Public Document Pack

ARUN DISTRICT COUNCIL

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15 February 2021

AUDIT & GOVERNANCE COMMITTEE

A meeting of the Audit & Governance Committee will be held on Thursday 25 February 2021 **at 6.00 pm** and you are requested to attend.

Members: Councillors Mrs Erskine (Chairman), Mrs Haywood (Vice-Chair), Bennett, Bicknell, Bower, Brooks, Clayden, Roberts, Ms Thurston and Tilbrook

PLEASE NOTE: *This meeting will be a 'virtual meeting' and any member of the press and public may listen-in and view the proceedings via a weblink which will be publicised on the Council website at least 24 hours before the meeting.*

Different meeting arrangements are in place for the period running from 4 April 2020 to 7 May 2021 from the provisions of the Coronavirus Act 2020 and the meeting regulations 2020, to allow formal 'virtual meetings'.

This Council's revised Rules of Procedures for 'virtual meetings' can be found by clicking on this link: https://www.arun.gov.uk/constitution

For further information on the items to be discussed, please contact: committees@arun.gov.uk

A G E N D A

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

   Members and Officers are reminded to make any declarations of pecuniary, personal and/or prejudicial interests that they may have in relation to items on this agenda and are reminded that they should re-declare their interest before consideration of the item or as soon as the interest becomes apparent.

Members and officer should make their declaration by stating:

a) the application they have the interest in
b) whether it is a pecuniary, personal and/or prejudicial
c) the nature of the interest
d) if it is a prejudicial or pecuniary interest, whether they will be exercising their right to speak to the application

3. MINUTES (Pages 1 - 8)

To approve as a correct record of the Minutes of the meeting of the Audit & Governance Committee held on 19 November 2020.

4. ITEMS ON THE AGENDA THAT THE CHAIRMAN OF THE MEETING IS OF THE OPINION SHOULD BE CONSIDERED AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCE

5. ERNST AND YOUNG - ANNUAL AUDIT LETTER (Pages 9 - 38)

The Annual Audit letter is produced by the Council's external Auditors EY and forms part of the regulatory framework. The Annual Audit letter brings the 2019/20 audit to a conclusion.

The Committee is requested to note the Annual Audit Letter from Ernst & Young LLP.

6. ACCOUNTING POLICIES FOR 2020/21 ACCOUNTS (Pages 39 - 56)

The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2020/21.

7. CAPITAL STRATEGY (Pages 57 - 68)

The report allows the Audit and Governance Committee to consider and comment on the Council's Capital Strategy 2021/22 to 2023/24 before recommending its adoption by Full Council.

8. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY (Pages 69 - 118)

This report presents the Treasury Management Strategy Statement and Annual Investment Strategy 2021/2022 and allows the Committee to scrutinise the report prior to making comment to Full Council on 17 March 2021.

The Committee is requested to recommend Full Council to:

1) approve the Treasury Management Strategy for 2021/22
2) approve the Annual Investment Strategy for 2021/22; and;
3) approve the Prudential Indications for 2021/22, 2022/23 and 2023/24 as contained in appendix 1 and body of the report.

9. ANNUAL INTERNAL AUDIT PLAN (Pages 119 - 124)

Internal Audit is required to develop an annual plan for the following financial year, for agreement by the Committee.

Members of the Committee are requested to agree the outline Annual Internal Audit Plan.

10. PROGRESS AGAINST THE AUDIT PLAN (Pages 125 - 134)

The Committee is required to oversee the provision of an adequate and effective internal audit service. Part of this process is to monitor delivery of progress against the Audit Plan and to receive summaries of reports issued.

Members of the Committee are requested to note the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February 2020 meeting.

11. INFORMATION / ADVISORY DOCUMENTS RECEIVED

None.

12. WORK PLAN REVIEW 2021/22 (Pages 135 - 140)

The Internal Audit Manager will update the Committee on any changes to the rolling workplan for 2021/22.

Note : Reports are attached for all Members of the Committee only and the press (excluding exempt items). Copies of reports can be obtained on request from the Committee Manager).

Note : Members are reminded that if they have any detailed questions would they please inform the Chairman and/or relevant Director in advance of the meeting.

Note : Filming, Photography and Recording at Council Meetings – The District Council supports the principles of openness and transparency in its decision making and permits filming, recording and the taking of photographs at its meetings that are open to the public. This meeting may therefore be recorded, filmed or broadcast by video or audio, by third parties. Arrangements for these activities should operate in accordance with guidelines agreed by the Council and as available via the following link Filming Policy

AUDIT & GOVERNANCE COMMITTEE

19 November 2020 at 6.00 pm

Present: Councillors Mrs Erskine (Chairman), Mrs Haywood (Vice-Chair), Bennett, Bower, Brooks, Clayden, Roberts, Ms Thurston and Tilbrook

Councillors Charles, Coster, Gunner, were also in attendance for all or part of the meeting.

Apologies: None.

309. DECLARATIONS OF INTEREST

There were no declarations of interest made.

310. MINUTES

The Minutes of the meeting held on 30 July were approved by the Committee with the agreement for the Chairman to sign them as soon as practicably possible.

311. INDEPENDENT MEMBERS' REMUNERATION PANEL - REVIEW OF SPECIAL RESPONSIBILITY ALLOWANCES FOR 2021

The Chairman offered her congratulations to Mr John Thompson on his MBE he received this year. She then invited the CEO to introduced his report where he drew Members attention to 1.8 of his report that detailed the new six Service Committees that would be implemented from May 2021 under the Committee Structure he also highlighted that the Panel had made a request that the report would be reviewed within the next 12 months for any changes that may be needed.

The Chairman of the Panel expressed his thanks for the support from Members and Officers. He also extended thanks to Sarah Miles for her additional efforts she contributed during the review. He advised that main items are linked and that wider research proved difficult due to the fact that there are not many other authorities operating under a Committee System and that given the pandemic many authorities were also not prepared to complete research on their behalf which was understandable. He explained that the Panel decided the best way forward was to share the current Cabinet Members allowances equally between the six new Service Committees with the Chairman in receipt of 70% and the Vice Chairman in receipt of 30% of the allowance. In summary he also echoed the CEO and stated that the need for a review to be undertaken in early 2020 was required in order to assess the impact of the new arrangements in operation.

Members then took part in a full debate where the following comments were made. Concern was raised in terms of acceptance of no difference between current Cabinet Members and the new Chairman of each Service Committee, due to the removal of executive decision making. It was also raised that a request for a seminar was denied and therefore was felt that Members were largely in the dark with the regards to the new operation of the new structure. The Chairman drew members attention to sections 3.1 and 3.4 of the Panel's report where these points had been covered and she invited the Chairman of the Panel to provide a more substantive answer. Mr Thompson then advised it was felt that it the Committees would be challenging to Chair as well as ensuring that decisions made were moved forward. He the reiterate the importance of an early review on the new arrangements.

Other opinions expressed were that it was predicted that the workload for backbenchers would increase significantly and that the basic allowance for these Members should also have been reviewed. It was explained that the remit of the Panel's review was to look at the Chairman and Vice Chairman of the new Service Committees only. It was also stated that all Members were and would continue to be in receipt of a basic allowance which covers participation at any meeting attended.

It was then proposed by Councillor Bennett and seconded by Councillor Clayden that;

Each Service Committee Chairman receives £5004.00 and each of the Vice Chairman receives £1,651.00

During the debate on the proposal there were a broad range of views expressed but overall agreement on the reduction to the allowance for the Service Committee Chairman and Vice Chairman was clear. Advice was sought from the CEO and the Financial Services Manager who both supported the views that were being expressed by Members.

The Committee then took the vote on the proposal put forward and this was declared CARRIED

In returning to the substantive recommendations the Chairman invited non-committee members to ask any questions. It was again queried why the recommendations were only focused on the Chairman and Vice-Chairman of the six new Service Committees and not the allowance for the Leader and Deputy Leader of the Council at this time. The Chairman of the Panel reiterated that the terms of reference for the review were agreed by the Audit & Governance Committee in July 2020 and reminded Councillors that the Panel were tightly bound to those terms. With reference to the Leader and Deputy Leader of the Council had been recorded in the report for clarity and should either of those individuals subsequently become a Chairman or Vice-Chairman of one of the six new Service Committees then they would take the new Committee allowance that had just been agreed by the Committee.

The Chairman then drew the debate to a close, she extended a special thanks to the Panel for their hard work in getting the report together in a very short amount of time.

The Committee

RECOMMEND TO FULL COUNCIL that;

(1) each Service Committee Chairman receives an allowance of £5004.00 and each of the Vice Chairman receives an allowance of £1,651.00; and

(2) the recommendations set out in the Independent Panels Report at Appendix 1 be approved.

312. ERNST & YOUNG - AUDIT RESULTS REPORT

Kevin Suter from Ernst and Young, Associate Partner introduced the audit results report to Members. Jason Jones, Account Manager from Ernst and Young provided Members with an overview of key points from the Audit that had been completed.

The Chairman thanked Ernst and Young and the Finance team for all their work during what had been a difficult year.

Following a short discussion, where Members of the Committee echoed the Chairman's comments and expressed thanks to both teams. It was stated that an unqualified audit statement was great news and showed that the Council was working well.

The Committee then noted the audit results report.

313. STATEMENT OF ACCOUNTS 2019/20

(Councillor Tilbrook left the meeting prior to discussion of this item)

The Financial Services Manager confirmed to Members that an unqualified audit opinion on the Financial Statements was an excellent outcome especially in a year where Covid-19 provided very challenging working conditions with increased uncertainty particularly in areas like valuation techniques. She then explained that the management letter of representation on page 203 of the agenda, point 5, provided the reason for not adjusting for the Audit Difference identified during the audit was because the amounts were not material and the extra work would have far outweighed any benefit to the users of the accounts. She then reiterated to Members that the valuation issue was just a disagreement between two sets of valuers. Further work would only have resulted in increased fees which were no real cost to the Council and could have delayed the audit further. And that this and the other audit difference (£152k) made no difference to the Council's available balances overall. As stated in the Audit Results Report these differences were not material to the Accounts which were unqualified.

Turning to the Statement of Accounts she referred Members to the narrative of the report which put the Accounts in to more context as it dealt with the real performance against the original budget. The variation analysis on page 94 of the agenda was in a similar format to the Outturn Report for 2019/20 which had been considered at Cabinet on 20 July 2020. She advised that it showed a very positive outturn due to items like strict monitoring of the establishment, that allows a further transfer of £844 to the Council's funding resilience reserve, which now stood at £5.826m, which was essential for the Council's financial strategy. The outturn report had the advantage of being in the same format as the budget, this was because the financial statements followed accounting standards (International Financial Reporting Standards) rather than local government legislation.

Following discussion,

The Committee

RESOLVED that:

1) they noted the findings of the EY Audit Results Report (previous item on the agenda);

2) approved the Letter of Representation on behalf of the Council in appendix 1; and

3) approved the Statement of Accounts for the financial year ended 31 March 2020 (Appendix 2).

314. ANNUAL GOVERNANCE STATEMENT 2019/20

The Internal Audit Manager advised Members that the Annual Governance Statement was a mandatory document that is required to be published alongside the Accounts and covered the period of April 2020 to March 2021. The Committee had already reviewed the Annual Governance Statement at the 30 July 2020 meeting where they noted the contents, however it was agreed at that meeting that this item would be brought back to the Committee alongside the Statement of Accounts. He then went on to advise Members that since the draft was noted in July, there had been 3 minor changes made, of which he highlighted the detail of too Members.

Following discussion,

The Committee

RESOLVED

that the Annual Governance Statement 2019/20 be approved.

315. TREASURY MANAGEMENT MID-YEAR REPORT

The Senior Accountant provided an overview of the mid-year report to Members where she highlighted point 3 on pages 237 – 241 of the agenda is the economic updated, that had last been updated on 9 November 2020, however she explained that in light of the current economic circumstances that these figures do become out of date very quickly. Point 4 on page 241, she requested that Members note that the CCLA property fund where £5million had been invested was still providing a return of around 4.3% despite Covid-19. She also explained that £1million had been invested in the diversified fund with CCLA and that this was achieving a 3% return. The returns are very challenging as reported on page 242 of the agenda. She explained that the Council was getting now between 0.1% and 0.7% versus previously seeing a return of over 1%. Although the rate of return for this year 20/21 is currently at 0.92% as at September 2020, against the budget of 1.26% this was considerably lower however, the interest received should be in line with the budget.

Following discussion, and thanks from Members for the work completed by the Senior Accountant and her team.

The Committee

RECOMMEND to FULL COUNCIL that:

1) the actual prudential and treasury indicators for 2020/21 contained in the report be approved;
2) the treasury management mid-year review for 2020/21 be noted;
3) the treasury mid-year activity for the period ended 30 September 2020, which has generated interest receipts of £331,00 (0.92%) year to date, against a budget of £550,00 (1.26%) for the full year be noted.

316. DATA PROTECTION BREACH OVERVIEW

The Interim Monitoring Officer provided Members with a full explanation on the seriousness of the breach and the damage that could have been caused reputationally and financially to the Council. He explained that the breach was in relation to an incident that took place after a meeting of the Development Control meeting on 26 May 2020. He confirmed that the Chief Executive sent a confidential email to all Members and information contained within that email had been leaked. He explained that Members were expected to treat emails from Officers in the manner of which they had been sent, specifically in this case, the trust that had been broken due to the confidential matter within the content of the email. He then advised Members that the breach was reported properly to the ICO (Information Commissioner Office) and because of this it was dealt with in a comparatively light way. He also confirmed to members that an investigation had taken place for Officers and Members who had been in receipt of the email. The investigation provided evidence that two Members had forwarded the email outside of the Council, which he explained was very disappointing.

He confirmed that the ICO had made a number of recommendations, that detailed exactly what the Council was required to do in order to rectify the issue and referred Members to section 1.4 of the report where these actions had been set out. He was pleased to confirm that all Officers had completed all the required training. However he found that there was a lack of Members that had signed up the to the I.T Security Policies at the start of his investigations, however he was now pleased to report that all member's had now signed up to these. He reported that in future should these policies not be signed up to when required I.T access would be removed until these had been satisfactorily completed and signed.

In summing up he reiterated that the impact of this case had been set out clearly within the report, but highlighted that the financial penalties for breaches could be huge and that any policies and protection measures put in place were only as good as the Members and Officers that uphold them. He also highlighted that to, recklessly disclose personal data is a criminal offense and the breach should be seen by the Committee as a very near miss and therefore taken very seriously. He stated that the Council had managed the situation very well and that whilst the investigation had revealed that two Members had not followed protocol, he stated it would remain unknown if those two Members were indeed who leaked the information to the Press. The ICO did take into account the work that was done to protect the Council and the fact that, the breach was reported early went in the Council's favour. What the Council does with its data, matters, and the disregard for the protocol's in place was not acceptable, and an aggravating criminal factor, a further aggravating factor was that all Members were asked if they had caused the breach and no one came forward.

The Chairman then confirmed to Members that the recommendations were split into two, the second part were forward looking. She reminded Members that they should avoid discussing personal matters at this time.

During discussion it was commented that it was disappointing to learn that two Members may have been responsible and had not followed protocol. It was asked by several Members if the names of the two Members could and would be released as it was felt that the public had a right to know who they were. It was advised by the Interim Monitoring Officer that due to this being a criminal matter he could not provide names at the meeting, but he was happy to have separate conversations outside of the meeting. It was also asked why the Chief Executive had not referred the two members to the Standards Committee as it was a clear breach of the Councils code of conduct. It was explained that this situation was one that could potentially have more than one legal route to take and it can cause problems when carrying out investigations with the Police for example. It is standard procedure to separate out each option and it was important that the Council not be seen to prejudice or impede any other ongoing investigation.

The Chief Executive advised that he saw the report as part of rounding off the whole investigation internally. He also advised that there was still a possibility that this situation could go to the Standards Committee.

Following further discussion, the Chairman drew the debate to a close by reconfirming that the recommendations in front of the Committee were split in to two parts. She advised that she did not feel there was enough satisfaction in the summary of findings section and confirmed that the Committee were expected to receive a further update along with an additional report to be provided to the Standards Committee.

The Committee

RECOMMEND to FULL COUNCIL that;

1) the summary of findings from the data protect breach be noted by Full Council and the Standards Committee;
2) recognise, engage and fully endorse the importance of all Members and Officers completing mandatory training and adhering to policies, in order to minimise the risk of future data protection breaches;
3) recognise that the Council is responsible and accountable for breaches of data protection, and as such can face large fines, be liable to pay compensation, and suffer adverse reputational damage; and
4) Council IT equipment should not be issued until the relevant security policies have been signed. In the case of re-elected Members who already have equipment, their accounts should be disabled until policies are signed.

317. PROGRESS AGAINST THE AUDIT PLAN

The Internal Audit Manager explained that an audit plan comes to the Committee every February, and as explained at 30 July 2020 meeting, the planned work to the audit plan has been significantly disrupted due to the Pandemic. The team had however been supporting the work on distributing grants. There was a significant overhead on the vast amount of money that was given by the Government. A second lockdown had been put in place and further grants had been distributed. All of these needed to be checked and verified to ensure that any fraudulent cases were highlighted. He explained that the aim was to move back to more normal planned work and a new report would be provided to the Members at the meeting on 25 February 2021.

The Group Head of Corporate Support advised Members that a tremendous amount of work had been completed by the team and it had been invaluable.

Members thanked the Internal Audit Manager and his team for their support and work completed during this year.

The Committee noted the update.

318. INFORMATION / ADVISORY DOCUMENTS RECEIVED

The Committee noted the Cabinet Office report provided.

319. WORK PLAN REVIEW 2020/21

The Work Plan was reviewed and updated in October 2020, however due to the pandemic a further to review and potential changes to timescales for the remaining items would be required.

The Committee noted the update from the Internal Audit Manager

(The meeting concluded at 8.32 pm)

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 25 FEBRUARY 2021

PART A : REPORT

SUBJECT: Annual Audit Letter for the year ended 31 March 2020

REPORT AUTHOR: Carolin Martlew, Financial Services Manager
DATE: January 2021
EXTN: 37568
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Annual Audit Letter for the year ended 31 March 2020 is attached to this report. The Annual Audit letter is produced by the Council's external Auditors EY and forms part of the regulatory framework. The Annual Audit letter brings the 2019/20 audit to a conclusion.

RECOMMENDATIONS:

The committee is requested to note the Annual Audit Letter from the Council's external auditors EY.

1. BACKGROUND:

The Council's external auditors EY reported the detailed findings from the 2019/20 audit in the Audit Results Report, which was considered by the Audit and Governance Committee, before approving the Statement of Accounts for the year ended 31 Mach 2020, on 19 November 2020. The Annual Audit letter brings the 2019/20 audit to a conclusion.

2. PROPOSAL(S):

The purpose of the Annual Audit Letter is for the Council's external auditors to communicate the key issues arsing from the external audit work, which they consider should be brought to the attention of all the members of the Council and external stakeholders, including the public. Members are given the opportunity to raise any issues with the external auditors EY who will be presenting the Audit Letter.

The Annual Audit Letter also raises the issue of audit fees in appendix A. The planned fee for 2019/20 was £43,969. The final fee proposed fee of £76,451 is an increase of £32,482. The fees are still subject to negotiation, with the Public Sector Audit Appointments Ltd (PSAA PSAA), who are the organisation who have to approve the fees charged as part of the contract.

3. OPTIONS:

n/a

4. **CONSULTATION:**		
Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

5. **ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)**	**YES**	**NO**
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		

6. IMPLICATIONS:

7. REASON FOR THE DECISION:

To ensure that members of the Committee are fully informed about of the key issues raised by the audit for 2019/20.

8. BACKGROUND PAPERS:

None

Arun District Council

Annual Audit Letter for the year
ended 31 March 2020

January 2021

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Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment (updated April 2018)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

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Executive Summary

We are required to issue an annual audit letter to Arun District Council (the Council) following completion of our audit procedures for the year ended 31 March 2020.

Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver our audit in line with the revised reporting timescale.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: • Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and • Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

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Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 19 October 2020
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 20 November 2020

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 19 November 2020 Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 21 January 2020 and our subsequent Audit Plan update that we issued on 30 June 2020 to take into account the impact of the Covid-19 pandemic. It is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

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Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 20 November 2020.

Our detailed findings were reported to the 19 November 2020 Audit and Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Risk of fraud in revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.	We documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed. Tested the appropriateness of journal entries recorded in the general ledger between revenue and capital codes. Amended our sample sizes when testing capital additions and Revenue expenditure funded from capital under statute (REFCUS) to reflect the existence of this risk. Agreed samples to source documentation to ensure the classification was reasonable. Our testing did not identify any material misstatements from capitalising revenue spend and REFCUS.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other financial statement risk	Conclusion
Valuation of land and buildings The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer.	We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues. We have reviewed the classification and valuation methods used. Inputs received from our internal property specialists identified one asset, the Bognor Regis Arcade, which was overstated by £1.469m (based on a range of £1.5m - £2m). The value of the asset had increased by 92% since acquisition when, generally, there has been a downturn in the market per the Investment Property Databank Index. Management processed an adjustment of £1.046m based on a revised valuation received from Council's external valuers which has resulted in a £423k judgemental difference remaining measured against the upper range of our valuation. We have reviewed assets not subject to valuation in 2019/20 and confirmed that the remaining asset base was not materially misstated. We reviewed the scope and relationship of the valuer to the Council and identified no issues. We were satisfied that disclosures in the accounts were appropriate concerning the material uncertainty. Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues.

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Financial Statement Audit (cont’d)

The key issues identified as part of our audit were as follows: (cont’d)

Other financial statement risk	Conclusion
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council. The Council’s pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council’s balance sheet. At 31 March 2020 the net pension liability totalled £414k. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We obtained assurances from the auditors of West Sussex County Council Pension Fund that the information supplied to the actuary in relation to Arun District Council was accurate and complete. We have assessed and are satisfied with the competency and objectivity of the Council’s actuaries: Hymans Robertson. We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate. Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position. We identified an adjusting event after reporting date relating to the McCloud judgement, the effect of which decreased the net pension liability by £208k. The Council contacted the actuary for an updated IAS 19 report but opted not to amend the accounts as the difference was immaterial.
Going concern The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake an updated detailed assessment to support its going concern assertion. From an audit perspective, the auditor’s report going concern concept is a 12-month outlook from the approval of the accounts, rather than the balance sheet date. So, for the 2019/20 statements, for example, we needed to see evidence of an assessment up to and including November 2021.	We reviewed the proposed going concern disclosures for inclusion in the financial statements and the Council’s forecast cash flows. In our view no significant uncertainty exists that may cast doubt on the Council’s ability to continue as a going concern. The key issues we reflected on for our assessment relate to a combination of the Council’s liquidity and its level of General Fund reserves. Management’s assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital. We also considered announcements by central government in July to fund Council’s for 75% of income losses (over and above the first 5% reduction) during the pandemic. The Council updated its disclosures in the accounts to reference these factors and we were satisfied with the revised disclosure and that it adequately and sufficiently disclosed material events and conditions in relation to the going concern assumption of the Council and that no material uncertainties exist.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other key findings	Conclusion
Audit differences	In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation. We highlight the following misstatements greater than £0.095m identified during the course of our audit which management corrected: • An overstatement of £1.469m in relation to the Bognor Regis Arcade valuation. Management received a revised valuation from Council's external valuers and processed an adjustment of £1.046m resulting in a remaining difference of £423k, see below; and • Some minor misstatements in disclosures
Audit differences	Management chose not to correct the following misstatements as they were not material and had no impact on the overall financial statements: • £328k bank reconciliation items not cleared relating to payments received for business rates which were not allocated to the debtors account. The payment was sat within bank reconciliation items and not allocated to the cash book and relevant debtors account • £423k judgemental overstatement in relation to valuation differences identified in relation to the Bognor Regis Arcade

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.893m (2019: £2.07m), which is 75% of gross revenue expenditure reported in the draft accounts of £94.638m adjusted for other operating expenditure and other finance and investment expenditure. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.095m (2019: £0.104m)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits.
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

Value for Money

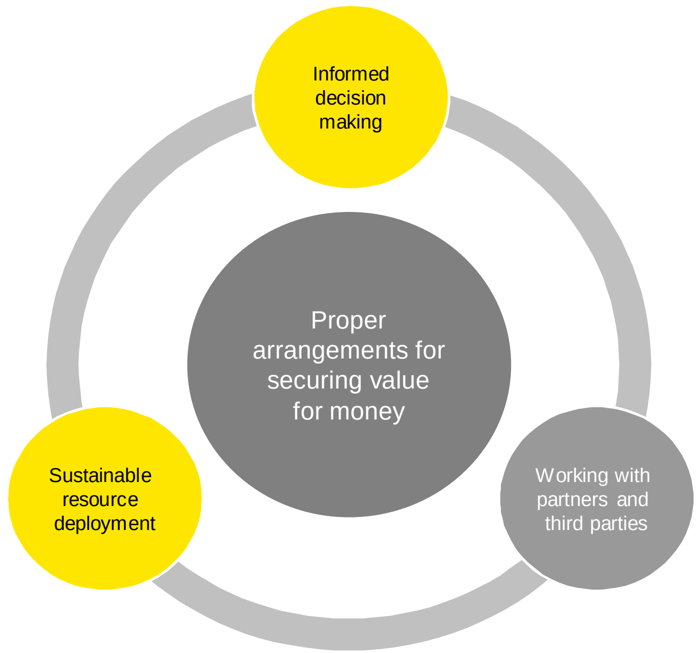
We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Government bodies’ response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We did not identify any significant risks in relation to these criteria. We therefore issued an unqualified value for money conclusion on 20 November 2020.



Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

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We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 20 November 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Other Reporting Issues (cont’d)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2021/22 Accounting Code of Practice for Local Authorities has yet to be released, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the revised 2021/22 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

Appendix A

Audit Fees

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Audit Fees

Our final fee for 2019/20 has been impacted by a range of factors which has resulted in additional work as reported in our Audit Results Report.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	43,969	43,969	43,969	44,745
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 26)	25,226			N/A
Revised proposed scale fee	69,195	43,969	43,969	44,745
Additional work required for going concern and Covid-19 considerations (see Note 1)	3,788			
Additional work required for PPE valuation (see Note 2)	2,536			
Additional specific one-off work required to audit prior year reclassification of Investment Property to PPE (see Note 3)	932			
Total Audit Fee	76,451	43,969	43,969	44,745
Non-audit work – Claims and returns	TBC**	19,879	n/a	19,879

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Audit Fees (cont’d)

Note 1

To engage EY Real Estate, our internal property specialists, to review a sample of valuations of EUV assets, 3 assets in total

Note 2

To review management’s assessment and additional disclosures that were required in relation to going concern and our internal consultation process undertaken to ensure that events and conditions in relation to the going concern assumption are adequately disclosed

Note 3

Additional work to audit the restatement of prior year figures in relation to the reclassification of the Bognor Regis Arcade from Investment Property to PPE due to the change in use of this property from capital appreciation/rental income to economic regeneration, £932.

This additional fee is currently under discussion with the Group Head of Corporate Support and is subject to approval by the PSAA.

**Our fees for the work on the Housing Benefit Subsidy claim will be finalised after the completion of the work, due by 31 January 2021 but our planned fee includes £9,500 in relation to the level of extended testing we are expecting to undertake based on errors identified in the prior year. The HBAP process requires us to undertake extended testing in the current year based on cumulative knowledge and experience, referred to as CAKE testing.

Audit Fees (cont'd)

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees (PSAA fee consulation), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond (Redmond Review) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 10 June 2020 (delayed from March 2020 due to the impact of the coronavirus pandemic)

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement.

EY | Assurance | Tax | Transactions | Advisory

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE ON 25 FEBRUARY 2021

PART A: REPORT

SUBJECT: Approval of Accounting Policies 2020/21

REPORT AUTHOR: Angela Curry, Capital Accountant
DATE: 18/01/2021
EXTN: 37568
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2020/21. At the time of writing this report the deadline for completion of the draft accounts is 31 May 2021 and approval of the final audited accounts 31 July 2021, however this is currently out to consultation which could see the deadline for approval moved to 30 September 2021. Members will be updated once more information is available.

RECOMMENDATIONS:

The Committee is requested to approve the accounting policies that will be applied to the Statement of Accounts 2020/21.

1. BACKGROUND:

1.1 It is the responsibility of the charged with governance (the Audit and Governance Committee) to consider and agree the accounting policies to be applied to the Statement of Accounts for the year ended 31 March 2021.

1.2 The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2021.

2. PROPOSAL(S):

2.1 The Accounting policies are the specific principles, bases and conventions, rules and practices applied by the Council in preparing and presenting the financial statements. The accounting policies included in Appendix 1.

2.2 It should be noted that it is recommended practice for Council's to only adopt Accounting Policies that are relevant to their Statement of Accounts. If during the preparation of the Accounts and external audit issues arise that require

additions to the adopted policies the committee will be updated of any subsequent changes.

3. OPTIONS:

Accounting policies are a statutory requirement and therefore the Committee is requested to approve the accounting policies that will be applied to the Statement of Accounts 2020/21.

4. CONSULTATION:

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial	✓	
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

6. IMPLICATIONS:

The Accounting Policies will be applied to the Statement of Accounts 2020/21.

7. REASON FOR THE DECISION:

To ensure that the Statement of Accounts is prepared using proper accounting practices as required by the Local Government Act 2003.

8. BACKGROUND PAPERS:

The code of Practice on Local Authority on Local Authority Accounting in the United Kingdom 2020/21 Accounts (CIPFA)

Prudential Code (CIPFA)

Note 1 - Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and those Regulations require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Expenditure and Income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet, subject to considerations of materiality.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made, subject to considerations of materiality.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates & Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance for MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Whilst the Council is no longer debt-free, the debt held relates solely to the HRA self-financing settlement, and under current regulations there is no requirement for MRP. However, the Council has an approved loan repayment provision policy which ensures that there will be sufficient funds available to repay the housing debt when it matures.

vii. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statue to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionally the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR:

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of the year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of the likelihood arising from a past event that payments due under statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

viii. Employee Benefits

Benefits Payable during Employment:

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits:

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits:

Employees of the Council are members of The Local Government Pensions Scheme, administered by Hampshire County Council on behalf of West Sussex County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

The Local Government Pension Scheme:

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the West Sussex County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices using an appropriate discount rate.

- The assets of the West Sussex County Council Pension Fund attributable to the council are included in the Balance Sheet at their fair value:

    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:

    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;

    - net interest on the defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the West Sussex County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits:

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

x. Financial Instruments

Financial Liabilities:

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Trade payables (amounts due to contractors and suppliers) are recognised in the accounts when contractual obligations are incurred in relation to exchange of goods and services, rather than when receipts or payments pass from one party to another. The trade payables are accounted for at amortised cost taken as being equivalent to the carrying amount on initial recognition (i.e. the transaction amount).

The financial guarantees given by the Council are not recognised in the Balance Sheet but are disclosed in note 39.

Financial Assets:

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The main classes of financial asset measured at:

- amortised cost
- fair value through profit of loss (PFPL).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost:

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model:

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increase significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measure at Fair Value through Profit and Loss:

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes party to the contractual provision of the financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with three levels (see xxi Fair Value).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and

- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts

A Business Improvement District (BID) scheme applies to Bognor Regis. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council has elected to charge a community infrastructure levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the developments of the area.

The CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure, however, a proportion of the charges may be used to fund revenue expenditure.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

xiii. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value (see xxi). Properties are not depreciated but are revalued annually by a professionally qualified valuer according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

xiv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee:

Finance Leases:

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant, or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases:

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, which matches the pattern of payments in all cases.

The Council as Lessor:

Finance Leases:

The Council has no leases currently determined as finance leases.

Operating Leases:

Where the Council grants an operating lease over a property, the asset is retained in the Balance Sheet. Rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, which matches the pattern of receipts in all cases.

xv. Support Services

Support Services are identified as a separate heading in the Comprehensive Income and Expenditure Statement except for the proportion allocated to the Housing Revenue Account in line with the Council's local reporting format.

xvi. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition:

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. Expenditure on individual items of less than £25k is regarded as de minimis and charged to revenue.

Measurement:

Assets are initially measured at cost, comprising:

- purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be their fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost

- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)

- surplus assets – the current value measurement base is fair value, the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date

- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment:

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation:

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- buildings (other than HRA dwellings) – straight-line allocation over the useful life of the property as estimated by the valuer

- vehicles, plant and equipment – straight-line allocation generally over 5 - 20 years

- infrastructure – straight-line allocation generally over 20 - 40 years

- HRA dwellings – depreciation is based on a calculation of the weighted average remaining useful lives of key components of each dwelling (structure, roof, kitchen, bathroom, boiler and externals).

Where appropriate the individual components of an asset will be depreciated separately. The materiality thresholds for applying componentisation are as follows:

- Assets other than HRA dwellings: Componentisation will only apply to an asset whose depreciable capital value is greater than or equal to £500k.

- HRA dwellings: The basis of depreciation for HRA dwellings serves as a proxy for componentisation as the relevant useful lives are calculated by reference to the weighted average of the useful lives of the key components.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale:

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10k are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government in accordance with statutory requirements. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the Capital Financing Requirement). A further constraint applies to the use of the additional receipts resulting from the Government's policies for reinvigorating the Right to Buy. In accordance with the terms of an agreement between the Council and the Government these receipts can only be used to fund 30% of the cost of new social housing, the remaining 70% being met from other resources. Failure to meet these conditions will result in the receipts being paid to the Government. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xvii. Provisions, Contingent Liabilities and Contingent Assets

Provisions:

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from insurance claim), this is only recognised as income for the relevant service area if it virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities:

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets:

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xviii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xix. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the

General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xx. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxi. Fair Value

The Council measures some of its non-financial assets such as Surplus Assets and Investment Properties and some of its Financial Instruments such as Property Funds and Public Works Loan Board (PWLB) loans at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability

The Council's external valuers measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming the market participates act in their economic best interest. When measuring the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

Valuation techniques are used that are appropriate in the circumstances and for which sufficient data is available, where possible maximising the use of relevant observable inputs and minimising the use of unobservable inputs. These inputs are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

- Level 3 – unobservable inputs for the asset or liability.

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE ON 25 FEBRUARY 2021

PART A: REPORT

SUBJECT: Capital Strategy 2021/22 to 2023/24

REPORT AUTHOR: Carolin Martlew, Financial Services Manager
DATE: 18 January 2021
EXTN: 37568
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The report allows the Audit and Governance Committee to consider and comment on the Council's Capital Strategy 2021/22 to 2023/24 before adoption by Full Council.

RECOMMENDATIONS:

The Committee is requested to recommend to Full Council that the Capital Strategy 2021/22 to 2023/24 be approved.

1. BACKGROUND:

1.1 This strategy forms the framework for capital investment decisions over the next three years and will inform the detailed annual capital budgets over this period. It is closely linked to the Treasury Management Strategy, the Investment Strategy and the Borrowing Strategy.

1.2 The strategy aims to balance capital expenditure needs and expectations (e.g. replacement of business critical IT systems) with the scarcity of available resources.

2. PROPOSAL(S):

2.1 The Treasury Management Code allows authorities to delegate the detailed management of Treasury Management, including the Capital Strategy, to a sub-committee and this responsibility is now delegated to the Audit and Governance Committee. This delegation will facilitate more active discussion of the Capital Strategy and its implementation though overall responsibility will at all times remain with the full Council.

2.2 Capital Strategy 2021/22 to 2023/24 for consideration is included in Appendix 1.

3. OPTIONS: To endorse the Capital Strategy 2021/22 to 2023/24.		
4. CONSULTATION:		
Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial	✓	
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS: The Capital Strategy will inform capital expenditure decisions.		

7. REASON FOR THE DECISION:

To ensure that the capital strategy 2021/22 to 2023/24 is considered before approval by Full Council.

8. BACKGROUND PAPERS:

Prudential Code (CIPFA)

ARUN DISTRICT COUNCIL

CAPITAL STRATEGY - 2021/22 to 2023/24

1. INTRODUCTION

1.1 Overview

CIPFA's Prudential Code requires Councils to have a capital strategy and a requirement for all local authorities from 1 April 2019. The Code states that "In order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

The aim of the capital strategy is to form a framework for capital investment decisions over the next three years which will inform the detailed annual capital budgets over this period.

1.2 Objectives

The purpose of the strategy as per the Code is that it is "intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services, along with an overview of how associated risk is managed and what the implications might be for future financial sustainability."

The Council must demonstrate that it takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability giving due consideration to both risk and reward and the impact on outcomes.

The strategy aims to balance capital expenditure needs and expectations (e.g. replacement of business critical IT systems) with the scarcity of available resources to enable the identification and optimisation of all sources of capital funding and also be flexible enough in order to respond to emergencies and changes in priorities.

It is a collective document involving various departments within the organisation it is not purely a finance function, all the relevant officers should review this document from time to time and it be updated accordingly.

1.3 Scope

The capital strategy specifically focusses on the key areas of capital expenditure and treasury management.

Capital expenditure is strictly defined and is principally expenditure incurred in buying, constructing or improving assets such as land, buildings, vehicles, plant, machinery and intangibles (e.g. computer software). It also includes grant and advances to be used for capital purposes, such as Disabled Facility Grants.

The Council's policy on capitalisation in accordance with the Council's approved accounting policies and procedures, is that expenditure on land, buildings, vehicles, plant, machinery and intangibles over £25,000 will be capitalised, expenditure under these limits is deemed to be a revenue cost.

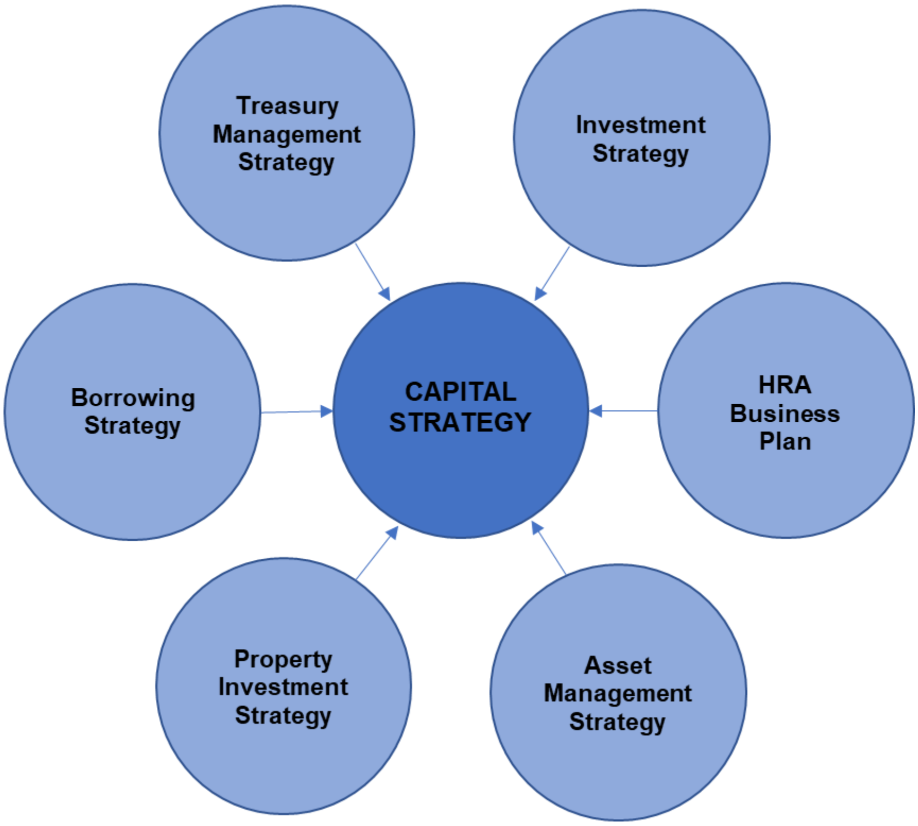
The Capital Expenditure & Financing forecast for the period 2021/22 to 2023/24 can be found in Appendix 1.

Treasury Management is the management of the Council's borrowing, investments and cashflows and is essential in particular when accessing the affordability of a capital project, the Treasury Management Strategy includes:

- The incremental impact of capital investment on council tax and housing rent levels
- The borrowing strategy
- The authorised limit for external debt

1.4 How do existing strategies feed into the Capital Strategy

The strategy maintains a strong and current link to the council's priorities and to other key strategy documents as shown below:



1.5 Member approval and review

As local authorities become increasingly complex and diverse it is important that those charged with governance understand the long- term context in which investment decisions are made and the financial risks to which the Council is exposed. The strategy should therefore contain sufficient detail to allow Council members to understand how stewardship, value for money, prudence, sustainability and affordability will be achieved.

The Treasury Management Code allows authorities to delegate the detailed management of Treasury Management, including the Capital Strategy, to a sub-committee and this responsibility is delegated to the Audit and Governance Committee. This delegation will facilitate more active discussion of the Capital Strategy and its implementation though overall responsibility will at all times remain with the Full Council.

1.6 Strategic Direction of the Council

A key driver of the Capital Strategy is the Council's 2020 Vision programme "working together for a better future". This programme provides strategic direction to help the Council become more effective and sustainable and to enable it to meet the demands of the future. The strands of the Vision programme are:

- Offering a better customer experience
- Strengthening external relationships
- Providing more digital online services
- Becoming smaller and more effective

1.7 Capital Priorities

In common with other local authorities Arun is facing a challenging financial climate and it is therefore essential that systems are in place to ensure that scarce resources are allocated in the most effective possible way and therefore expenditure needs to be prioritised:

Priority	***Type of Projects***
Highest Priority	Unavoidable capital expenditure due to an emergency such as one affecting service continuity or business critcial infrastructure
	Projects that deliver strategic outcomes as per the Council's vision
	Projects necessary to deliver statutory, mandatory and legal/contractual obligations
	Projects that give rise to revenue savings or income generation. These can be developed as invest to save projects
	Projects attracting additional external funding
	Projects which improve and repair Council assets and reduce the need for revenue maintenance
Lowest Priority	Projects that are not for statutory or mandatory purposes, attract low external support, have little or no payback or result in increases in revenue costs

It is the responsibly of senior officers and members to consider and prioritise the competing demands for capital resources.

1.8 Capital Financing

The prudential code requires ‘the local authority shall ensure that all of its capital and investment plans and borrowing are prudent and sustainable.”

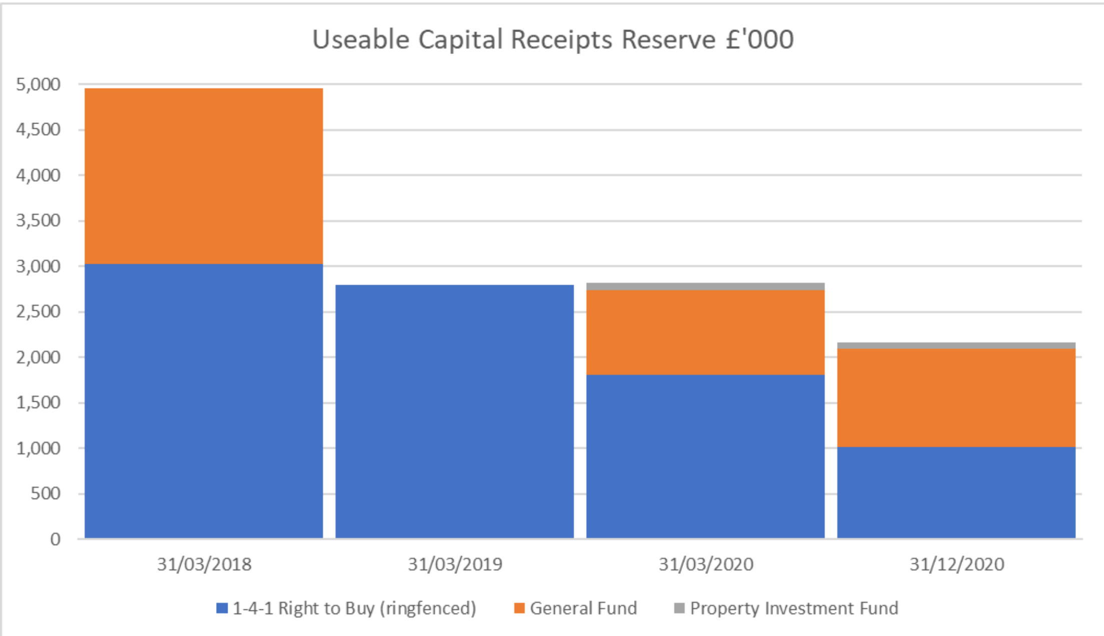
Capital expenditure can be funded in a variety of ways:

CAPITAL FINANCING				
Grants	**Developer Contributions**	**Capital Receipts**	**Revenue Contributions**	**Borrowing**

The funding of any capital project must be considered alongside any ongoing revenue budget requirements as part of the Council’s financial planning.

It should be noted that the Council has extremely limited resources for the funding of capital expenditure. Other than right to buy receipts (as discussed in 2.1) there are very little opportunities for capital receipts, asset disposals are infrequent and although there are a few assets which have been identified as possible disposals this can take years.

The graph below shows how the levels of useable capital receipts have reduced over the last few years as a result of being applied to fund capital expenditure:



With the exception of the PWLB loan taken out on the inception of self-financing of the HRA at the end of the previous subsidy system, the Council currently has no external debt. The expenditure on HRA stock development not funded from 1-4-1 receipts will require external borrowing. It should be noted that due to the cost of borrowing the Council will only consider it as a last resort after all other sources of financing have been exhausted.

1.9 Invest to save

Invest to save is the investment now to transform and reshape services to reduce running costs/generate efficiency savings or earn income to payback the initial outlay. Priority should be given to these projects providing that they are supported by a sound business case and financial appraisal. A good example would be investment in new beach huts, as there is a demand for beach huts (supported by a waiting list), the initial outlay to build new huts would be recovered over a period of years through the rental these would generate.

1.10 Scheme evaluation and risk

Any new proposed capital scheme should be supported by a sound business case/options appraisal and should include a full evaluation of risk, having regard to the whole life costing methodology.

Whole life costing can be defined as "the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset." In practical terms this means that any appraisal of a proposed capital project will need to consider not just the initial capital outlay but all costs and income streams associated with the project that are likely to occur in future years, including possible replacement or disposal costs. This is vital to ensure that the Council is not committing itself to future liabilities that are unsustainable.

Depending on the type of expenditure consideration should be given to the cost/benefit for instance of leasing a piece of equipment over an outright purchase (for instance the costs of repairs and maintenance that may be covered by leasing it).

1.11 Monitoring of approved capital schemes

It is the responsibility of the relevant budget holder and their team to manage costs and to provide explanations for any variations from the approved budget. Budget monitoring statements are presented to Corporate Management Team on a monthly basis and to Cabinet quarterly.

1.12 Post project evaluation

A post project evaluation is required to be undertaken to measure delivery against required project outcomes, not just time and cost. It is again the responsibility of the budget holder to undertake this review. This will help Council for the future as lessons learned can be transferred to new projects and help with such things as benchmarking.

1.13 Separate capital programmes for the HRA and the General Fund

The Housing Revenue Account (HRA) is a statutorily ring-fenced account covering income and expenditure relating to the Council's rented stock and the General Fund covers all other Council services. This ring-fence means that the HRA and the General Fund are completely separate entities, each having their own budget and financial model. For these reasons the HRA and General Fund capital programmes are considered separately, see below.

2. HOUSING REVENUE ACCOUNT (HRA) PROGRAMME

2.1 Stock Development

The HRA capital programme for 2021/22 to 2023/24 will be driven by the updated HRA Business Plan, will be approved in February 2021. One of the key priorities of this plan is the provision of 250 new dwellings over the 10 year life of the plan, the acquisition/building of these dwellings funded from a mix of “1 for 1” Right to Buy receipts and borrowing. Right to buy receipts are retained by agreement with the Government subject to them being used for the provision of new social housing within three years of receipt. These can be used to fund up to 30% of the cost of acquisition/new build schemes, whilst the Council has to fund the remaining 70%. A number of acquisition/new build schemes have already been delivered with new schemes currently progressing.

The initial £15m budget in 2018/19 was supplemented in 2020/21 with an additional £9m. This expenditure is funded from a combination of 1-4-1 right to buy receipts and borrowing. £100k pa is set aside to cover any revenue expenditure such as feasibilities which cannot be capitalised.

2.2 Housing Repairs & Improvements

The updated HRA Business Plan reflects a substantial increase in the levels of investment required in the existing housing stock including statutory compliance which is heavily regulated.

This expenditure is a combination of revenue and capital. The capital includes boiler, kitchen and bathroom replacement programmes as well as reroofing and rewiring.

2.3 Other Expenditure

There are plans to redevelop the sheltered housing stock and therefore additional capital expenditure will be required from 2022/23 onwards, this is subject to a full feasibility has been undertaken.

2.4 Affordability, borrowing and the abolition of the HRA debt cap

The HRA capital programme will need to be constantly reviewed to assess affordability. In particular, consideration will need to be given to the loan servicing costs of any new borrowing to ensure that these costs, together with the costs associated with existing (self-financing) debt can be sustained. This is particularly important in the light of the significant reduction in the number of right to buy disposals. The “1 for 1” Right to Buy receipts being used to part-fund current acquisition/new build schemes are not being replaced by new receipts and there will therefore be insufficient receipts to support future schemes. The Council will thus be required to fund up to 100%, rather than just 70%, of these future schemes resulting in additional loan servicing charges.

3. GENERAL FUND PROGRAMME

3.1 Core & enhanced programme

The Council has a core annual programme comprising:

- Asset Management – the repairs and maintenance of all non HRA land and property assets, generally revenue in nature and therefore mainly funded by revenue contributions.

- Disabled Facilities Grants (DFG's) – these grants pay for essential adaptations to help people with disabilities stay in their own homes. The DFG programme is entirely funded by a Better Care Fund Government Grant.

In addition, the Council also has an enhanced programme of expenditure which is based on the additional requirements for the year, expenditure will likely be more of a capital nature. The expenditure comprises of such things as:

- Asset management – a programme of larger one-off projects, more likely to be capital expenditure, for instance a schedule of public convenience refurbishments over the next 3 years.

- Play areas – a programme of play area replacements for the next five years, most expenditure is capital and is funded from a combination of external funding, capital receipts, developers' contributions and revenue.

- ICT – the replacement of business-critical systems over a period of 5 years which is normally the useful life of a piece of software.

- Other one offs – for instance replacement of life expired pieces of equipment, regeneration projects.

The key issue with the enhanced programme is the uncertainty with regard to future funding levels. The Council's Medium-Term Financial Strategy (MTFS) recognises that capital investment needs to be carefully prioritised due to limited amount of Council resources.

3.2 Asset Management Strategy

The asset management strategy establishes the priorities for this programme having regard to asset condition and their respective priorities in terms of delivering Council services or generating rental income.

The core asset management programme is supplemented with additional budget as a result of a review in 2019 of the condition of the Council's General Fund assets. This revealed that after years of under investment that significant funding would be required to ensure that they are maintained at an acceptable standard to allow the Council to continue to delivery its services.

3.3 Property Investment Strategy

This strategy sets out the policies relating to the Property Investment Fund which aims to generate a return for the Council through property acquisitions. These are funded by earmarking a proportion of the Council's capital receipts from land and property disposals. Acquisitions can only be made once a full business case has been completed and the risks fully understood and evaluated. Further details are set out in the Arun District Council Property Investment Strategy 2017–2022 as amended by Cabinet 13 January 2020.

3.4 Affordability and available resources

In addition to considering the merits of individual schemes the Council will need to assess the overall affordability of any new programme, having regard to the availability of resources, existing financial commitments and the projected level of balances forecast in the medium term financial strategy.

3.5 Specific resource issues

Grants and Section 106 contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant grant or section 106 contribution. There is little, if any, latitude in the way grant funding can be applied.

Capital receipts are derived from the sale of the Council's assets, including council houses sold under the Right to Buy. It is the Council's policy to use these receipts (with the exception of "1 for 1" Right to Buy receipts which can only be used for the provision of new social housing) to support the General Fund capital programme. A specified proportion of these receipts will be earmarked for the Property Investment Fund (see 3.3 above).

Revenue contributions are a flexible source of funding, but they put an immediate strain on the General Fund balance and can therefore only be used to a limited extent.

Borrowing spreads the cost over a number of years but loan servicing costs and the overall level of debt exposure both need to be considered and clearly flagged in a business case.

Appendix A

Capital Expenditure & Financing 2021/22 to 2023/24

			2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000
Expenditure	General Fund	Asset Management	1,582	1,233	1,499
		Disabled Facilities	1,400	1,400	1,400
		Play Areas	100	255	100
		ICT	120	315	200
		Chipper	26	0	0
			3,228	3,203	3,199
	HRA	Repairs	4,632	4,524	4,524
		Stock Development	100	100	100
		Sheltered Accommodation*	0	2,000	2,000
			4,732	6,624	6,624
	Total Expenditure		***7,960***	***9,827***	***9,823***
Financing	General Fund	Revenue	1,711	1,603	1,699
		Capital Receipts	117	200	100
		Improvement Grants	1,400	1,400	1,400
			3,228	3,203	3,199
	HRA	MRR	4,602	4,494	4,494
		Revenue	130	380	380
		Borrowing	0	1,750	1,750
			4,732	6,624	6,624
	Total Financing		***7,960***	***9,827***	***9,823***

* Subject to full feasibility/options appraisal

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ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE
ON 25 February 2021

PART A: REPORT

SUBJECT: Treasury Management Strategy Statement and Annual Investment Strategy 2021/22

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)
DATE: January 2021
EXTN: 37861
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The purpose of this report is to present the Treasury Management Strategy Statement and Annual Investment Strategy 2021/2022 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council (17 March 2021).

RECOMMENDATIONS:

The Committee is requested to recommend Full Council to:

(i) approve the Treasury Management Strategy for 2021/22;
(ii) approve the Annual Investment Strategy for 2021/22; and
(iii) approve the Prudential Indicators for 2021/22, 2022/2023 and 2023/24 as contained in appendix 1 and the body of the report.

BACKGROUND:

1 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

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

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the Full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

- **Prudential and Treasury Indicators and Treasury Strategy** (this report) - The first and most important report is forward looking and covers:
  - the capital plans (including prudential indicators) (2.0);
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time) (2.4);
  - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators (3.0); and
  - an investment strategy (the parameters on how investments are to be managed) (4.0).

- **A Mid-Year Treasury Management Report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. The Audit and Governance Committee will receive a mid-year report at its November meeting prior to approval by Full Council.

- **An Annual Treasury Report** – This is a backward looking review document providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy which the Audit and Governance Committee will receive at its July meeting prior to approval by Full Council.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management Issues
- the current treasury position;

- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

A Voluntary Repayment Provision (VRP) is sufficient as Arun’s debt is all HRA. However, there is a possibility that the Council may wish to borrow for General Fund purposes at some point in the future.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. Accordingly, all members were invited to attended a workshop presented by Link Asset Services (Treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The last session was held on 21st November 2019 and the next one is planned for 29th July 2021).

The training needs of treasury management officers are reviewed periodically and senior officers attend seminars at least once a year. Since Covid 19 there have been more bite size webinars from various organisations, which are attended by Treasury officers regularly.

1.5 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

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

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 subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions) and 1 commercial type investment (East Preston Depot). Any further commercial type investments will require specialist advisers in relation to this activity.

2 The Capital Prudential Indicators 2021/22 to 2023/24 (Appendix 1)

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

2.1 Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Council's capital expenditure is considered as part of the budget setting process and a report for approval is going to Full Council on 17th February 2021.

Currently Arun's only borrowing relates to the HRA self-financing settlement. However, the Council has a significant capital programme including HRA acquisition/new builds and smaller projects such as work to carparks, public convenience's, cemeteries, and some infrastructure projects. Much of this programme will be funded from capital receipts and revenue resources but it is possible that additional borrowing will be required at some point in the future, however the source has not yet been identified.

The need to borrow is reviewed annually as part of the Treasury Management Strategy and budget setting process and will be dependent on the HRA Business Plan and the Capital programme.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need;

Capital Expenditure	Actual 2019/20 £'000	Current Estimate outturn 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
Non HRA	2,676	2,793	3,228	3,203	3,199
HRA	5,045	7,211	4,732	6,624	6,624
HRA settlement	-	-	-	-	-
Total	**7,721**	**10,004**	**7,960**	**9,827**	**9,823**
Financed by:					
Capital receipts (1-4-1)	1,261	1,726	117	200	100
Capital grants	2,308	1,544	1,400	1,400	1,400
Capital reserves	1,649	1,500	4,602	4,494	4,494
Revenue	188	1,251	1,841	1,983	2,079
	5,406	**6,021**	**7,960**	**8,077**	**8,073**
Net financing need for the year	**2,315**	**3,983**	**0**	**1,750**	**1,750**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council is asked to approve the CFR projections in Appendix 1 also shown below:

CFR at 31 March	Actual 2019/20 £,000	Current Estimate 2020/21 £,000	Estimate 2021/22 £,000	Estimate 2022/23 £,000	Estimate 2023/24 £,000
Capital Financing Requirement					
General Fund	(4,009)	(4,223)	(4,442)	(4,642)	(4,729)
HRA	52,365	50,865	49,914	53,024	51,390
Total CFR	**48,356**	**46,642**	**45,472**	**48,382**	**46,661**
Movement in CFR	**(3,362)**	**(1,714)**	**(1,169)**	**2,910**	**(1,721)**
Movement in CFR represented by					
Leasing arrangements (GF)	0	0	0	0	0
HRA unfinanced / Internally financed	2,315	2,044	2,727	4,870	246
Repayments	(1,923)	0	0	0	0
Less MRP/VRP	(3,754)	(3,758)	(3,896)	(1,960)	(1,967)
Movement in CFR	**(3,362)**	**(1,714)**	**(1,169)**	**2,910**	**(1,721)**

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Fund balance	16.03	14.22	13.11	10.22	10.47
Earmarked Reserves	15.77	19.84	11.53	11.09	10.65
Capital Receipts	2.81	1.61	1.46	1.49	1.62
Other	1.68	1.73	2.25	2.25	2.25
Total core funds	**36.29**	**37.40**	**28.35**	**25.05**	**24.99**
(Under)/Over borrowing	22.41	23.30	17.61	14.53	7.01
Expected investments	**58.70**	**60.7**	**45.96**	**39.58**	**32.00**

2.4 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the Full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the MRP Statement in Appendix 2, written in previous years with no revisions at this time. The policy will need to be reviewed at such time as the need to borrow has been agreed. There may also be further HRA borrowing relating to the current acquisition/new build programme.

The Council does not currently have any General Fund external debt and therefore is not statutorily required to make Minimum Revenue Provision (MRP) in respect of its CFR, but there is a requirement for a charge for depreciation to be made.

It is considered prudent to make VRP in respect of the PWLB maturity loans funding the HRA self-financing settlement payment. The table shows the VRP reducing the CFR. The VRP is incorporated in the HRA Business Plan and in the 2021/22 HRA budget. If borrowing is taken out for general fund in 2021/22, the MRP policy will need to be reviewed.

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 there were no VRP overpayments.

2.5 Affordability Prudential Indicators

This report covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator contained in Appendix 1.

Ratio of financing costs to net revenue stream.

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

	Actual 2019/20 %	Current Estimate 2020/21 %	Estimate 2021/22 %	Estimate 2022/23 %	Estimate 2023/24 %
Non-HRA	-3.08%	-2.17%	-1.90%	-1.90%	-1.90%
HRA	32.87%	32.84%	32.32%	20.05%	20.58%

3 <u>Borrowing</u>

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 **Current Portfolio Position**

The Council's Treasury Investment and debt portfolio position at 31 March 2020 and 31 December 2020 summarised below;

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.20	**31.3.20**	**31.12.20**	**31.12.20**
Treasury investments	£000	%	£000	%
banks	35,000	60%	59,000	79%
building societies – unrated	2,000	3%	2,000	3%
building societies – rated	0	0%	0	0%
local authorities	7,000	12%	2,000	3%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	9,700	16%	4,000	5%
certificates of deposit	0	0%	0	0%
Total managed in house	**53,700**	**91%**	**67,000**	**90%**
diversified funds	0	0%	2,000	3%
property funds	5,000	9%	5,000	7%
Total managed externally	**5,000**	**9%**	**7,000**	**10%**
Total treasury investments	**58,700**	**100%**	**74,000**	**100%**
Treasury external borrowing				
local authorities	0	0%	0	0%
PWLB	44,320	100%	44,320	100%
LOBOs	0	0%	0	0%
Total external borrowing	**44,320**	**100%**	**44,320**	**100%**
Net treasury investments / (borrowing)	**14,380**	**0**	**29,680**	**0**

The investments held at 31st December 2020 are shown in Appendix 3.

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt					
Debt at 1 April (HRA)	**53.18**	**44.32**	**44.32**	**38.19**	**50.67**
Expected change in Debt	0.00	0.00	2.73	12.49	0.25
Re-payments (HRA debt)	0.00	0.00	(8.86)	0.00	0.00
Other long-term liabilities (OLTL)	0.00	0.75	0.53	0.33	0.25
Actual gross debt at 31 March	**44.32**	**45.07**	**38.72**	**51.01**	**51.17**
Capital Financing requirement – HRA	53.59	50.86	49.91	53.02	51.39
Capital Financing requirement - GF	(1.87)	(4.22)	(4.44)	(4.64)	(4.37)
The Capital Financing Requirement	**51.72**	**46.64**	**45.47**	**48.38**	**46.66**
Under / (over) borrowing	1.46	1.57	6.75	(2.63)	(4.51)

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council's only borrowing relates to the HRA Self-Financing settlement (initially £70.9m on 28/3/2012 now £44.32m). Prior to this borrowing being undertaken, the Council had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a result, in 22/23 and 23/24 Arun's gross debt is expected to exceed its CFR.

The Group Head of Corporate Support reports that the Council complied with the prudential indicators 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 the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

3.2.1 The Operational Boundary.

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The Council is requested to approve an operational boundary of £50M in Appendix 1 (2021/22).

3.2.2 **The Authorised Limit for external debt.**

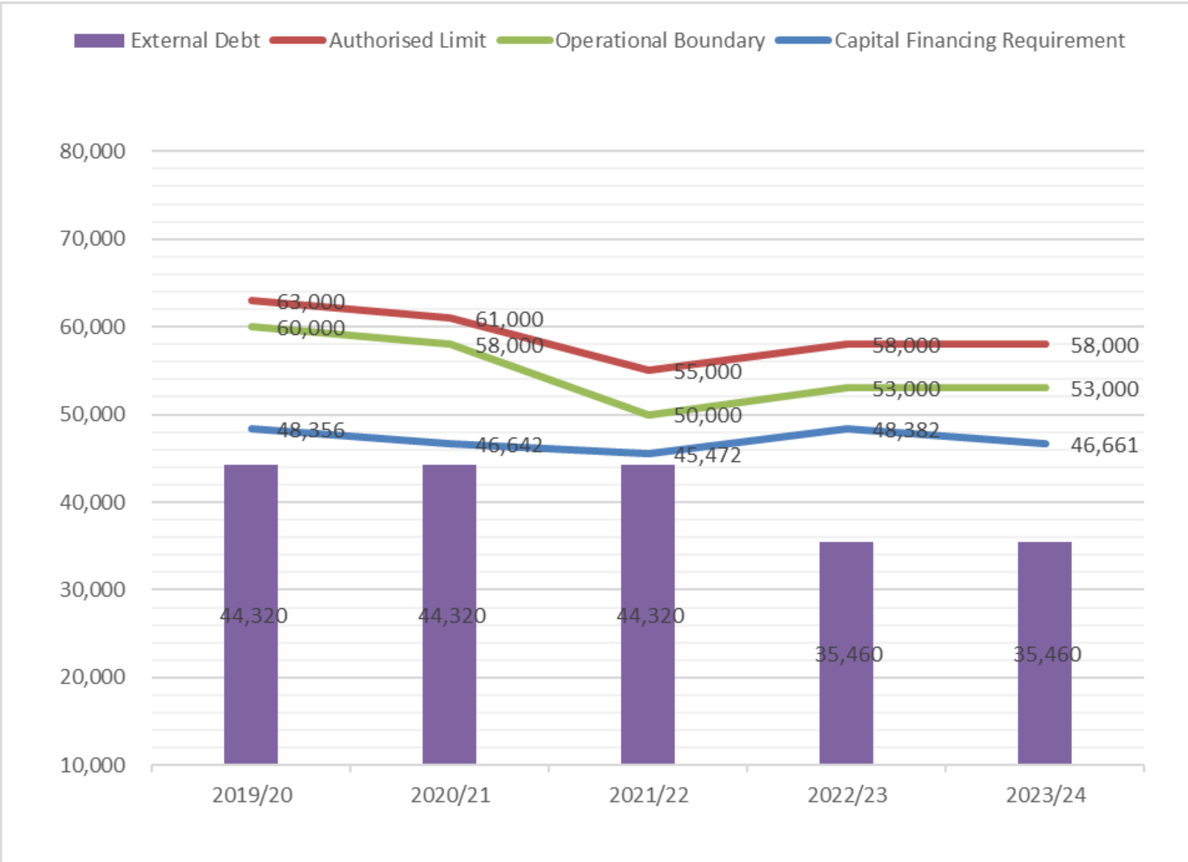
This is a key prudential indicator represents a control on the maximum level of borrowing.

This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the 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.

i. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

ii. The Council is asked to approve an Authorised Limit of £55M appendix 1 (2021/22).

3.2.3 The chart below shows the Councils projection of CFR and borrowing.



The bars in the chart above show the actual external debt (£44M-35M) and does not include any potential future borrowing. The Authorised limit and operational boundary factor in up to £15m potential borrowing (by 2022/23) for new acquisitions, garages and financing of unfinanced expenditure. The debt repayment on 28 March 2022 is shown in 2022/23 (reducing the borrowing from £44M to £35M at this date).

3.3 Prospects for Interest Rates

3.3.1 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11.8.20. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

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

3.3.2 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 16th December, 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 near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

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 negative 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. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, 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 reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. (Our advisors have concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.) It also introduced the following rates for borrowing for different types of capital expenditure: -

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

- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

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

- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows.

3.4 Borrowing Strategy

3.4.1 The Council has a significant capital programme including HRA acquisition/new build. The level of expenditure within the HRA will almost certainly require additional borrowing. which will be reflected in the HRA 30 year financial model which will form an integral part of the Business Plan. The HRA business plan will include a programme of new build/stock acquisition, in addition to ongoing maintenance and decent homes programme.

The source of any of this potential borrowing has not been identified at the time of writing. There may also be a requirement to borrow for other new projects / opportunities, but this would need to be dependent on a viable business case which fully justifies the investment.

The Council's borrowing strategy will give consideration to new borrowing in the following order or priority;

- Internal borrowing;

  By running down cash balances and foregoing interest earned at historically low rates, as this is the cheapest form of borrowing, however, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years;

- External borrowing;

  - the PWLB Certainty Rate is available to the Council at 0.2% below the normal terms (the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing) or;

  - borrowing from the money markets, most probably other local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate, depending on market conditions at the time.

The degree which any options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing, but our advisors will keep us informed.

There may be an occasional need to borrow for liquidity purposes especially as the Council no longer has an overdraft facility. The facility was removed as banking costs made it very expensive and rather than incurring any costs for the facility, the treasury team now maintain an approximate £200k balance in the account daily. Since the coronavirus outbreak this balance has not been earning any interest but is needed to cover any urgent requirements.

The borrowing activity is constrained by prudential indicators for borrowing and the CFR, and by the authorised limit.

3.4.2 **Maturity structure of borrowing**

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

The Council is asked to approve the treasury indicators and limits in Appendix 1 also shown below:

Maturity structure of fixed interest rate borrowing 2021/22			
	Actual at 31/03/21	**Lower**	**Upper**
Under 12 months	20%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	20%	0%	60%
10 years and above	60%	0%	100%

The Council currently has no variable rate borrowing.

3.5 Policy of Borrowing in Advance of Need

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.

3.6 Debt Rescheduling

The only loans that the Council currently hold are those taken to fund the housing reform payment.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

If rescheduling was done, it will be reported to Full Council at the earliest meeting following its action.

4 Annual Investment Strategy

4.1 Investment Policy – management of risk

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 Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, where the rates are exceptionally low and, in some cases, negative, it is considered appropriate to keep investments short to cover cash flow needs, which are not always clear with the current pandemic. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in longer periods with high credit rated financial institutions, as well as wider range fund options for diversification.

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 Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 6 under the categories of 'specified' and 'non-specified' investments.

- **Specified investments;** (these are considered low risk assets where the possibility of loss of principal or investment income is small) are those with a high level of credit quality and subject to a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18month deposit would still be non-specified even if it has only 11 months left until maturity.

5. **Lending limits**, (amounts and maturity), for each counterparty category will be set. (Appendix 6).

6. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (Appendix 1).

7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (Appendix 8).

8. All investments will be denominated in **sterling**.

9. 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.

10. The Council may invest in investments that are termed **"alternative investments".** These include, but are not limited to, things such as renewable energy bonds (Solar farms). These are asset backed bonds, offering good returns, and will enable the Council to enter new markets, thus furthering the diversification of our investment portfolio with secured investments and enhancing yield. Any investments entered into of this type will be subject to a full due diligence review prior to investment. (Category 8, Appendix 6)

11. The Council may invest in **Open Ended Investment Companies (OEICs)** such as diversified funds (currently the CCLA property fund and diversified fund) subject to due diligence. These funds diversify the risk and offer a return of approximately 4% & 3% respectively. (Category 11 & 12, Appendix 6)

12. As a result of the change in accounting standards for 2019/20 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing,

Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

The Council does not strictly adhere to the advisor's suggested lending list and durations, but does take account of the advice offered before making any investment decisions. The Council will take advantage of any attractive rates available from counterparties of high creditworthiness for longer periods while interest rates remain extremely low. Our advisors forecast for a rate hike is not till after March 2024.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Council achieves a high credit quality by using a minimum rating criteria (where rated). It does not use the approach suggested by CIPFA of using the lowest common denominator method of selecting counterparties as some rating agencies are more aggressive in giving low ratings than others. The Council applies a majority rule where a counterparty would be removed immediately from the lending list if 2 or more rating agencies downgrade the counterparty below the minimum criteria. The Council's minimum criteria can be seen in Appendix 7.

Additional requirements under the Code require the Council to supplement credit rating information, which the Council achieves using 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 & 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.

All credit ratings are monitored weekly and the Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn 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 daily basis via its Passport website, provided exclusively to it by Link Asset Services. 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, as well as information on any external support for banks to help support its decision-making process.

The current list of approved counterparties is included in Appendix 7. Lloyds being the incumbent bank, has no limit however the Council will only invest up to £11M in term deposits with them.

4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

Non-specified investment limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being £18M (21/22) of the total investment portfolio.

The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent) as per the creditworthiness policy. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

No more than 25% will be placed with any individual non-UK country or 50% total non-UK at any time.

The exception to this policy is the UK, which is currently rated AA- by 2 of the rating agencies. If the UK's credit rating should fall below the minimum criteria set above, investment will continue to be made in UK financial institutions if after careful consideration it is deemed appropriate to do so.

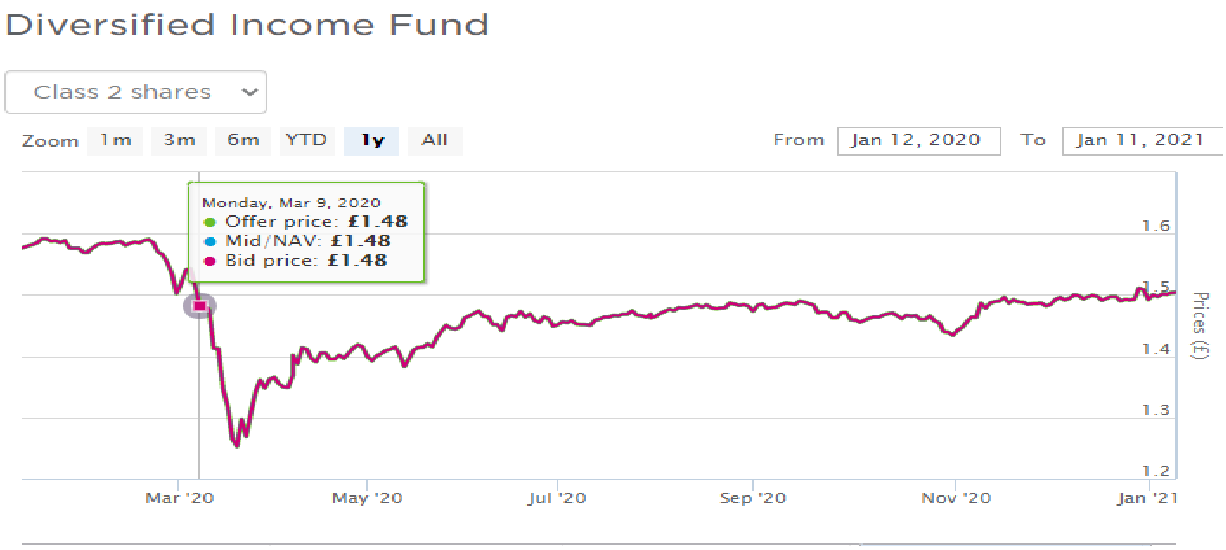
The Council does not currently use sector limits e.g. banks v. building societies due to the limited number of quality counterparties available. The Council has a limit of between £4M and £12M (see Appendix 6 and 7 for investment categories) which can be invested with a single counterparty (or group) depending on the credit quality of the counterparty.

Every effort will be made to spread the maturity profile of investments to compensate for the lack of sector or country spreads (due to limited counterparties).

4.4 Investment Strategy

The Council does not utilise external fund managers, but reserves the option to do so in the future should this be deemed to be appropriate, although it does invest in pooled funds. Should consideration be given to exercising the option of external fund managers in the future, the relevant Committee will be advised of the reason for doing so.

The Council's funds are therefore all managed in-house although £7m is invested in pooled funds - £5m in a property fund and £2m in a diversified fund run by CCLA (Churches, Charities and Local Authorities). As agreed on 13 Feb 20 and approved by Full Council on 15 July 20, diversified funds were added to the investment strategy to enhance diversification of the Council's investments. As a result, £1m was invested on 21 August and a further £1m investment was made on 22 December 2020 into the CCLA Diversified Income Fund. Anticipated returns are around 3% with the added advantage of much higher liquidity than the property fund (as below). At 31 December 2020 the market value of the £2m put into the diversified fund was £2,001,399.49.



	End of	Dec-20	Nov-20	Oct-20	Sep-20	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Feb-20
Diversified Income Fund												
	Fund Size £m	177.80	175.87	169.91	173.40	176.03	173.04	171.16	170.72	164.66	156.90	172.02
Class 1	Price £	1.5501	1.5418	1.4896	1.5157	1.5387	1.5212	1.5047	1.5007	1.4694	1.4180	1.5600
	Dividend on XD Date £	0.0115			0.0128			0.0153			0.0122	
	Dividend - Last 12 Months £	0.0518	0.0522	0.0522	0.0522	0.0513	0.0513	0.0513	0.0508	0.0508	0.0508	0.0508
	Dividend Yield on Price %	3.34	3.38	3.50	3.44	3.34	3.38	3.41	3.38	3.45	3.58	3.26
Class 2	Price £	1.4924	1.4846	1.4343	1.4594	1.4816	1.4648	1.4488	1.4451	1.4149	1.3655	1.5023
	Dividend on XD Date £	0.0111			0.0124			0.0149			0.0118	
	Dividend - Last 12 Months £	0.0501	0.0505	0.0505	0.0505	0.0497	0.0497	0.0497	0.0493	0.0493	0.0493	0.0494
	Dividend Yield on Price %	3.36	3.40	3.52	3.46	3.35	3.39	3.43	3.41	3.48	3.61	3.29
Class 3	Price £	1.5017	1.4936	1.4430	1.4684	1.4906	1.4737	1.4578	1.4538	1.4234	1.3738	1.5112
	Dividend on XD Date £	0.0109			0.0122			0.0147			0.0117	
	Dividend - Last 12 Months £	0.0494	0.0499	0.0499	0.0499	0.0492	0.0492	0.0492	0.0490	0.0490	0.0490	0.0491
	Dividend Yield on Price %*	3.29	3.34	3.46	3.40	3.30	3.34	3.37	3.37	3.44	3.57	3.25

The average level of funds available for investment purposes is currently £72M (as at 31 December 2020). These funds are partially cash-flow derived and there is a core balance of approximately £59M which is available for investments over a year (maximum 5 years or 25 years for property funds). The core balance is comprised of funds that are available due to a number of factors including the setting aside of funds to repay the HRA loans (£3.5M) for when they become repayable, the Earmarked Reserves, Capital Receipt, General Fund and HRA balances which were £15.77m, £2.81m, £8.76m and £8.95m at 31 March 2020 respectively.

Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

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

The Council has the following spanning the financial year and there are no forward commitments (deals) for the financial year 2021/22;

- £5m invested in the CCLA property fund
- £2m invested in the CCLA diversified fund

Investment returns expectations.
The Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from

money market-related instruments will be sub 0.50% for the foreseeable future.

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

Average earnings in each year	Now	Previously
2020/21	0.10%	0.10%
2021/22	0.10%	0.10%
2022/23	0.10%	0.10%
2023/24	0.25%	0.25%
2024/25	0.75%	0.75%
Long term later years	2.00%	2.00%

- The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and shorter term PWLB rates until 2023/24 at the earliest.

Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

The Council's budgeted rate of return for 2021/22 is 0.64% based on 0.70% of funds that are already invested; 4.0% for the property fund (£5M), 3.0% for the diversified fund (£1m but has now been increased to £2m); 0.21% for the remaining core balances; and 0.15% for short term cash flow derived balances. The total investment income budget for 2021/22 is £332,000 (compared to £550k in 2020/21) which highlights the severely reduced rates contributing to the returns.

For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest. Currently the Santander and Svenska Handelsbanken notice accounts are outperforming many short-term fixed deposit rates.

The Council currently uses three types of Pooled Funds; property Funds, diversified funds and MMFs. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns particulary in the case of the property and diversified funds.

MMFs are used for short term daily surpluses of cash as they provide instant liquidity with high quality counterparties, but due to the pandemic, like other institutions, the rates are extremely low (0.01% - 0.044%).

The MMFs are "triple A" rated, liquid, and are currently all LVNAV (Low Volatility net asset value). This is a change from the previous constant net asset value (CNAV) as a result of the MMF reform where typically for every pound of principal invested you got a pound back. It is not guaranteed, but LVNAV offers better protection than using the VNAV (Variable net asset value) MMFs.

LVNAV MMFs are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limits in appendix 1 (shown below- top line):

Upper limit for principal sums invested for longer than 365 days			
£m	**2021/22**	**2022/23**	**2023/24**
Principal sums invested for longer than 365 days	£18m	£15m	£13m
Current investments as at 31/12/21 in excess of 1 year	£7m	£7m	£7m

4.5 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded, although this is negative currently. The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 Scheme of delegation

Please see Appendix 9.

4.8 Role of the section 151 officer

Please see Appendix 10.

Contact: Sian Southerton ext 37861 sian.southerton@arun.gov.uk

2. PROPOSAL(S): To approve all 3 recommendations.		
3. OPTIONS: The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is to follow the proposal.		
4. CONSULTATION:		
Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		√
Relevant District Ward Councillors		√
Other groups/persons (please specify)	√ Treasury Advisors	
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: **(Explain in more detail at 6 below)**	**YES**	**NO**
Financial	√	
Legal		√
Human Rights/Equality Impact Assessment		√
Community Safety including Section 17 of Crime & Disorder Act		√
Sustainability		√
Asset Management/Property/Land		√
Technology		√
Other (please explain)		
6. IMPLICATIONS: Approval will enable the Council to comply with legislation and provide a Treasury Service		

7. REASON FOR THE DECISION:

Statutory and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:

- The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)
- CIPFA'S Treasury Management in the Public Services: Code of Practice (2017)

(Link not available as copyright)

- The Prudential Code for Capital Finance in Local Authorities (2017)

Cipfa Treasury Management Guidance notes (2018) *(Link not available as copyright)*

- MHCLG's Guidance on Local Government Investments ("the Guidance")

Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2019/20	2020/21	2021/22	2022/23	2023/24
Extract from budget and rent setting report	**Actual**	**Probable outturn**	**Original**	**Original**	**Original**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure					
Non – HRA	2,676	2,793	3,228	3,203	3,199
HRA	5,045	7,211	4,732	6,624	6,624
TOTAL	**7,721**	**10,004**	**7,960**	**9,827**	**9,823**
Ratio of financing costs to net revenue stream					
Non – HRA	-3.08%	-2.17%	-1.90%	-1.90%	-1.90%
HRA	32.87%	32.84%	32.32%	*20.05%	20.58%
Capital Financing Requirement as at 31 March					
Non – HRA	-4,009	-4,223	-4,442	-4,642	-4,729
HRA	52,365	52,865	49,914	53,024	51,390
TOTAL	**48,356**	**46,642**	**45,472**	**48,382**	**46,661**
Annual change in Cap. Financing Requirement					
Non – HRA	-2,133	-214	-218	200	-87
HRA	-1,229	-1,500	-951	3,110	-1,634
TOTAL	**-3,362**	**-1,714**	**-1,169**	**2,910**	**-1,721**

*The provision for debt repayment has been reduced

2. TREASURY MANAGEMENT INDICATORS	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Probable outturn	Original	Original	Original
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	63,000	60,000	54,000	57,000	57,000
Other long term liabilities	0	1,000	1,000	1,000	1,000
TOTAL	**63,000**	**61,000**	**55,000**	**58,000**	**58,000**
Operational Boundary for external debt					
Borrowing	60,000	57,000	49,000	52,000	52,000
other long term liabilities	0	1,000	1,000	1,000	1,000
TOTAL	**60,000**	**58,000**	**50,000**	**53,000**	**53,000**
Actual external debt	53,180	44,320	*44,320	35,460	35,460
Upper limit for total principal sums invested for over 365 days (£m)	**18**	**18**	**18**	**15**	**13**
-	- -	-	-		

2021/22 potentially up to £3m borrowing for New Acquisitions

2022/23 potentially up to £12m of borrowing for garages and financing of unfinanced expenditure

Therefore, Authorised limit and Operational boundary increased by the £15m to allow for this

* £8.86m of debt being repaid (28 March 2022)

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/21	lower limit	upper limit
under 12 months	20%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	20%	0%	60%
10 years and above	60%	0%	100%

APPENDIX 2

Minimum Revenue Provision Policy

1. Introduction

1.1 CLG's Guidance on Minimum Revenue Provision (issued in 2012 but currently out for consultation) places a duty on local authorities to make a prudent provision for debt redemption. Where the Council finances capital expenditure by debt it must set aside resources to repay that debt in later years. The amount charged to revenue for the repayment of this debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

1.2. From 2007/08 onwards there has been no statutory minimum and the requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.

1.3. The CLG guidance requires the authority to approve an annual MRP statement, and recommends 4 options for calculating a prudent amount of MRP, for approval by Full Council in advance of the year to which it applies. Any subsequent revisions to that policy should also be approved by Full Council.

2. Details of DCLG Guidance on MRP

2.1. The statutory guidance issued by DCLG sets out the broad aims of a prudent MRP Policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. The four MRP options available are:

- **Option 1**: Regulatory Method - is the previous statutory method, which is calculated as 4% of the Council's General Fund Capital Financing Requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

- **Option 2**: CFR Method - Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DCLG to provide a simpler calculation for those councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by councils for whom it would significantly increase MRP.

- **Option 3**: Asset Life Method – MRP is charged over the expected useful life of the asset either in equal instalments or using an annuity method whereby the MRP increases in later years.

- **Option 4**: Depreciation Method - MRP is charged over the expected life of the asset in accordance with depreciation accounting. This would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year.

  The guidance clearly states this does not preclude other prudent methods to provide for the repayment of debt principal.

2.3 Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.4. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.

2.5 The guidance also allows authorities to take an MRP Holiday where assets do not become operational for perhaps 2 or 3 years or longer. It proposes that MRP would not be charged until the year following the one in which the asset became operational.

3. Details of Statute - Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

3.1 In deciding on the appropriate level of MRP to charge and the most appropriate method of financing the capital programme, the Council needs to have regard to the wider legislation regarding the use of capital receipts.

3.2 Statute gives local authorities the option to apply capital receipts to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3 Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years.

4. 2018/19 MRP Policy

For 2018/19 it is recommended the Council adopt the following MRP policy:

- MRP will be charged utilising **option 3** for assets which have been funded from prudential borrowing.
- MRP will only be charged in the year following the asset becoming operational.
- If capital receipts are utilised to repay debt in year, the value of MRP chargeable will be reduced by the value of the receipts utilised.
- Whether an annuity or equal instalment method is adopted for option 3 will be dependent on the most financially beneficial method as determined by the Chief Financial Officer
- For PFI and Finance lease liabilities an MRP charge will be made to match the value of any liabilities that have not been funded from capital receipts.
- The Chief Finance Officer will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts.
- There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited due to HRA self-financing settlement and provision has been made within the business plan to show that it can pay down the remaining debt over the life of the business plan.
- Any major revisions to this policy will be presented to Full Council for approval.

INVESTMENTS at 31st December 2020

Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	730	Lloyds	16/08/2019	06/04/2021	£1,000,000.00	1.12
Fixed Term Deposit	753	Qatar National Bank	27/04/2020	27/04/2021	£1,000,000.00	1.18
Fixed Term Deposit	771	Close Brothers	27/10/2020	26/10/2021	£1,000,000.00	0.80
Fixed Term Deposit	769	Close Brothers	04/09/2020	03/09/2021	£1,000,000.00	0.80
Fixed Term Deposit	770	Qatar National Bank	01/09/2020	06/04/2021	£2,000,000.00	0.36
Fixed Term Deposit	755	Qatar National Bank	27/04/2020	26/04/2021	£2,000,000.00	1.13
Fixed Term Deposit	775	Close Brothers	10/11/2020	09/11/2021	£2,000,000.00	0.70
Fixed Term Deposit	776	Qatar National Bank	17/11/2020	09/11/2021	£2,000,000.00	0.53
Fixed Term Deposit	766	Barclays Bank	19/06/2020	21/06/2021	£3,000,000.00	0.40
Fixed Term Deposit	745	Lloyds	24/01/2020	25/01/2021	£2,000,000.00	1.10
Fixed Term Deposit	758	Qatar National Bank	04/05/2020	04/05/2021	£1,000,000.00	1.03
Fixed Term Deposit	765	Qatar National Bank	02/06/2020	06/02/2021	£1,000,000.00	0.84
Fixed Term Deposit	767	Qatar National Bank	04/08/2020	03/08/2021	£1,000,000.00	0.53
Fixed Term Deposit	760	Qatar National Bank	18/05/2020	31/03/2021	£1,000,000.00	0.97
Fixed Term Deposit	761	Goldman Sachs	20/05/2020	22/02/2021	£2,000,000.00	0.63
Fixed Term Deposit	762	Goldman Sachs	26/05/2020	26/02/2021	£3,000,000.00	0.56
Fixed Term Deposit	763	Goldman Sachs	28/05/2020	26/02/2021	£2,000,000.00	0.57
Fixed Term Deposit	768	Close Brothers	11/08/2020	10/08/2021	£1,000,000.00	0.80
Fixed Term Deposit	773	Close Brothers	27/10/2020	26/10/2021	£1,000,000.00	0.70
Fixed Term Deposit	774	Yorkshire BS	29/10/2020	06/04/2021	£2,000,000.00	0.11
Fixed Term Deposit	772	Slough BC	19/11/2020	18/11/2021	£2,000,000.00	0.30
Call	44447	Lloyds			£1,000,000.00	0.01
Call	327	Svenska Handlesbanken			£1,000,000.00	0.10
Notice Account	44444	Svenska Handlesbanken - 35DN			£11,000,000.00	0.15
Notice Account	44443	Santander - 95DN			£11,000,000.00	0.40
Notice Account	44445	Lloyds Bank PLC - 95DN			£5,000,000.00	0.10
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*4.27
Diversified Fund	140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*3.36
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.05
					£74,000,000.00	

* Yield on Nav/price from CCLA at 31 December 2020

Interest Rate Forecast 2020- 2024

APPENDIX 4

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012. There are no changes to these forecasts as at 5.1.21.

Link Group Interest Rate View 9.11.20 (The Capital Economics forecasts were done 11.11.20) These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20	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
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
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
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
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate													
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate													
Link	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate													
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate													
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate													
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

5.3 ECONOMIC BACKGROUND

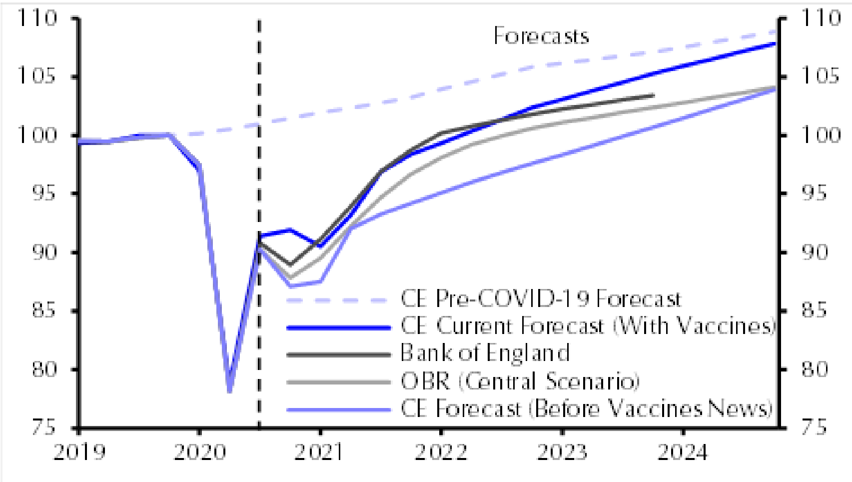
- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor due to base effects from twelve months ago falling out of the calculation, and so is not a concern. Looking further ahead, it is also unlikely to be a problem for some years as it will take a prolonged time for spare capacity in the economy, created by this downturn, to be used up.

- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level.

- **Vaccines – the game changer.** The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has a set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; as of mid-January, it has made good, and accelerating progress in hitting that target. The aim is to vaccinate all adults by September. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.

- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant risk is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development, and vaccine production facilities are being ramped up around the world.

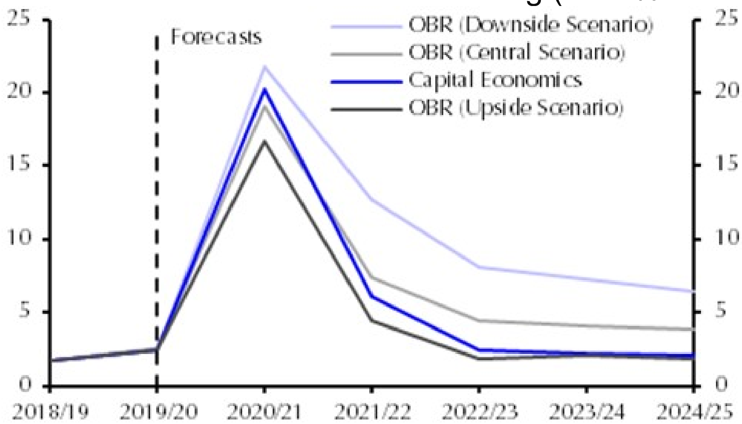
Chart: Level of real GDP (Q4 2019 = 100)



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

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

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



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

- **Brexit.** The final agreement of a trade deal on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while vaccines are a positive development, in the eyes of the MPC at least, the economy is far from out of the woods in the shorter term. The MPC, therefore, voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- **US.** The Democrats gained the presidency and a majority in the House of Representatives in the November elections: after winning two key Senate seats in Georgia in elections in early January, they now also have a very slim majority in the Senate due to the vice president's casting vote. President Biden will consequently have a much easier path to implement his election manifesto. However, he will not have a completely free hand as more radical Democrat plans may not be supported by all Democrat senators. His initial radical plan for a fiscal stimulus of $1.9trn, (9% of GDP), is therefore likely to be toned down in order to get through both houses.

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

- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and declining in December, and retail sales dropping back. The economy is set for further weakness into the spring. **GDP growth** is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

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

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

- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With **inflation** expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

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

- **World growth.** World growth will has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

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

Summary

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

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

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

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

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand and the pace of recovery of the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Italy, Spain, Austria, Sweden, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

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

Specified and Non-Specified Investments **APPENDIX 6**

	specified	non-specified	Minimum Credit Criteria Fitch (and equivalent) / Minimum Criteria	Maximum Investment per Institution	Max. maturity period
Term deposits – Local Authorities **(category 1)**	✓	✓	--	£12M	5 years
Term deposits – banks and building societies **(category 1)**	✓	✓	Short-term F1+ Long-term AA-	£12M	5 years
Term deposits – banks and building societies **(category 2)**	✓	✓	Short-term F1 Long-term A+	£11M	3 years
Term deposits – banks and building societies **(category 3)**	✓	✓	Short-term F1 Long-term A-	£8M	2 years
Term deposits – building societies **(Category 4)**	✓	✓	Assets in Excess of £10 billion	£4M	1 year
Council's bank (for term deposits use appropriate category 1 to 3) **(category 5)**	✓	✓	n/a	No limit *Although category limit for term deposits*	As category 1 to 3
Term deposits – UK part nationalised banks **(category 6)**	✓	✓	Short-term F3 Long term BBB-	£11M	3 years
Callable deposits	✓	✓	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6
Forward deposits	✓	✓	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6
Alternative Investments – Asset Backed Bonds **(Category 8)**		✓	--	£4M	25 years
Debt Management Agency Deposit Facility **(category 9)**	✓	✓	--	No limit	Liquid

Bonds Issued by multilateral development banks **(category 10)**		✓	Long term AAA	£4M	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)					
Money Market Funds (CNAV, LVNAV & VNAV) Government Liquidity Fund **(Category 7)**	✓		AAA	£4M	liquid
Property funds **(Category 11)**		✓		£6M	25 years
Multi-Asset Funds **(Category 12 –** diversified funds**)**		✓	--	£6M	10 - 15 years

Part nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they are no longer separate institutions in their own right, however, these institutions have effectively taken on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. It is therefore proposed to continue to keep the category of UK part nationalised banks for both specified and unspecified investments (category 6).

APPENDIX 7

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Bank of Nova Scotia (CAN)
DBS Bank Ltd (SING)
HSBC Bank plc (UK)
Oversea-Chinese Banking Corp Ltd (SING)
Svenska Handelsbanken (SW)
United Overseas Bank Ltd (SING)
First Abu Dhabi Bank (U.A.E)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Goldman Sachs International Bank (UK)
Standard Charted Bank (UK)
Qatar National Bank (Qatar)
National Westminster Bank PLC (RFB) (UK)
Royal Bank of Scotland PLC (RFB) (UK)
Santander (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Bank Plc (RFB) (Cat 2)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2)
Bank of Scotland PLC (RFB) (Cat2)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

		Long Term	Short Term
Min Criteria	**Fitch**	**BBB-**	**F3**
	Moody	**Baa3**	**P-3**
	S&P	**BBB-**	**A-3**

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

	Fitch	NAV
• Money Market Funds (MMF's), (CNAV, LVNAV, VNAV) & Enhanced MMF's		
• Government Liquidity Funds		

Limit of £4million for each institution

Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
Northern Trust	AAA	

Category 8 - Alternative Investments (Asset Backed Bonds) - 25 Years
Maximum investment £4 million

Category 9 - Debt Management Office
Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years
Maximum investment £4 million AAA

Category 11 – Property Funds - 25 Years
Maximum investment £6 million

CCLA

Category 12 - Multi-Asset Funds - 15 Years
Maximum investment £6 million

CCLA - Diversified Income Fund

Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest of 2 or more rating agencies) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Based on a majority rule of available ratings.

AAA

- Australia
- Canada (Fitch AA+)
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A. (S&P AA+)

AA+

- Finland

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium (S&P AA)
- Hong Kong
- Qatar
- **U.K.** (S&P AA)

APPENDIX 9

Treasury management scheme of delegation

(i) Full Council

- approval of annual strategy
- budget consideration and approval approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment.
- receiving and reviewing monitoring and outturn reports on treasury management

(ii) Cabinet Member for Corporate Governance

- approval of amendments to the annual treasury management strategy once approved by Full Council between its review in consultation with the Group Head of Corporate Support.

(iii) Audit and Governance Committee (responsibility for scrutiny)

- reviewing the treasury management policy and procedures and making recommendations to Full Council (the responsible body).
- Scrutiny of annual strategy prior to adoption by Full Council
- Scrutiny of monitoring and outturn reports
- receiving and reviewing reports on treasury management policies, practices and activities

APPENDIX 10

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 25 FEBRUARY 2021

PART A : REPORT

SUBJECT: Annual Internal Audit Plan 2021/22

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager
DATE: January 2021
EXTN: 37561
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

Each year Internal Audit is required to develop an annual audit plan for the following financial year, for agreement by the Audit & Governance Committee

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to agree the outline Annual Internal Audit Plan

1. BACKGROUND:

Each year Internal Audit is required to develop an annual audit plan for the following financial year.

This provides the opportunity for the Internal Audit Manager, in consultation with senior managers within the Authority and with members of the Audit & Governance Committee, to determine where best the limited resources available to Internal Audit should be directed. In order to prepare the plan, consideration has been given to accepted best practice, as promulgated by both CIPFA and the Chartered Institute of Internal Auditors.

The section has continued to operate with 2 FTE with the focus on mandatory and high priority work. As advised to the Committee via other reports, progress against the agreed 2020/21 plan has been significantly impacted by the need for resources to be directed to unplanned, high priority work (as agreed with the Group Head of Corporate Support) in relation to Covid-19 issues.

At the time of writing, a further national lockdown has commenced. The earliest likely review point for this is mid-February 2021 but even with possible relaxation of measures after this it is expected that work on Covid-related items (primarily assurance checks on grant payments made) will still be required in the 2021/22 financial year and an estimate will therefore be included in the Plan.

The outline plan presented is based upon the current 2 FTE (as at January 2021). However, consideration must be given to resourcing for the future and it is anticipated that there will be some change in 2021 while the future Internal Audit resource arrangements are finalised. There will also be a reduction in days available in 2021/22 owing to significant carry-over of annual leave (c.25 days) caused by the pandemic.

As at the start of 2021, there are still a number of Council strategies (e.g. Customer Access, Digital, etc.) to be progressed / completed that may result in work for the section. There also remains considerable uncertainty regarding a number of areas e.g.:-

- the Council's ongoing financial position, as impacted by central Government policy / funding changes, potential knock-on effects from cuts elsewhere e.g. WSCC and from the financial effects of the Covid-19 pandemic
- the Council's 'future ways of working'
- new / changed initiatives as a result of the revised Strategic Targets for the period 2019-2023 adopted by the Council.

These may require further operational changes to meet new and changed requirements / legislation.

In view of this, an outline-only plan is attached for the agreement of the Committee and there will again need to be considerable flexibility through the year as to the assignment of resource to specific tasks. As agreed with senior management, a number of areas have been include in the Plan where it is currently anticipated that work will be required (timing, approach and scope to be agreed) at some stage in the year These will be accommodated within the proposed outline plan and reports on the progress of work being undertaken will be provided to meetings of the Audit & Governance Committee through the year, as is currently the case.

Should there be a significant change during the year in the work to be undertaken by the section or in the resource available to it, then a revised Plan will be prepared and advised to the Committee.

2. PROPOSAL(S):

It is proposed that the Committee agrees the outline Annual Internal Audit Plan for 2021/22

3. OPTIONS:

To agree the outline Annual Internal Audit Plan for 2021/22, or not

4. CONSULTATION:

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		

7. REASON FOR THE DECISION:

The Committee agrees the outline Annual Internal Audit Plan for 2021/22

8. BACKGROUND PAPERS:

N/A

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Outline Internal Audit Plan for 2021/22
29/3/21-3/4/22 (53 weeks)

Based upon the current 2.0 FTE and in line with the number of days per auditor / classification of assignments that had been considered for a common shared internal audit service

Key Financial Systems	95
(Key control checking for the main 'financial systems' - Revenues & Benefits, Finance, Accounts Payable / Receivable, Payroll, etc.	
ICT Audit (including projects)	35
(Likely to include Office/365, Digital Agenda, Electronic Payments Processing, replacement Housing IT system, etc.)	
Business Systems Audit	120
(Audit work TBC in service areas as agreed with senior management, including work required areas related to revised strategic priorities, emerging high risk areas, etc. e.g. Financial Resilience, Climate Change, Regeneration, Community Infrastructure Levy Commercial Strategy, Future Ways Of Working, etc.	
Contract Audit	5
Follow-Ups	4
PSIAS / QAIP (includes reviewing & updating audit procedures)	3
Ongoing Covid-19 Work (e.g. grants checks, financial returns, etc.)	30
Total Chargeable Days (Audit)	**292**

Governance / AGS	6
National Fraud initiative (NFI)	16
Corporate Fraud	3
Audit Advice	10
External Audit Liaison	4
Committee Representation	8
Planning & Control	17
Contingency (e.g. for special investigations)	6
Meetings (Corporate)	6
RIPA	2
FOI	2
Total Chargeable Days (Non-Audit)	**80**

Total Chargeable Days	**372**

(Chargeable days are those after allowance for bank holidays, leave, sickness, admin, etc. which are an overhead and not directly relevant to Council service areas)

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 25 FEBRUARY 2021

PART A : REPORT

SUBJECT: Progress Against the Audit Plan

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager
DATE: January 2021
EXTN: 37561
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

Each year Internal Audit undertakes its work against an annual audit plan, as approved by the Audit & Governance Committee prior to the start of the financial year

The Committee is required to oversee the provision of an adequate and effective internal audit service

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February 2020 meeting

1. BACKGROUND:

An outline Audit Plan was presented to, and approved by, the Committee at its February 2020 meeting reflecting the resource currently available. The aim of the plan was to ensure that mandatory work is completed while consideration is given to the future resourcing of the section.

The Committee was advised that there would again need to be considerable flexibility through the year as to the assignment of resource to specific tasks and should there be a significant change during the year in the work to be undertaken by the section or in the resource available to it, then a revised Plan would be prepared and advised to the Committee.

Since mid-March 2020, the work of the section has been impacted by the changes implemented by the Council in response to the global Covid-19 crisis and, with the agreement of the Group Head of Corporate Support, a significant amount of resource has had to be directed to assist other areas on work that was not included in the original plan (e.g. in respect of Government financial returns and fraud checks in respect of the distribution of Business Support Grants). Emergency / temporary changes to Council operations, staff working from home, etc. have impacted on the section's ability to progress the existing plan effectively and a revised plan is likely to be provided in due course once the Council's 'recovery' status becomes clearer. The impact on the work of the section will be reported in the annual audit opinion for the 2020/21 year.

With government restrictions (e.g. lockdowns, tiers, etc.) in place and now extending to at least mid-February 2021 (and probably longer) it has not been appropriate to provide a revised 'plan' for 2020/21 to the Committee. A new outline plan covering 2021/22 will be presented to the Committee, but until such time as the lockdown / restrictions have been lifted or relaxed and 'new normal' methods of working for the Council have been identified and implemented this will remain at a high level only.

The attached report identifies the main areas of work undertaken by the Internal Audit section to February 2021.

2. PROPOSAL(S):

It is proposed that the Committee notes the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February 2020 meeting

3. OPTIONS:

To note the contents of the report, or not

4. CONSULTATION:

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

6. IMPLICATIONS:

7. REASON FOR THE DECISION:

The Committee notes the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February 2020 meeting

8. BACKGROUND PAPERS:

N/A

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Audit Progress

At the Audit & Governance Committee meeting of 13 February 2020, the Committee agreed an outline plan for the section for 2020/21.

Since the plan was provided to the Committee, the global Covid-19 crisis has caused a significant impact on the Council and its operations – some planned audit activities have been postponed and resource has been used on areas of work relating to the crisis. (As at January 2021, it is now looking like this will continue for some time in 2021). Work has been undertaken in the following areas:-

Code	Title	Work performed
RE03	Main Accounting	• Self-assessment of Council arrangements / financial resilience against CIPFA's Financial Management Code (FMC) performed Additional review of the guidance notes to CIPFA's FMC (issued in May 2020) • (E&Y) Key controls testing in progress • Assistance provided to Finance on monitoring income and expenditure and checking Covid-19 returns for central government (lost revenue, additional expenditure, etc.)
RE04	Purchase Ledger	• (E&Y) Key controls testing in progress • Liaison with Finance on external proposal for duplicate payment checking • Review of Covid-19 related expenditure for Government returns
RE08	Payroll	• (E&Y) Key controls testing completed • Monthly joiner and leaver checking • Checking of redundancy calculations, as required
CS18	NDR	• Ongoing consideration of possible NDR fraud areas (including small business relief and exemptions) • Liaison with Revenues and review of Government, NFI, NAFN, etc. communications on Covid-19 Business Support Grants • Liaison with Revenues and conducting fraud checks on claims / payments made. Checks made and information updated in Government Spotlight tool • Liaison with Revenues on regular returns on grants paid submitted to Government via Delta system
CS19	Income: Sundry Debtors	• (E&Y) Key controls testing in progress
CE06	Members' IT & Allowances	• Liaison with ICT and Committees staff regarding progress of implementation of ModernGov system for Members and Committees

CS12	Information Technology	• Liaison with ICT staff in respect of Council cybersecurity risk assessment and security measures • Input into progress of required Information Asset Register • Liaison with ICT staff on lessons from ransomware attacks at other Councils
CS13	Information Technology – Physical Security & Disaster Recovery	• Liaison with Neighbourhood Services staff regarding the progress of Council Business Continuity Planning (BCP) arrangements and documentation • Ongoing liaison in respect of arrangements for working during the Covid-19 crisis (including use of new methods e.g. Zoom, Microsoft Teams for remote meetings)
CS15 RE07	PCI-DSS Compliance Income Collection / Systems	• Liaison with ICT project staff on Council's electronic payment processing arrangements via Capita / AllPay and PCI-DSS areas of non-compliance • Review and discussion on report and recommendations from the ICT review
CP02	Information & Data Governance	• Ongoing liaison with Group Head of Council Advice & Monitoring Officer and Information Security Group regarding future work on data protection • Liaison with Legal Services Manager regarding data breach report for A&GC
PR01	Arun Improvement Programme	• Liaison with ICT & Service Improvement Manager in respect of AIP agenda items, review of system proposals, etc.
PR07	FMS Support / Replacement	• Liaison with Finance and ICT on future FMS upgrade and hosting
PR09	Digital Arun Project	• Ongoing liaison via steering committee on progress of the Council's digital strategy
PR10	Northgate Upgrade	• Liaison with R&B and ICT staff regarding progress of project to upgrade the Northgate Revenues and Benefits system in 2019-20 • Additional changes have been received from the vendor and applied in respect of Covid-19 crisis processing (e.g. in respect of NDR discounts and Business Support Grants)
PR11	Office/365 Migration	• Ongoing liaison with ICT staff and Information Security Group regarding Office/365 migration project • Liaison with ICT staff in respect of movement of service network drives to the Cloud (OneDrive and Teams)
PR12	Covid-19 Work	• Ongoing liaison / miscellaneous activities relating to Council operations and controls in light of Covid-19 crisis • Assisting Finance in preparing submissions for central government (MHCLG and BEIS)

		• Assisting Finance in reviewing 'open book' accounting records in support of leisure provider contribution • Risk assessments and post-assurance test plans prepared for Covid grants distributed, as required by the BEIS • Liaison with Finance, Revenues and Economy on reconciliation of Business Support and Local Discretionary Grant payments (first national lockdown March-July 2020) for BEIS • Liaison with various areas in respect of the implementation and functionality of the Ascendant grant application portal software in November 2020 • Liaison with Finance and Economy on discretionary grant schemes adopted • Review of BEIS documentation, attending webstreams, etc. to ensure that Council understands and complies with requirements on the multiple grant schemes (e.g. eligibility, checking, reporting and reconciliation requirements). This has become increasingly complex with the speed of change involving different schemes for national lockdowns, Tiers, targeted payments, etc. • As at 5 Jan a new national lockdown has been announced to extend to at least mid-February before any possible relaxation, but restrictions / schemes look likely to extend into the 2021/22 financial year
CP03 MS01	Corporate Governance Annual Governance Statement	• Annual review of compliance against the Council's local Code of Corporate Governance • Preparation of the updated Annual Governance Statement and review by CMT • Draft AGS published on website with draft Accounts and provided to external audit – Final AGS published with the audited Accounts ***Reviewed by G&R Group and CMT 4/20 Reported to A&GC 30/7/20 (draft) and 19/11/20 (final)***
MS03	RIPA	• Advice provided to service areas in respect of queries concerning possible use of surveillance, whether this would fall within the scope of the RIPA legislation and other options available • Liaison with CMT and officers on future training requirements arising from IPCO inspection in December 2019 (now postponed from June 2020) • Overview paper included in annual RIPA update to A&GC (30/7/20)
MS04	NFI	• The NFI Council Tax Single Person Discount reports were received in December 2019. Review of these by Internal Audit was progressed - account queries were referred to Revenues (although this was in the period of the Covid-19 crisis and arrears were not being pursued) and old, redundant Electoral Roll entries to Elections • Timetable and data specifications received for the next main 2-yearly NFI exercise with files required in October 2020 – advised to appropriate service areas. Files checked and uploaded to the Cabinet Office

		• Liaison with Revenues staff in respect of additional 2020 NFI requirements for Business Support Grant data to be provided – file checked and uploaded in December 2020 • Review / comment on NFI 2020/21 Work Programme and Scale of Fees Consultation • Timetable and data specifications received for the annual Council Tax Single Person Discount exercise with files required in December 2020 – files checked and uploaded to the Cabinet Office. Matching results received and awaiting review
CE01	Performance & Improvement	• Liaison regarding possible changes to Corporate Plan Indicators arising from change to Council's strategic priorities in 2019 • Liaison on the future of the Pentana software
CP04	Risk Management	• Further update of Strategic Risk Register via Governance & Risk Group (and agreed by CMT) in 4/20 in light of the Covid-19 crisis ***Updated SRR presented to A&GC 30/7/2020***
IN02 CP05	Fraud & Corruption Fraud & Corruption	• Compilation of data for publication to meet Government Data Transparency Code requirements • Preparation of Annual Counter-Fraud Report ***Reported to A&GC 30/7/20*** • Review of updated Fighting Fraud & Corruption Locally – A strategy for the 2020s (published in March 2020) • Submission of annual CIPFA Fraud & Corruption Tracker survey • Review of Cabinet Office NFI report (link advised to A&GC) and future risks / horizon scanning reports • Consideration of various CIPFA and NAFN communications on increased fraud risks during the pandemic period • Review / update of Council's fraud operational risk register
AD08	Audit Standards & Quality (PSIAS/QAIP)	• Update of appropriate Arun internal audit documents • Progress External Quality assessment (EQA) action plan (as reported to A&GC 11/19)
PL02	Planning Section106	• Review of Community Infrastructure Levy (CIL) proposals • Liaison with other Council audit areas where CIL has already been implemented • Liaison with Planning and Finance staff on implementation proposals, processes, etc.

PL06	Economic Regeneration	• Liaison regarding administration of Covid-19 Discretionary Grant Fund / fraud checking (first lockdown) • Liaison regarding adoption and administration of County-wide scheme for Additional Restrictions Grant (discretionary scheme runs until March 2022) • Liaison regarding adoption and administration of County-wide schemes for other discretionary payments from December 2020 while in Tiers / lockdown • Consideration of reports / updates on regeneration projects, tourism, etc.
CP06	Ethical Leadership / Behaviour	• Review / update of checklist from 2019 audit and circulation of results to CMT
CP09	Environmental / Green issues	• Review of external guidance on green agenda and Council progress towards its priority aims
CP10	Resource Management	• Identification of agency and contract staff, including agencies / companies used and rates, in liaison with HR
CP11	Procurement & Contracts	• Liaison with new Procurement staff (shared arrangement with Chichester DC, with support om senior staff at Hampshire CC). Some discussion regarding Standing Orders, ordering, etc. • Constitution compliance (e.g. standing orders) review being progressed
CP13	Grants and External Funding	• Testing and certification of Disabled Facilities Grant usage in 2019/20 for Finance to return to WSCC
CS02	Housing Repairs	• Liaison with senior management on progress of investigation and agreed action plan to address the issues raised by the Regulator of Social Housing • Liaison regarding the progress of the current management restructure of the Housing department • Liaison with Housing and Finance staff regarding the change from Mears to Osbornes for reactive repairs and voids from 4/20 and arrangements for initial payments
CS03	Housing Finance	• (E&Y) Key controls testing completed
CS09	Customer Services	• Consideration of future Customer Services Strategy
MS06	Follow-Up Review	• Liaison with service areas in respect of actions on outstanding audit points
LI02	Member Liaison / Committees	• Consideration information in respect of planned change to ‘committee system’ of governance from May 2021 • Consideration of changes to A&GC future workplan
TP02	Officer Group Representation	• Chairing meetings of the Information Security Group and liaison with members on progress

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2021/2022

Date of Meeting: 25 February 2021			
Statement of Accounts			
Agenda Items	**Subject**	**Lead Officer / Member**	**Comments**
1	Accounting Policies for 2020/21 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
External Audit			
2	Annual Audit Letter	Ernst & Young	
Governance Framework			
3	Capital Strategy	Financial Services Manager	For approval by Full Council (17 March 2021)
Treasury Management			
4	Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (17 March 2021)
Internal Audit			
5	Annual Internal Audit Plan	Internal Audit Manager	
6	Update on the work of Internal Audit	Internal Audit Manager	
Work Programme			
7	To agree the rolling work programme for 2021/2022	Internal Audit Manager	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/21

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2021/2022

Date of Meeting: 29 July 2021			
Statement of Accounts			
Agenda Items	**Subject**	**Lead Officer / Member**	**Comments**
1	Final Statement of Accounts 2020/21	Financial Services Manager	Draft version provided to external audit and posted on the Council's website
2	Annual Governance Statement	Internal Audit Manager	Draft version to be considered by Chairman in May, provided to external audit and posted on the Council's website
External Audit			
3	Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chairman	Letter to be agreed with the Chairman and sent to external audit in April
4	Annual Audit Fee Letter	Ernst & Young	TBC (future fees under discussion between E&Y and PSAA Ltd)
5	Audit Planning Report	Ernst & Young	TBC Covering the audit of the 2020/21 Accounts
6	Updated Audit Plan and Audit Results Report – ISA 260	Ernst & Young	TBC
7	Housing Benefit Subsidy Claim 2019/20 Certification	Internal Audit Manager	TBC (if not available at Feb 21 meeting) Summary of results of annual claim certification performed by E&Y
Governance Framework			
8	Local Code of Corporate Governance	Internal Audit Manager	
Treasury Management			
9	Treasury Management Annual Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (15 September 2021)
Internal Audit			
10	Annual Internal Audit Report &	Internal Audit	

	Opinion	Manager	
11	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
12	Annual Counter-Fraud Report	Internal Audit Manager	
13	Chairman's Annual Report To Council	Committee Chairman	To be presented to Full Council
14	Annual update on use of RIPA powers in the previous Municipal Year	Internal Audit Manager	
15	Other items for this committee under new governance system	TBC	TBC
Work Programme			
16	To agree the rolling work programme for 2021/2022	Internal Audit Manager	Updates, etc.

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2021/2022

Date of Meeting: 7 October 2021 / 16 November 2021			
Statement of Accounts			
Agenda Items	**Subject**	**Lead Officer / Member**	**Comments**
1	Final Statement of Accounts 2020/21	Financial Services Manager	Reserve date (if accounting dates change and not available in July)
2	Annual Governance Statement	Internal Audit Manager	Reserve date (if accounting dates change and not available in July)
External Audit			
3	Audit Results Report – ISA 260	Ernst & Young	Reserve date (if accounting dates change and not available in July)
4	Annual Audit Letter	Ernst & Young	TBC
Treasury Management			
5	Treasury Management Mid-Year Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (13 January 2021)
Internal Audit			
6	Update on the work of Internal Audit	Internal Audit Manager	
7	Progress against action plan from the 2019 External Quality Assessment (EQA) on the Council's Internal Audit Service	Internal Audit Manager	TBC
Governance Framework			
8	Updated Strategic Risk Register	Internal Audit Manager	
Other Items			
9	Update on the progress against recommendations from the Partnerships audit	Group Head of Policy	
10	Other items for this committee under new governance system	TBC	TBC
Work Programme			
11	To note the rolling work programme for 2021/22	Internal Audit Manager	Updates, etc.

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2021/2022

Date of Meeting: 22 February 2022			
Statement of Accounts			
Agenda Items	**Subject**	**Lead Officer / Member**	**Comments**
1	Accounting Policies for 2021/22 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
External Audit			
2	Annual Audit Letter	Ernst & Young	Reserve date (if not available for previous meeting)
3	Annual Audit Fee Letter	Ernst & Young	
4	Audit Planning Report	Ernst & Young	Covering the audit of the 2021/22 Accounts
5	Housing Benefit Subsidy Claim 2020/21 Certification	Internal Audit Manager	Summary of results of annual claim certification performed by E&Y
Treasury Management			
6	Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (9 March 2022)
Internal Audit			
7	Annual Internal Audit Plan	Internal Audit Manager	
8	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
9	Other items for this committee under new governance system	TBC	TBC
Work Programme			
10	To agree the rolling work programme for 2022/23	Internal Audit Manager	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/22

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2021/2022

<u>Other items to be considered in Work Programme:-</u>

Independent Members' Remuneration Panel

- **Recruitment / appointments**
- **Proposals for / progress of review**
- **Report on review / proposals for change to be passed by A&GC to Full Council**

(An interim review was conducted in 2020 with recommendations due at Full Council in January 2021, with a full review due in 2023)

Governance & Risk Group updates

Relevant policy reviews, updates, etc.

From May 2021, the Council has resolved to change its governance structure from the Leader & Cabinet model to committees. The Council will be working through 2020/21 to update the Constitution, which will include responsibilities and terms of reference for the revised committees for 2021/22-onwards. It is understood that the Capital Strategy will, in future, form part of the work programme for the Corporate Policy & Performance Committee