11/20	Yes	N/A- No opinion given. Assessment based on review of maturity across key								Draft issued

IT AUDIT	Start Date	Date of Draft Report	Key Indicator Me*	Assurance Level								Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Assessement				data governance criteria								
Digital Strategy and ICT Strategic Planning	1/11/20											Report in for client side review
Emergency Duty Service System including telephony advisory review	24/11/20											Work in progress
One System- Education												Quarter 4 audit
Uniform System	25/6/20	4/8/20	Yes	✓							1	Finalised
Forestcare IT systems including telephony												Deferred to 2021/22
Agresso (Follow up- partial assurance 2019/20)	28/8/20	21/12/20	No	N/A- follow up audit with no assurance opinion					2	2		Draft issued

5. PLACE, PLANNING, AND REGENERATION

AUDIT	Start Date	Date of Draft Report	Key Indicator met	Assurance Level				Recommendation priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Spending processes and controls in parks and countryside- advisory review												Audit cancelled
SANG – general compliance audit	24/8/20	6/11/20	Yes		✓					4	1	Finalised
SANG- advisory audit												Quarter 4 audit
S106 – Use of the												Deferred

AUDIT	Start Date	Date of Draft Report	Key Indicator met	Assurance Level				Recommendation priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
monies in compliance with development in the relevant geographic area												to 21/22

ORGANISATIONAL DEVELOPMENT, TRANSFORMATION AND HUMAN RESOURCES

AUDIT	Start Date	Date of Draft Report	Key Indicat or met*	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Staffing Establishment												Work in progress t

7. DELIVERY

AUDIT	Start Date	Date of Draft Report	Key Indicato r met*	Assurance level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Health and Safety	1/9/20											Work in progress
Management of Commercial Property	28/7/20	15/12/20	Yes									Draft for discussion issued
Reactive Maintenance Contracts	17/11/20											Report in for client side review
Cemetery and Crematorium												Quarter 4 audit
Public Protection Partnership	1/9/20											Report in for client side

AUDIT	Start Date	Date of Draft Report	Key Indicator met*	Assurance level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
												review
Car Parks	1/10/20											Report in for client side review
COVID Support for Everyone Active – **Additional Audit**												Quarter 4 audit

8. PEOPLE

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance levels				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Transport in CTPLD- advisory piece												Deferred to 2021/22
Equipment Spend	1/9/20											Report in for client side review
Direct payments- approval of plans and changes, identifying and following up potential frauds- advisory piece												Deferred to 2021/22
Continuing Health Care												Quarter 4 audit
Breakthrough	15/6/20	25/8/20	Yes			✓			1	3	3	Final
Transition from children to adult social care												Cancelled

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance levels				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Foster Panel Processes- advisory audit	October 2020	December 2020	Yes	N/A- advisory audit with memo and no audit assurance opinion							1	Finalised
Foster Panels- compliance audit												Quarter 4 audit
Parenting assessments under FSM												Quarter 4 audit
Strategy Meetings												Quarter 4 audit
Deferred payments	4/8/20	3/10/20	Yes		✓					4	1	Finalised
Access to Services- advisory piece												Deferred to 2021/22
DAAT- inspection outcome implementation of actions coming out of the inspection	4/8/20	28/8/20	Yes		✓					1	1	Finalised
Glenfield- mental health supported living												Deferred to 2021/22
Emergency Duty Service	24/11/20											Work in progress
Housing Management												Work in progress
Housing and welfare fraud touchpoints												Deferred to 2021/22
Disabled												Deferred to

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance levels				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Facilities Grants- ~~advisory piece~~ revised to compliance audit to be carried out following external review by consultant												2021/22
COVID support for Social Care Providers- **Additional audit**												Quarter 4 audit

9. SCHOOLS

AUDIT	Start Date	Date of Draft Report	Key Indicator Met	Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	Status
FOUR FOLLOW UP AUDITS FOR SCHOOLS WITH PARTIAL OPINION IN 19/20												Timing of school audits to be determined
TWO RE-AUDITS FOR SCHOOLS WITH PARTIAL OPINION IN 18/19												
SIX SCHOOL AUDITS FOR SCHOOLS DUE ON												

AUDIT	Start Date	Date of Draft Report	Key Indicator Met	Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	Status
ROTATION												

APPENDIX 2

2019/20 AUDITS IDENTIFYING SIGNIFICANT ISSUES	
COUNCIL WIDE	
• Purchase Cards	Re-audited in quarter 2/3 of202021 and an adequate assurance opinion was given.
• Officers Expenses	Re-audited in quarter 2/3 of 2020/21 and an adequate assurance opinion was given.
• Debt Management	Due to re-audited in quarter 4
DELIVERY	
• Car Parks	Currently being re-audited
• ICT Continuity Management-Gap Analysis	This has no opinion but 1 critical recommendation was raised around Portman Close
• Cyber Security	Currently being re-audited
FINANCE	
• Agresso IT System	Re-audited in quarter 3 of 2020/21 and 2 major recommendations were raised.
• Business Rates	Currently being re-audited
PLACE, PLANNING AND REGENERATION	
• Ringway Street Lighting	Due to followed up in quarter 1 of 2021/22
PEOPLE	
• Disabled Facilities Grants	Due to re-audited in quarter 4
• Forestcare	Due to re-audited in 2021/22

2019/20 AUDITS IDENTIFYING SIGNIFICANT ISSUES	
• Social Care Pathway	Due to followed up in quarter 1 of 2021/22
• Public Health	Due to followed up in quarter 1 of 2021/22
• Loans for Housing Rents and Deposits	To be followed up as part of the debt management audit in quarter 4
• Deprivation of Liberties	Due to followed up in quarter 1 of 2021/22
• Three schools	Due to re-audited in quarter 4 dependent on access during the pandemic

This page is intentionally left blank

TO: GOVERNANCE AND AUDIT COMMITTEE
27 JANUARY 2021

TREASURY MANAGEMENT REPORT 2021/22 AND 2020/21 MID-YEAR REVIEW
(Director of Finance)

1 PURPOSE OF DECISION

1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering maximising 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 longer term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.4 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.

1.5 This report seeks to achieve both these requirements of updating Members on progress in 2020/21 and to review the Treasury Management Report for 2021/22.

2 RECOMMENDATIONS

2.1 That the Committee consider and review the Mid-Year Review Report.

2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.

2.3 That the Committee review the Treasury Management Report in Annex A for 2021/22 prior to its approval by Council.

3 REASONS FOR RECOMMENDATIONS

3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress

of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2020/21
- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2020/21
- A review of compliance with Treasury and Prudential Limits for 2020/21

Economic Update

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 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

5.3 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. 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. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers.

5.4 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. 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. 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.

5.5 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, we have seen these yields fall 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. 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.

5.6 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 9th 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.

Treasury Management Strategy Statement Review

5.7 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by the Council on 24th February 2020. There are no policy changes to the TMSS in 2020/21 and only one change is proposed to the strategy for 2021/22. This is to review the individual limits on Money Market Funds and increase this to £10m from its current level of £7m. The reasoning behind this is set out in detail in the attached Treasury Management Report for 2021/22

Review of Investment and Debt Portfolio 2020/21

5.8 The Council held £23.338m of investments as at 31 December 2020 and the investment portfolio yield for the first nine months of the year is 0.01% against a benchmark (Local Authority 7-Day Rate) of 0.0%.

Investment	Maturity	Amount (£'000)	Rate (%)
Money Market Funds			
Aberdeen	1 Day	6,997	0.01
Black Rock	1 Day	2,047	0.01
Federated	1 Day	1,989	0.01
Federated Cash Plus	2 Day	4,508	0.04
Goldman Sachs	1 Day	800	0.01
Deutsche	1 Day	6,997	0.01
Total Investments		**23,338**	

5.9 The 2020/21 interest budget assumed that an average interest rate of 0.5% would be earned on the Council's investment portfolio. However as interest rates have been cut to historic lows and with the negative rates being offered in the market this target will not be achieved. However cash balances are higher as a result in the interruption caused due to the pandemic and as such the investment budget should still be achieved this year.

5.10 As at 31 December 2020 the Council's debt portfolio was as follows

Short Term Market Loans

Counterparty	Amount £	Rate	Start Date	Maturity Date
Somerset	5,000,000	1.22%	01/04/2020	04/01/2021
	5,000,000			

PWLB Loans

PWLB	Amount	Rate	Start Date	Maturity Date
PWLB	10,000,000	2.60%	09/02/2017	31/03/2062
PWLB	10,000,000	2.60%	09/02/2017	31/03/2066
PWLB	10,000,000	2.42%	20/06/2017	31/03/2063
PWLB	10,000,000	2.41%	20/06/2017	31/03/2064
PWLB	20,000,000	1.85%	21/11/2017	21/11/2024
PWLB	10,000,000	2.50%	21/11/2017	21/11/2062
PWLB	10,000,000	2.14%	03/12/2018	03/12/2028
	80,000,000			

Compliance with Treasury and Prudential Limits for 2020/21

5.11 The Director of Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2020/21 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Report 2021/22

5.12 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.

5.13 The attached Treasury Management Report 2021/22 (Annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 15 December 2020 and outlines the Council's Prudential Indicators for 2021/22 to 2023/24 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 24 February 2021.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 None.

Director of Finance

6.2 The financial implications are contained within the report.

Equalities Impact Assessment

6.3 None.

Strategic Risk Management Issues

6.4 The Treasury Management Report deals directly with the strategic management of risk associated with the Council's treasury management activities

7 CONSULTATION

Principal Groups Consulted

7.1 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in December.

Background Papers

None

Contact for further information

Stuart McKellar -01344 352180
stuart.mckellar@bracknell-forest.gov.uk
Calvin Orr – 01344 352125
calvin.orr@bracknell-forest.gov.uk

This page is intentionally left blank

The Capital Prudential Indicators 2021/22 – 2023/24

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2021/22 to 2023/24 complements these indicators.

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.

The Capital Expenditure Plans

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants, or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to external factors such as the impact of the wider economy.

The Council is asked to approve the summary capital expenditure projections below and to note the out-turn position reported to the Executive and approved on the 25th August 2020.

Capital Expenditure	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital Expenditure	12,032	8,249	4,999
Commercial Activities	0	0	0
Financed by:			
Capital receipts	3,000	3,000	3,000
Capital grants & Contributions	5,174	5,414	2,364
Net financing need for the year	**3,858**	**-165**	**-365**

The Council's Borrowing Need (the Capital Financing Requirement)
The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Due to the nature of some of the capital expenditure identified above (ie grant), an element will be immediately impaired or will not qualify as capital expenditure for CFR purposes. As such the net financing figure above may differ from that used in the CFR calculation. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). No additional voluntary payments are planned.

The Council is asked to approve the CFR projections below:

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement					
CFR – services	125,461	133,556	139,198	143,003	140,996
CFR - Commercial activities/ non-financial investments	**86,128**	**85,627**	**85,115**	**84,591**	**84,055**
Total CFR	211,589	219,183	224,313	227,594	225,051
Movement in CFR	**-6,264**	**7,594**	**5,130**	**3,281**	**-2,543**

Movement in CFR represented by					
Net financing need for the year (above)	-8,575	5,271	2,599	740	-5,420
Less MRP/VRP and other financing movements	2,311	2,323	2,531	2,541	2,877
Movement in CFR	**-6,264**	**7,594**	**5,130**	**3,281**	**-2,543**

MRP Analysis					
MRP	1,327	1,365	1,553	1,707	1,834
VRP	489	501	512	524	536
Other Financing Repayments	495	457	466	310	507
Movement in CFR	**2,311**	**2,323**	**2,531**	**2,541**	**2,877**

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Statement attached in Annex E(ii)

Minimum Revenue Provision (MRP) Policy Statement

The concept of the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP)

Department for Local Government & Communities (DCLG) issued regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers "prudent". The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in the case of borrowing supported by government, reasonably commensurate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

Further statutory guidance on MRP was issued by Government on 2 February 2018, which largely becomes effective from 1 April 2019. The exception related to the section allowing local authorities to change their approach to calculating MRP at any time, which took effect immediately. A key part of the updated guidance clarified that the duty to make MRP extends to investment properties where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements.

In order to minimise the impact on the revenue budget whilst ensuring that prudent provision is made for repayment of borrowing, the Council moved from the equal instalments method to the annuity method in calculating the annual charge over the estimated life of the asset from 1st April 2017. A variety of options are provided to councils under the regulations and guidance, so long as there is a prudent provision. Having sought advice from Counsel on permissible approaches following the revised guidance, the Director: Finance recommends that Council approves the following MRP Statement.

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

  Based on CFR – MRP will be based on the CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases but excluding CPIS expenditure) the MRP policy will be:

  Asset life method - MRP will be based on the annuity basis, in accordance with the regulations. Repayments included in annual PFI or finance leases are applied as MRP.

- For assets purchased under the Commercial Property Investment Strategy (CPIS) the MRP policy will be:

  Partial deferral method – MRP will be charged at 10% of the property value over a 15 year period to reflect a realistic level of value risk, on the basis that the properties will typically be held for a period of no greater than around 10 to 20 years.

- For all other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future related receipts (including loans to companies wholly or partly owned by the Council) and there is a strong likelihood that this will happen, the MRP policy will be:

  Deferral method - MRP will be deferred and the liability repaid through future capital receipts from disposing of the asset or loan repayments from third parties

There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.

The actual charge made in the year will be based on applying the above policy to the previous year's actual capital expenditure and funding decisions. Therefore the 2020/21 charge will be based on 2019/20 capital out-turn.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020 the total VRP overpayments are expected to be £0.489m.

TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex E(i) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice - 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This Council has adopted the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

The Council's debt and investment projections;
The Council's estimates and limits on future debt levels;
The expected movement in interest rates;
The Council's borrowing and investment strategies;
Treasury performance indicators;
Specific limits on treasury activities;

Debt and Investment Projections 2021/22 – 2023/24
The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed.

	2021/22 Estimated	2022/23 Estimated	2023/24 Estimated
External Debt			
Debt at 31 March	£130m	£130m	£130m
Investments			
Investments at 31 March	£10m	£10m	£10m

Current Portfolio
The overall treasury management portfolio as at 31 March 2020 and for the position as at 31st October 2020 are shown below for both borrowing and investments

	Actual	Actual	Current	Current
	31/03/20	31/03/20	31/10/20	31/10/20
Treasury Investments	£000	%	£000	%
Money Market Funds	16,974	100	24,135	100
External Borrowing	£000	%	£000	%
Local Authorities	15,000	16%	10,000	11%
PWLB	80,000	84%	80,000	89%
Net Treasury Borrowing	78,206		65,865	

Limits to Borrowing Activity
Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, 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 purposes.

The Director of Finance reports that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

The Authorised Limit for External Debt
A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded 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 no control has yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Borrowing	£209m	£213m	£213m
Other long term liabilities	£18m	£18m	£17m
Total	£227m	£231m	£230m

Operational Boundary for External Debt
The Authority is also recommended to approve the Operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same

estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Borrowing	£223m	£227m	£225m
Other long term liabilities	£18m	£18m	£17m
Total	£241m	£245m	£242m

Borrowing in advance of need.
The Director of Finance may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Director of Finance will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

Expected Movement in Interest Rates

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

Link Group Interest Rate View	9.11.20													
	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	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

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 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

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

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, we have seen these yields fall 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. 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.

As the interest forecast table 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 9th 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

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

- **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 on negative yields during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for amending the margins over gilt rates for PWLB borrowing for different types of local

authority capital expenditure. This outcome of the consultation is expected at the end of November 2020.

Borrowing Strategy 2020/21

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), 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.

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

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession as a result of COVID or risks of deflation), then any long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt 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. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Executive at the next available opportunity.

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

Debt rescheduling

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

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;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Executive, at the earliest meeting following its action.

Investment Strategy 2021/22 – 2023/24

Investment Policy

The Ministry of Housing, Communities and Local Government (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.

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

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

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

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: -

1. 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.

2. 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.

3. 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.

4. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix 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.

5. Lending and transaction limits, (amounts and maturity), for each counterparty will be set through applying the matrix table shown under the Council's creditworthiness policy

6. This authority has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

7. All investments will be denominated in sterling.

Creditworthiness policy

This Council applies 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's. The credit ratings of counterparties are supplemented with the following overlays:

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

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 suggested duration for investments. The Council will therefore use counterparties within the following maturities .

Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks	orange	£7m	1 yr
Banks – part nationalised	blue	£7m	1 yr
Banks	red	£7m	6 months
Banks	green	£7m	100 days
Banks	No colour	£0m	0 days
Debt Management Account Deposit Facility	AAA	£10m	6 months
Local authorities	n/a	£7m	1 yr
Money Market Funds (CNAV,LVNAV & VNAV)	AAA	£10m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£10m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m	liquid

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

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored in real time. The Council is alerted to changes to ratings of all three agencies through its use of our 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 immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2021/22 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

Country and Sector Considerations
Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks, Building Societies and Local Authorities, in addition to Sterling denominated AAA Money Market Funds.

Economic Investment Considerations

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Borough Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements
Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% change in interest rates to the estimated treasury management costs for next year. However as all borrowing is fixed any increase in rates will only impact on new borrowing.

	2021/22 Estimated + 1%	**2021/22 Estimated - 1%**
Revenue Budgets	**£'000**	**£'000**
Borrowing costs	500	500

Treasury Management Limits on Activity
There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Maturity structures 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.

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

	2021/22	**2022/23**	**2023/24**
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	£241m	£245m	£242m
Limits on variable interest rates based on net debt	£241m	£245m	£242m
Maturity Structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£m 0	£m 0	£m 0

Performance Indicators
The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2021/22 the relevant benchmark will relate only to investments and will be the "7 Day LIBID Rate" – however the calculation of LIBID and LIBOR are to be retired by the Bank of England – and a new benchmark based on PWLB and Gilts will need to be agreed upon for 2022/23. The results of these indicators will be reported in the Treasury Annual Report.

Treasury Management Advisers
The Council uses Link Asset Services as its treasury management consultants. The Council recognises that responsibility for treasury management decision remains with

the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills 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 subject to regular review.

Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, initial training was provided and additional training was has been undertaken as necessary. Officer training is carried out in accordance with best practice and outlined in TMP 10 Training and Qualifications to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
Term deposits with the UK government or with Local Authority (including Parish Councils) in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 364 Days. *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
Gilts : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Money Market Funds CNAV, LVNAV, and VNAV *These funds do not have any maturity date*	No	Yes	*AAA Rating by Fitch, Moodys or S&P*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
Commercial paper *[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]* *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	*364 Days*
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 Years*
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*5 years*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating?**	**Circumstance of use**	**Maximum maturity of investment**
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 years*
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality. (ii)Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*10 years including but also including the 10 year benchmark gilt*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	*5 years*
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*1 year*