AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 17 January 2022
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Bartlett (Vice-Chairman), Brindle, Coulling (Parish Representative), Cuming, Daley, Fissenden, Perry (Chairman), J Sams, Titchener (Parish Representative), Trzebinski and de Wiggondene-Sheppard

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

Issued on Friday 7 January 2022 **Continued Over/:**

Alison Broom

Alison Broom, Chief Executive

MAIDSTONE Borough Council

15.	Budget Strategy - Risk Assessment Update	152 - 168

INFORMATION FOR THE PUBLIC

In order to ask a question at this meeting in person or by remote means, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 13 January 2022). You will need to provide the full text in writing.

If your question is accepted, you will be provided with instructions as to how you can access the meeting.

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 13 January 2022). You will need to tell us which agenda item you wish to speak on.

If you require this information in an alternative format please contact us, call **01622 602899** or email **committee@maidstone.gov.uk**.

To find out more about the work of the Committee, please visit **www.maidstone.gov.uk.**

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 15 NOVEMBER 2021

Present:	**Councillor Perry (Chairman) and Councillors Bartlett, Brindle, Coulling (Parish Representative), Cox, Cuming, Daley, Fissenden and Newton**
Also Present:	**Mr Paul Dossett and Mr Trevor Greenlee – Grant Thornton (External Auditor)**

40. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors J Sams, Titchener (Parish Representative) and Trzebinski.

41. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Newton was substituting for Councillor J Sams.

42. URGENT ITEMS

The Chairman said that he had agreed to take the External Auditor's Audit Findings report (Appendix 2 to the report of the Senior Finance Manager (Client) relating to the Statement of Accounts 2020/21) as an urgent item as it was not available when the agenda was published.

43. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

44. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

45. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

46. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed.

47. MINUTES OF THE MEETING HELD ON 28 SEPTEMBER 2021

RESOLVED: That the Minutes of the meeting held on 28 September 2021 be approved as a correct record and signed.

48. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

49. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

50. COMMITTEE WORK PROGRAMME 2021/22

The Committee considered its work programme for the remainder of the Municipal Year 2021/22.

In response to a question, the Chairman said that he intended to raise the issue of the revised Kent Code of Conduct for Members during consideration of the Annual Complaints Report 2020/21.

RESOLVED: That the Committee work programme for the remainder of the Municipal Year 2021/22 be noted.

51. ANNUAL COMPLAINTS REPORT 2020/21

The Corporate Insight, Communities and Governance Manager introduced this report providing an overview of (a) how the Council had performed in responding to complaints in 2020/21 and (b) the Local Government and Social Care Ombudsman's (LGSCO) Annual Review Letter 2020/21. It was noted that:

- The Council received 567 stage 1 complaints in 2020/21 compared to 720 in the previous year, a decrease of 21.25%. It was likely that this decrease was due to the COVID-19 pandemic. The number of stage 1 complaints received accounted for 0.18% of the total volume of calls and online forms received by the Council in 2020/21. This had decreased compared to 2019/20 when the number of stage 1 complaints received accounted for 0.28% of all calls and online forms received by the Council.

- Of the 567 stage 1 complaints received in 2020/21, 59 were escalated to the second stage of the Council's complaints process. This was an escalation rate of 10.4% compared to 15.3% in 2019/20 and the performance target of 15%.

- Whilst the overall number of complaints had reduced, there had been a slight increase in response times at both stage 1 and stage 2 compared to 2019/20 which could be accounted for by the absence and redeployment of staff due to the pandemic.

- The Council received 58 written compliments in 2020/21 compared to 47 in 2019/20, an increase of 23.4%.

- The LGSCO Annual Review Letter 2020/21 was positive for the Council. There was no comment or critique of its complaints handling and the LGSCO did not issue any public reports regarding the Council in 2020/21. The LGSCO had made decisions on 32 complaints in 2020/21. This represented a decrease of 11 decisions compared to the previous year. The number of upheld complaints had stayed the same as in 2019/20 (7), but the upheld rate had decreased. All recommendations made by the LGSCO had been complied with by the Council.

Members thanked the Officers for the Council's performance in responding to complaints and for the actions which had been implemented to improve the Council's complaints handling process.

The Chairman then took the opportunity to update the Committee on the position with regard to the drafting of a revised Kent Code of Conduct for Members. He explained that a document was being worked on by the Kent Secretaries (Monitoring Officers), but they were unable to provide a draft at this stage. He would continue to liaise with the Monitoring Officer on this important issue.

In response to a question, the Chairman undertook to ensure that when the new Constitution is being drafted for the new Executive Model of Governance either the Audit, Governance and Standards Committee or Maidstone KALC are asked to comment on the section relating to the arrangements for dealing with alleged breaches of the Members' Code of Conduct.

RESOLVED: That the Council's performance on complaint management in 2020/21 and the information contained in the Local Government and Social Care Ombudsman's Annual Review Letter 2020/21 be noted.

52. DATA PROTECTION UPDATE

The Corporate Insight, Communities and Governance Manager introduced her report providing an update on the progress of compliance with the Data Protection Act 2018 (the General Data Protection Regulation (GDPR)). The report included:

- Information on a consultation document published by the Department for Digital, Culture, Media and Sport on proposed changes to data protection legislation together with a summary of the key areas that might impact the Council;

- Information on the Code of Practice for Data Sharing published by the Information Commissioner's Office;

- Examples of the Information Commissioner's Office applying its powers; and

- Details of progress against the Data Protection Action Plan together with an explanation for a change in the structure of the Corporate Insight, Communities and Governance Team which was responsible for data protection.

The Corporate Insight, Communities and Governance Manager asked the Committee to consider the inclusion in future reports of performance data relating to wider information management such as the processing of requests under Freedom of Information Act/Environmental Impact Regulations; the processing of Subject Access Requests; Management of Data Breaches; Information Sharing Arrangements; and Data Protection Impact Assessments. She explained that this would give a more complete view of the work being undertaken in this area as well as the success of actions implemented to ensure compliance.

Members welcomed the inclusion of this performance data in future reports to the Committee.

In response to questions, the Corporate Insight, Communities and Governance Manager explained that the proposed introduction of a charge for Subject Access Requests might exclude those who are financially insecure; the performance data which it was proposed to include in future reports was information that was provided already to the Information Management Board; and data protection was just one part of the work of the Corporate Insight, Communities and Governance Team, which also included complaints handling, processing of requests under Freedom of Information Act/Environmental Impact Regulations and information management more generally.

RESOLVED:

1. That the national context and the progress of compliance with the Data Protection Act 2018 (the General Data Protection Regulation (GDPR)) be noted.

2. That the actions taken to date and the next steps be noted.

3. That the Committee should continue to receive an annual update on the progress of embedding GDPR into the Council's processes until all actions become business as usual and that performance data relating to wider information management such as the processing of requests under Freedom of Information Act/Environmental Impact Regulations; the processing of Subject Access Requests; Management of Data Breaches; Information Sharing Arrangements; and Data Protection Impact Assessments should also be included in these reports going forward.

53. ANNUAL GOVERNANCE STATEMENT - MID-YEAR UPDATE

The Head of Policy, Communications and Governance presented her report providing an update on the progress made against the Action Plan for 2021/22 contained in the Annual Governance Statement for 2020/21 which was approved by the Committee in July 2021. It was noted that progress had been made across all areas identified for action. For example:

- Progress had been made and actions were planned to ensure compliance with the new Financial Management Code.

- Actions had been taken in respect of key corporate risks which had been identified. In response to the risks associated with the contraction in the retail and leisure sectors, work on the Town Centre Management Strategy had been approved as part of the Council's Action Plan for Recovery and Renewal which had been reported to the Policy and Resources Committee and which included funding for the Strategy itself and for activities in and promotion of the Town Centre.

- Work was continuing on the new Executive Model of Governance which would be introduced at the Annual Meeting of the Council in May 2022. The next phase was drafting the new Constitution which was a substantial and critical piece of work. Training was planned for Councillors and Officers on the new arrangements prior to their commencement.

In response to a question, the Head of Policy, Communications and Governance advised the Committee that since the changes to the Constitution would be substantial, it would not be practical to show them as track changes to the existing document. However, every effort would be made to highlight the key differences and the areas that remained the same, and briefings could be arranged.

RESOLVED: That the update on progress against the Annual Governance Statement Action Plan 2021/22, as set out in Appendix A to the report of the Head of Policy, Communications and Governance, be noted.

54. INTERIM INTERNAL AUDIT AND ASSURANCE REPORT 2021/22

The Head of Audit Partnership introduced his report summarising the progress made so far towards completing the 2021/22 Internal Audit and Assurance Plan and providing an update on changes within the Mid-Kent Audit Partnership, including his imminent departure to take up a new role elsewhere.

In introducing the report, the Head of Audit Partnership advised the Committee that:

- The Internal Audit Team had continued to work with adequate independence and had not been subject to undue pressure from Members or Officers. No instances had been identified where it was considered that management had responded inappropriately to risk. He was satisfied that there were sufficient resources available to deliver the 2021/22 Internal Audit and Assurance Plan and to provide a robust Audit Opinion notwithstanding changes within the Team. Two of the vacancies referred to in the report had now been filled and a market tender was being prepared to seek contractor support.

- In July, there were two audit engagements approaching completion that were not finished in time for Committee deadlines. As expected, there were no significant concerns that would alter the Opinion or demand separate reporting.

- Progress against the 2021/22 Audit Plan was generally as expected and would be kept under review having regard to contracting and recruitment plans.

- Work on overseeing, updating and reporting on risk had continued during the year in line with the Risk Management Framework. A risk management software package had been acquired which would help embed the Council's risk management approach and improve the quality of reporting.

- The report also included details of the current position on following up agreed actions. Three of these had been delayed but there were no extra risks.

- In terms of audit quality and improvement, he was satisfied that the Internal Audit Service remained in conformance with the Code of Ethics.

In response to a question, the Head of Audit Partnership advised the Committee that it was difficult to recruit qualified audit staff, but, in his view, working for a shared service was a more attractive, diverse prospect than working for one local authority and the recruitment process was no more complex.

On behalf of the Committee, the Chairman thanked Mr Rich Clarke for his services as the Head of Audit Partnership and wished him all the very best for the future.

RESOLVED: That the work so far towards completing the 2021/22 Internal Audit and Assurance Plan and the updates regarding the Mid-Kent Audit Partnership be noted.

55. TREASURY MANAGEMENT MID-YEAR REVIEW 2021/22

The Finance Manager presented his report setting out the activities of the Treasury Management function for the first six months of the 2021/22 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. The Finance Manager advised the Committee that:

- The Treasury Management Strategy for 2021/22 was approved by the Council on 24 February 2021 and the key aim was to keep investments short and to use cash balances to fund the Capital Programme due to low investment returns.

- Investment balances had averaged around £33m over the year so far. This was higher than in previous years mainly due to business and COVID grant funding from the Government and slippage within the Capital Programme. However, grants would soon be repaid, and the Capital Programme would accelerate over the next few months, which in turn would reduce this balance.

- All investment funds had been held in call accounts, notice accounts, money market funds and short-term fixed deposits.

- As at 30 September 2021, investments totalled £45.19m and the Council had short-term external borrowing of £9m from other local authorities.

- The Council was looking to transfer some of its short-term borrowing for the certainty of longer-term rates and had taken out a loan with the Public Works Loan Board after its rates dropped significantly following the recent budget announcement.

- During the first six months of the financial year 2021/22, the Council had operated within the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with its Treasury Management Practices.

In response to questions, the Finance Manager advised the Committee that:

- Borrowing at present was for short-term liquidity to cover peaks and troughs within the cashflow. However, the Capital Programme was starting to escalate, and borrowing would increase.

- Short-term borrowing was anything less than one year. The decision had been made to lock into the loan from the Middlesbrough Teesside Pension Fund because the funding was required, the rates were good and to avoid the need to re-finance after a few months.

- All of the Council's institutions were highly rated and as security of capital was an investment priority, it was the practice to spread the risk across several institutions. However, as requested, a comparison could be provided at the next meeting of the costs and returns associated with the current investment profile and those resulting from overnight deposits with the Bank of England.

<u>RESOLVED</u>:

1. That the position regarding the Treasury Management Strategy as at 30 September 2021 be noted.

2. That no amendments to the current procedures are necessary as a result of the review of activities during the first six months of the 2021/22 financial year.

56. STATEMENT OF ACCOUNTS 2020/21

The Senior Finance Manager (Client) introduced his report setting out an updated Statement of Accounts for 2020/21 together with the Audit Findings report from Grant Thornton, the External Auditor.

The Senior Finance Manager (Client) advised the Committee that:

- The external audit was still in progress but approaching its conclusion. The most significant outstanding issue related to the accounting treatment for the housing developments at Brunswick Street and Union Street. The necessary adjustments were being finalised. Whilst the numbers involved were material, the outcome of these adjustments would not impact on the General Fund Balance. The impact would be substantially on the Balance Sheet and the expenditure would remain classified as capital spend. It was therefore proposed that recommendation 1 set out in the report be amended as follows:

  That the Statement of Accounts 2020/21 attached at Appendix 1 to the report of the Senior Finance Manager (Client) be approved *subject to the satisfactory resolution of the capital accounting issues referred to in the Audit Findings report by the Director of Finance and Business Improvement in consultation with the Chairman of the Committee.*

- As requested at the last meeting, the report included additional information regarding the accounting treatment of the pensions liability and the arrangements for funding the deficit. Information had been received from the actuary explaining the significant increase in the liability in 2021. This was largely because of assumptions made around inflation and changes made by the actuary for accounting purposes. These were reflected as accounting adjustments in the Statement but did not impact directly on the Council's financial position. The report also included details of the funding arrangements which were based on triennial valuations. These were separate to the accounting arrangements and enabled the Council to ensure that adequate budgetary provision was in place to meet the pensions liability and repay any deficit on the Fund.

Mr Trevor Greenlee of Grant Thornton, the External Auditor, provided a summary of the Audit Findings report. He explained that work was still in progress but there was nothing that he needed to draw Members' attention to at this stage. Discussions would continue with the Finance Team regarding, inter alia, the accounting treatment for the housing developments at Brunswick Street and Union Street. There was a revised approach to the Value for Money work for 2020/21 following the introduction of a new Code of Audit Practice and the expectation was that the Value for Money conclusion would be issued no more than three months after the opinion on the financial statements. The delay in providing the Audit Findings report within expected timescales reflected the difficulties being experienced in the external audit sector linked to the pandemic and other issues around the extent of regulation and expectations.

In response to questions:

- Mr Greenlee provided an update on the situation regarding ongoing slippage within the timescales for completion of external audits.

- The Director of Finance and Business Improvement explained that in terms of the pensions liability and the action taken to fund that liability, there were two separate calculations, albeit generated by the same actuary. He would be happy to arrange a Member briefing on the subject of the pensions liability and the funding arrangements.

RESOLVED:

1. That the Statement of Accounts 2020/21, attached at Appendix 1 to the report of the Senior Finance Manager (Client), be approved subject to the satisfactory resolution of the capital accounting issues referred to in the Audit Findings report by the Director of Finance and Business Improvement in consultation with the Chairman of the Committee.

2. That delegation to approve any further non-material changes be given to the Director of Finance and Business Improvement in consultation with the Chairman of the Committee.

3. That the External Auditor's Audit Findings report, attached at Appendix 2 to the report of the Senior Finance Manager (Client), be noted.

4. That the Letter of Representation, attached at Appendix 3 to the report of the Senior Finance Manager (Client), be approved.

Note: Mr Paul Dossett of Grant Thornton, the External Auditor, had hoped to address the Committee but lost connectivity.

57. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Director of Finance and Business Improvement introduced his report providing an update on the budget risks facing the Council. It was noted that:

- Current monitoring indicated that in year financial performance in 2021/22 remained in line with budget. Looking ahead, there were several risks that would be reflected in the updated Medium-Term Financial Strategy, notably inflation remaining above the Government's long-term targets and uncertainty about future local government funding arrangements.

- A potential issue for Maidstone was that an 'across the board' increase in funding for Councils would use the current basis of assessing funding requirements, which in 2019/20 indicated that the Council would have to pay negative Revenue Support Grant (RSG) to the Government rather than receive RSG from the Government. The first element of any increase in funding could therefore be used to reverse negative RSG, giving no benefit to the Council. The Council was lobbying the Government to address this anomaly.

- In addition, although the Spending Review covered three years, it was not clear whether this would translate into a three-year local government funding settlement. Local authorities benefited from the certainty offered by the four-year settlement between 2016/17 and 2019/20 even though this was a period of reductions in funding, and it was hoped that similar certainty could be provided for the next three years to help with forward planning.

- The risk of not being able to fund the Capital Programme had not changed appreciably. At present, funding for the Capital Programme was readily available at low cost. In the short term, funding was available through the market in borrowing and lending between local authorities. Longer-term funding was available from the Public Works Loan Board (PWLB) so long as the lending was not for purely commercial investment purposes. Bank rate was now expected to rise over the next year. However, at this stage, longer-term rates remained stable and borrowing costs remained within the Council's 2% budgeted level. The Council had taken its first tranche of PWLB borrowing and would continue to borrow in line with capital funding requirements.

In response to a question, the Director of Finance and Business Improvement advised the Committee that it was only new capital expenditure that the Council could legitimately fund from PWLB borrowing or prudential borrowing.

During the discussion, reference was made to (a) another risk in that the Government might not be prepared to mitigate the financial impact of a resurgence of COVID-19 and (b) the risks associated with IT security failure and the actions being taken to mitigate those risks.

RESOLVED: That subject to the points raised in the discussion, the updated risk assessment of the Budget Strategy, attached at Appendix A to the report of the Director of Finance and Business Improvement, be noted.

58. DURATION OF MEETING

6.30 p.m. to 8.00 p.m.

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2021/22 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Code of Conduct Matters - Six Month Update	AGS	14-Mar-22	Officer Update	No	Jayne Bolas	Gary Rowland
Housing Benefit Subsidy Claim 2020/21	AGS	14-Mar-22	Governance	No	TBA	Joanna Denny
Fraud and Compliance Team Update	AGS	14-Mar-22	Officer Update	No	TBA	TBA
Annual Risk Management Report 2021/22	AGS	14-Mar-22	Governance	Yes	Andrew Townsend	Alison Blake
Internal Audit and Assurance Plan 2022/23	AGS	14-Mar-22	Governance	No	Andrew Townsend	Andrew Townsend
External Auditor's Annual Audit Letter	AGS	14-Mar-22	Governance	No	Mark Green	TBA
External Audit Plan 2021/22	AGS	14-Mar-22	Governance	No	Mark Green	TBA
Budget Strategy Risk Assessment Update	AGS	14-Mar-22	Officer Update	No	Mark Green	Mark Green
Update on Draft Model Code of Conduct	AGS	TBA	Officer Update	No	Jayne Bolas	Jayne Bolas

Audit, Governance and Standards Committee	**17 January 2022**

External Auditor's Progress Report and Sector Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Ellie Dunnet, Head of Finance
Classification	Public
Wards affected	All

Executive Summary

The report from Grant Thornton, attached at Appendix 1 provides the committee with an update on progress with the audit of the 2020/21 financial statements and offers a summary of emerging national issues and developments of relevance to the local government sector.

Purpose of Report

Noting.

This report makes the following recommendations to this Committee:

1. That the external auditor's progress report and sector update, attached at Appendix 1 be noted.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	17 January 2022

External Auditor’s Progress Report and Sector Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council’s overall achievement of its aims in demonstrating accountability and value for money.	Director of Finance and Business Improvement
Cross Cutting Objectives	There is no specific implication, however sound financial management does support the delivery of the Council’s cross cutting objectives.	Director of Finance and Business Improvement
Risk Management	This is detailed within section 5.	Director of Finance and Business Improvement
Financial	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2021, and details the council’s assets, liabilities and reserves at this date. The work of the external auditor aims to provide independent assurance over this document.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	Under section 151 of the Local Government Act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. It is a function of the Audit, Governance and Standards Committee to review and approve the annual statement of accounts and to consider if appropriate accounting policies have been followed and whether there are concerns arising from the	Director of Finance and Business Improvement

	financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.	
Privacy and Data Protection	No implications identified.	Director of Finance and Business Improvement
Equalities	No implications identified.	Director of Finance and Business Improvement
Public Health	No implications identified.	Director of Finance and Business Improvement
Crime and Disorder	No implications identified.	Director of Finance and Business Improvement
Procurement	No implications identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	The implications of this report on biodiversity and climate change have been considered and there are no direct implications on biodiversity and climate change.	Director of Finance and Business Improvement

2. INTRODUCTION AND BACKGROUND

2.1 Committee members are invited to consider the report of the external auditor which provides an update on progress with the audit of the 2020/21 financial statements and offers a summary of emerging national issues and developments of relevance to the local government sector. Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.

2.2 In accordance with Accounts and Audit Regulations, the Council was required to have its audited Statement of Accounts for the 2020/21 financial year approved by the Audit, Governance and Standards Committee by 30 September 2021.

2.3 The draft financial statements were prepared by the finance team and presented to the committee at its meeting in July, with audit fieldwork commencing in late August. An updated version of the statements was then presented to the committee at its meeting in September. At this time, Grant Thornton advised that insufficient work had been completed to issue an audit opinion by the statutory deadline of 30 September, but that they anticipated that outstanding work would be completed during October 2021. The committee agreed at this meeting to defer the approval of the accounts until its November meeting, in order to ensure that this decision could be taken with reference to the audit findings.

2.4 Subsequently, the updated Statement of Accounts and Grant Thornton's Audit Findings Report were presented to the committee in November. At this time, some further adjustments relating to the capital accounting entries were anticipated, and the committee approved the accounts subject to the satisfactory resolution of these issues by the Director of Finance and Business Improvement in consultation with the Chairman of the Committee. A draft unqualified audit opinion was presented with the audit findings and at this time, it was hoped that the opinion would be formally issued shortly after the meeting.

2.5 Disappointingly, work to conclude the 2020/21 audit is still yet to be finalised. Officers have provided updated financial statements, and Grant Thornton have advised that they expect to be in a position to issue the audit opinion by 31 January. Appendix 1 provides further information regarding the status of the audit, and some wider information concerning the national picture for the local government sector. Officers are maintaining regular liaison with the audit team to ensure that the 2020/21 financial statements audit can be concluded as soon as possible.

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3. AVAILABLE OPTIONS

3.1 Committee members are asked to note the external auditor's report attached at Appendix 1.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The report is for noting only. It is recommended that the committee takes time to consider this as it supports the discharging of responsibilities in relation to the statutory accounts and audit.

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5. RISK

5.1 Risks have been considered with reference to the Council's risk management framework, and are considered to be within acceptable levels.

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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 Members of the public have legal rights to inspect, ask questions about and challenge items in the Council's accounts. Details of this have been published on the Council's website and the statutory period ended on 10 September. One enquiry was received regarding Covid Grants and rent deferrals, and this has been dealt with.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The external auditor has advised that they anticipate finalising the audit of the financial statements 31 January 2022.

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: External Auditor's Progress Report & Sector Update.

9. BACKGROUND PAPERS

None

Grant Thornton

Maidstone Borough Council
Audit Progress Report and Sector Update

Year ending 31 March 2021

January 2022

Contents

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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Key Audit Partner

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Engagement Manager

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This paper provides the Audit, Governance and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority; and

Members of the Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Key Audit Partner or Engagement Manager.

Progress at January 2022

Financial Statements Audit

We reported the findings from our 2020/21 audit in our Audit Findings Report which was presented to the November 2021 Audit, Governance and Standards Committee.

We concluded that the costs of properties in the Brunswick Street and Union Street housing developments constructed for disposal should be re-classified from PPE Assets Under Construction to Inventory. This change in accounting treatment also gave rise to a prior period adjustment in the financial statements.

A revised set of accounts has now been received. We are currently reviewing these revised statements and the accompanying working papers.

We are also engaging with the finance team to finalise work on the remaining testing and quality review queries.

Subject to the completion of outstanding work we anticipate giving our audit opinion on the 2020/21 financial statements by 31 January 2022.

Value for Money

The revised Code of Audit Practice for 2020/21 requires auditors to consider whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to structure their commentary on the audited body's arrangements under the three specified reporting criteria (i.e. financial sustainability, governance and improving economy, efficiency and effectiveness).

Our work to assess the Council's arrangements is currently in progress. Our work to date has not identified any areas of significant weakness.

Auditors are required to complete this work within three months after giving the opinion on the Council's financial statements. We anticipate completing our work by the specified deadline.

Certification of claims and returns

We report on the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP).

Our work to review the Council's 2020/21 housing benefit subsidy claim is currently in progress.

We anticipate completing our work by 31 January 2022, the deadline specified by DWP. We will report our findings to the March 2022 Audit, Governance and Standards Committee.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan setting out our proposed approach to give an opinion on the 2020/21 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	March 2021	Complete
Audit Findings Report The Audit Findings Report summarises the outcomes from our financial statements audit.	September 2021	Report presented to the November 2021 Audit, Governance and Standards Committee.
Auditors Report This is the opinion on your financial statements.	TBC	To be completed
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	TBC	To be completed

Financial Reporting Council annual report

On 29 October 2021 the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

FRC AQR Major Local Audits October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

Financial Reporting Council annual report (cont.)

Quality Assurance Department (QAD) Reviews

In addition to the reviews undertaken by the FRC on major local audits the QAD team from the ICAEW undertake annual reviews of non-major local audits as well as reviews of Foundation Trusts on behalf of NHSE&I.

The QAD reviewed five of our audits this year and graded all of them (100%) as 'Satisfactory / generally acceptable' for both the financial statements and VFM elements of the audit, which is the highest grading.

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Satisfactory / generally acceptable	5	6	2
Improvement required	0	1	0
Significant improvement required	0	0	0
Total	**5**	**7**	**2**

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis.

As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states "In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils' finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report."

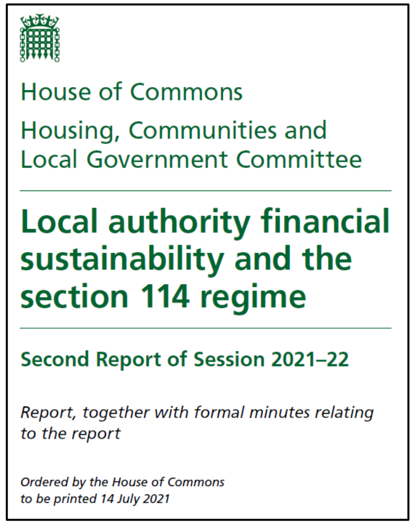
The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

The report made 13 recommendations, and the Government response to these was published in October. The response notes "Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms."

The initial report can be found here: https://committees.parliament.uk/publications/6777/documents/72117/default/

Government response can be found here: https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime


House of Commons
Housing, Communities and Local Government Committee

Local authority financial sustainability and the section 114 regime

Second Report of Session 2021–22

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 14 July 2021

Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that "delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention."

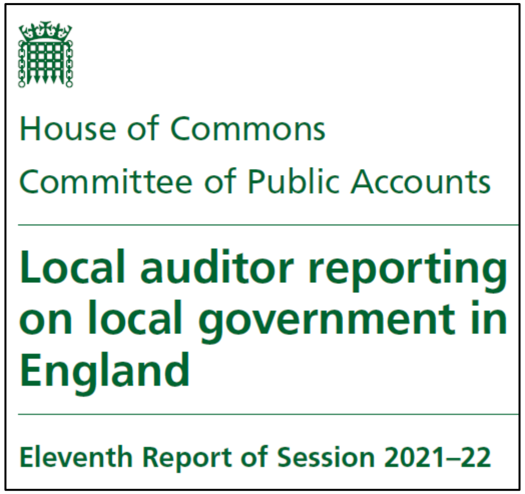
The PAC report found "Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors."

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.
- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here: [Timeliness of local auditor reporting on local government in England - Committees - UK Parliament]


House of Commons
Committee of Public Accounts

Local auditor reporting on local government in England

Eleventh Report of Session 2021–22

2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state "The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver
27 the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete."

Grant Thornton commented "Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused. We remain committed to public sector audit and are now focused on delivering the majority of our local audits by December 2021."

The news article can be found here:
https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/

2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state "Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

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The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.

The news article can be found here:
https://www.psaa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/

The procurement strategy can be found here:

https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/

Guide to support Value for Money (VfM) analysis for public managers – CIPFA

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state "The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to 'doing nothing' as well as the closest comparator."

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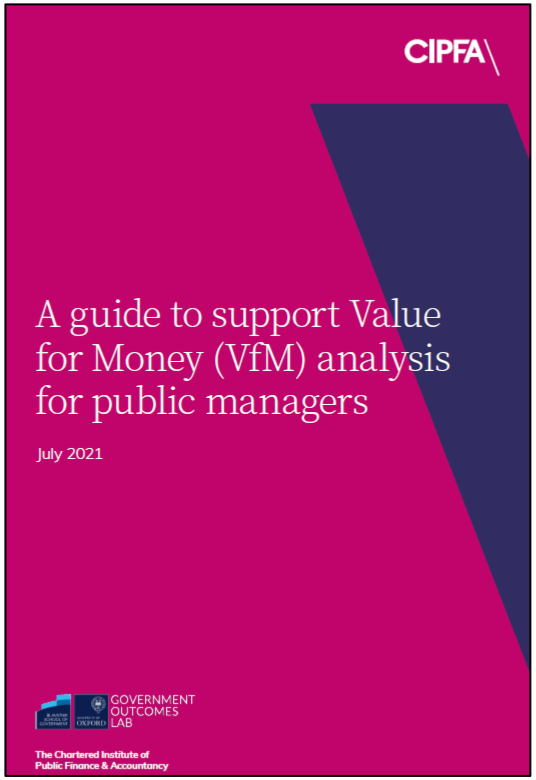
CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.



The guide is available to CIPFA members through the website.

Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

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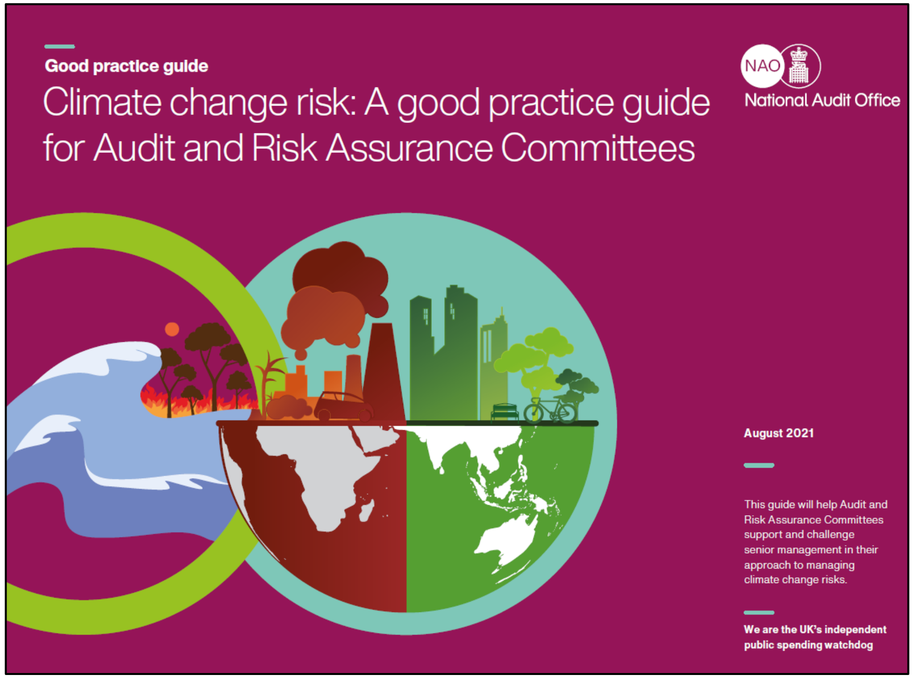
Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes.”

The guide includes sections on “How to support and challenge management”. This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a “Complete list of questions that Audit and Risk Assurance Committees can ask” for each of these areas. The guide also includes “Key guidance and good practice materials” with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office (NAO) Report]

Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Audit Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

• clarify the role of local authorities in contributing to the UK's statutory net zero target; and

• ensure local authorities have the right resources and skills for net zero.

The NAO comment "While the exact scale and nature of local authorities' roles and responsibilities in reaching the UK's national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector's powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government's approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities' overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities' ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach."

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities' reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

https://www.nao.org.uk/report/local-government-and-net-zero-in-england/

Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The NAO state “Audit committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation’s data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports audit committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

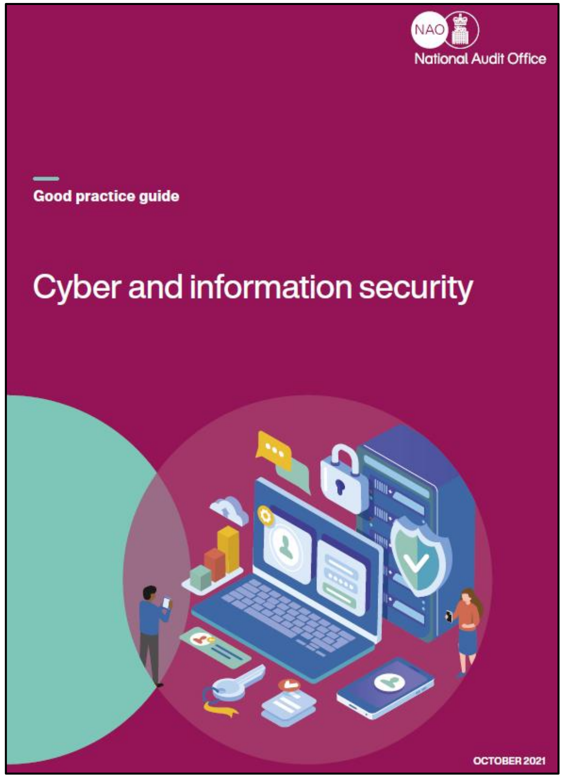
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.”

The report can be found here:

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/



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AUDIT, GOVERNANCE & STANDARDS COMMITTEE	17th January 2022

TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2022/23

Final Decision-Maker	Council
Lead Head of Service	Ellie Dunnet – Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

This report sets out the draft Treasury Management Strategy, Investment Strategy and Capital Strategy for 2022/23 for consideration by the Audit, Governance & Standards Committee and recommendation to Council for adoption. The strategies are attached as Appendices A-C to this report.

Purpose of Report

This report requires discussion from the Committee.

This report makes the following recommendations to this Committee:

1. That the Treasury Management Strategy for 2022/23 attached as Appendix A to this report is agreed and recommended to Council for adoption, subject to any amendments arising from consideration of the Capital Programme by Policy and Resources Committee at its meeting on 19th January 2022.
2. That the Investment Strategy for 2022/23 attached as Appendix B to this report is agreed and recommended to Council for adoption.
3. That the Capital Strategy for 2022/23 attached as Appendix C to this report is agreed and recommended to Council for adoption.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	17th January 2022
Policy & Resources Committee	19th January 2022
Council	23rd February 2022

TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2022/23

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the Strategic Plan objectives.	Head of Finance
Cross Cutting Objectives	The report recommendations support the achievements of the cross cutting objectives embedded within the Strategic Plan.	Head of Finance
Risk Management	Covered in Section 5 of this report.	Head of Finance
Financial	This report relates to the financial activities of the Council in respect of Treasury Management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer & Finance Team
Staffing	None	Head of Finance
Legal	The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.	Legal Team
Privacy and Data Protection	None	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Equalities & Communities Officer
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	None.	Head of Finance
Procurement	None.	Head of Finance

Biodiversity and Climate Change	There are no direct implications on biodiversity and climate change. Investment and capital strategy will be aligned and in keeping with the MBC Biodiversity and Climate Change Action Plan and MBC's Net Zero by 2030 commitment.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year must meet cash expenditure, to enable a best practice approach to longer term capital planning and to ensure the future success and wellbeing of the population, stakeholders and the area the Council serves. The Treasury Management, Investment and Capital Strategies assists the Council in achieving these objectives.

2.2 The council has adopted the Treasury Management in Public Services: Code of Practice 2017 Edition ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.3 CIPFA have revised the Code in December 2021 and has stated that a formal adoption is not required until the 2023/24 financial year, so the attached Strategies are compiled in line with the 2017 Code. Some key features of the 2021 Code are as follows:

- *Further strengthening on matters to be taken into account when setting and revising prudential indicators particularly decision making on capital investment, determining a capital strategy, prudence and affordability.*
- *ESG in Capital Strategy – broadened to make clear the strategy should be address environmental sustainability in a manner which is consistent with their own corporate policies on the issue.*
- *CIPFA key concern continues to be regarding leverage and borrowing to invest particularly for Commercial and Service Investment -with a clear statement regarding not being prudent to make any investment or spending decision that will increase capital financing requirement, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.*
- *Investment Management Practices (IMPs) – implemented in TM Code for Non-Treasury Investment and expected to follow same format used for Treasury Management Practices*
- *Further clarification on ESG within TMP1 Credit and Counterparty Risk Management.*

2.4 CIPFA revised the 2011 edition of the Code in 2017 to ensure that local authorities take into account the risks involved with non-treasury investments. CIPFA have therefore recommended that authorities development an Investment Strategy and a Capital Strategy which set out the Council's risk appetite and specific policies and arrangements for non-treasury investments.

2.5 The three strategy documents are linked and support the overall Medium Term Financial Strategy (MTFS), alluding to the risk appetites around capital investment priorities and funding decisions including borrowing. Below is an illustration of how these documents are linked:

Table A.

MTFS – covers governance, long term plans and financial resourcing

TM Strategy
- Governance
- Long term Planning incl. MRP
- Risk appetite, key risks and sensitivities

Investment Strategy
- Approach, due diligence, risk appetite
- Governance process for approval and monitoring
- Summary of material investments, guarantees and liabilities

Capital Strategy

2.6 **Treasury Management Strategy Statement 2022/23**

2.6.1 The first function of the Council's 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.

2.6.2 The second function of the Treasury Management operation is the funding of the Council's capital plans. The capital plans provide a guide to the borrowing need of the Council, so this means longer term cash flow planning to ensure that the Council can meet its capital spending obligations. The management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.6.3 The current 2021/22 Treasury Management Strategy (TMS) was reviewed by this Committee and agreed by Council in February 2021. The current Strategy is to:

- Utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;

- Further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered;

- Increase previous counterparty limits due to the increased grant funding from Central Government in relation to COVID19 which were being held until grants were paid to individuals and businesses.

A mid-year monitoring report was considered by this Committee at its November 2021 meeting.

2.6.4 Essentially the Council is taking a similar stance with its Strategy for 2022/23. The Council is now in a borrowing position and has started to take on short term and long term funding and it will continue to assess the appropriate funding in line with the proposed capital programme.

2.6.5 The Treasury Management Strategy for 2022/23 is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and The Department of Levelling Up, Housing and Communities (DLUHC – this was formally MHCLG) and has been developed in line with currently approved spending and financing proposals.

2.6.6 Current Treasury Management investments as at 31st December 2021 total £55.59m. A list of these can be found within **Appendix D**.

2.6.7 The Council has short term borrowings of £9m with other local authorities to fund its capital programme, which is likely to increase before the end of 2021/22. A list of these can also be found within **Appendix D**.

2.6.8 The Council has been spreading the risk of borrowing with a mixture of long term and short term funding to ensure lower borrowing costs along with weighing up the risk of refinancing. This will continue during 2022/23 as the borrowing will increase to finance the Capital Programme.

2.6.9 A list of the counterparties the Council has on its lending list and the colour criteria can be found in **Appendix E**. The Council current account with Lloyds Bank is not included within the counterparty limits as it cannot be predicted what funds are accumulating during a day. The Treasury Management Practices (TMPs) ensure that the current account is kept to a minimum at the start of each working day.

2.6.10The government is not included within the list of counterparties. The government's Debt Management Office (DMO) does not have accounts which work in the same way to recall funds on a daily basis to meet the Council's cashflow liabilities. An authority would request a fixed term deposit, which can be an overnight deposit, but it would be an administrative burden to roll these over each day if funds were not required. The money market funds are AAA rated funds which keeps in line with CIPFA's Security, Liquidity then Yield principles.

2.7 **Investment Strategy**

2.7.1 The Investment Strategy 2022/23 can be found in **Appendix B** which focuses on service investments (supporting local services by lending or buying shares) and non-treasury investments.

2.7.2 The Council has made third party loans to help support local organisations. A list of these and outstanding balances as at 31st December 2021 are as follows:

- Kent Savers £25,000
- Cobtree Manor Estates Trust £90,918
- One Maidstone CIC Ltd £12,000
- Capital & Regional (Bus Station) £178,000

2.7.3 There is also a provision of £1m in 2022/23 for Maidstone Property Holdings Limited to undertake refurbishments to various properties it currently leases from Maidstone Borough Council.

2.7.4 The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

2.8 **Capital Strategy**

2.8.1 The Capital Strategy 2022/23 can be found in **Appendix C** which gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

2.8.2 The strategy forms part of the Council's integrated revenue, capital and balance sheet planning and requires annual approval by full Council. It sets out the long term context in which capital expenditure and investment decisions are made, and considers risk, reward and impact on the achievement of the Council's priority outcomes identified within the strategic plan.

2.8.3 The strategy for 2022/23 is an update with the latest capital proposal plans for the Council subject to review.

2.8.4 The Policy & Resources Committee will consider a capital programme for the period 2022/23 to 2026/27 at its meeting on 19th January 2022. The attached Strategy includes assumptions about the Capital Programme and it is not anticipated that the Capital Programme as finally agreed will differ significantly from these.

2.9 The following table shows the expected borrowing required to fund the draft capital programme. Internal borrowing will be fully utilised within 2020/21 programme, with the only internal sources of funding being New Homes Bonus and small capital receipts.

	2021/22 £m	**2022/23 £m**	**2023/24 £m**
Capital Programme	33.179	27.530	31.099

External Funding Streams	(3.713)	(1.950)	(1.250)
Internal Funding Including Revenue Funding & MRP	(13.884)	(5.026)	(3.514)
Expected Borrowing	15.582	20.554	26.335

2.10 **Revenue Funding**

2.10.1 The strategy proposes the application of £3.216m New Homes Bonus, £0.336m Internal Borrowing and £1.623m Minimum Revenue Provision (MRP) to fund the capital programme in 2022/23.

2.10.2 The figure for New Homes Bonus has taken into account a proposal to be considered by Policy and Resources Committee that £1m be top sliced and used for revenue purposes.

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3. AVAILABLE OPTIONS

3.1 **Option 1:** The Committee could decide not to recommend the strategies to Council. The Council must adopt strategies for 2022/23 and should the Committee decide not to recommend it would need to recommend an alternative to Council. The strategies are in line with the necessary codes and practice guides and take a low risk approach favouring liquidity and security over return. As such the approach set out within the strategy is considered suitable for this Council.

3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategies prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendments and the risks and benefits that the proposed amendments provide in order for the Council to make a fully informed decision on the recommendation.

3.3 **Option 3:** The Committee could agree the attached strategies and recommend them to Council. The attached strategies have been produced in line with current guidance from CIPFA and the Department of Levelling Up, Housing and Communities (DLUHC). They have also been developed in line with advice and guidance from the Council's Treasury Management Advisors, Link Asset Services.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The recommended option is Option 3, to recommend to Council the Treasury Management Strategy, Investment Strategy and the Capital Strategy for 2022/23.

5. RISK

5.1 Detailed risk management policies are included within the Treasury Management Practices and have been included in both investment strategies and capital strategies to which the Council adheres. A brief description of these risks along with the Council's actions to mitigate these risks are as follows:

Liquidity Risk - Liquidity risk is the risk that cash will not be available when it is required. The Council has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. The Council also has the option of short-term borrowing.

Interest Rate Risk - Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. This risk is mitigated by borrowing and lending on a fixed rate basis. The Council will also seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and agreeing with them its strategy for the coming year for the investment and debt portfolios. It will also determine appropriate limits and trigger points which are set out in the annual Treasury Management Strategy.

Exchange Rate Risk - Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes.

Inflation Risk - Inflation risk is the risk that unexpected changes in inflation expose the Council to greater costs or a shortfall in income than have been budgeted for. Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

Credit and Counterparty Risk - Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. Due to volatility of the financial market, Treasury Management staff will use information from various sources, e.g. brokers, Treasury Management Consultants and other local Authority experience to determine the credit worthiness of an institution and to decide if funds are at risk and agree best course of action with Director of Finance & Business Improvement.

Refinancing Risk - Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. The Council currently borrows to fund a portion of its capital programme and will continue to do so in the coming years. In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period.

Legal and Regulatory Risk - Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss. The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The Authority will provide written evidence of its powers and authorities to any counterparty that requests us to do so. Counterparties will also provide their details to the Authority as a matter of course.

Fraud, Error and Corruption Risk - Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements which identify and prevent losses through such occurrences. The Council will seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal checks which minimises such risks along with maintaining records of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out. Delegated members of staff have the responsibility for the treasury management function for the Council and the Director of Finance & Business Improvement authorises who these are. The Council also has a Fidelity Guarantee insurance policy with Zurich Insurance which covers against loss of cash through fraud or dishonesty of employees.

Risk Appetite – The Council takes a slightly higher risk with its non-treasury investments compared to its treasury management investments due to the fact that treasury investments are mainly maintaining funds in high security instruments for when they are required and non-treasury decisions are for service delivery where there is a different risk profile.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 None

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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 This report will be considered by Policy & Resources Committee on 19th January 2022 and adoption by Council on 23rd February 2022.

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8. REPORT APPENDICES

8.1 The following documents are to be published with this report and form part of the report:

- Appendix A: Treasury Management Strategy 2022/23.
- Appendix B: Investment Strategy 2022/23.
- Appendix C: Capital Strategy 2022/23.
- Appendix D: Investment and Borrowing Position as at 31st December 2021.
- Appendix E: Counterparty List

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9. BACKGROUND PAPERS

9.1 None

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2022/23

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1.INTRODUCTION

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- address ESG issues within the Capital Strategy;

- require implementation of a policy to review commercial property, with a view to divest where appropriate;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);

- ensure that any long term treasury investment is supported by a business model;

- a requirement to effectively manage liquidity and longer term cash flow requirements;

- amendment to TMP1 to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

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."*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 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.

1.2.2 Treasury Management reporting

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

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

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A quarterly update on the Council’s treasury management position is also provided as part of the budget monitoring reports presented to Policy & Resources Committee.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

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

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;

- creditworthiness policy; and
- the policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been planned for Members prior to the Audit Governance and Standards Committee meeting on the 17th January 2022. The Council's Treasury Advisors, Link Asset Services, will be providing this training with reference to this Strategy.

Staff regularly attend training courses, seminars and conferences provided by the Council's Treasury Consultants and CIPFA. Relevant staff are also encouraged to study professional qualifications delivered by CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Staff training needs are assessed regularly both as part of the appraisal process and when the responsibilities of individual members of staff change.

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 our external service 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.

2 THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2026/27

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

2.1 Capital expenditure and financing

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. Members are asked to approve the capital expenditure forecasts:

2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
33.179	27.530	31.099	51.404	53.572	69.738

The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects and are included within the above figures.

The Council may potentially lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. However, there are no future plans to do this.

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments. This include the financial obligation to Serco Pasia for the leisure Centre.

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

Financing of capital expenditure £m	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Capital grants	3.364	1.500	0.800	0.800	0.800	0.800
Capital reserves	0.000	0.000	0.000	0.000	0.000	0.000
Revenue	2.995	3.216	0.373	0.373	0.373	0.373
Net financing need for the year	**26.820**	**22.814**	**29.926**	**50.231**	**52.399**	**68.565**

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 simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, 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 indebtedness 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 by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £2.01m relating to Serco Pasia within the CFR.

The Council is asked to approve the CFR projections below:

£m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Financing Requirement						
Total CFR	75.093	95.983	123.121	169.786	217.459	280.414
Movement in CFR	**25.582**	**20.890**	**27.138**	**46.666**	**47.673**	**62.956**

Movement in CFR represented by						
Net financing need for the year	26.820	22.814	29.926	50.231	52.399	68.565
Less MRP/VRP and other financing movements	-1.238	-1.924	-2.788	-3.565	-4.726	-5.609
Movement in CFR	**25.582**	**20.890**	**27.138**	**46.666**	**47.673**	**62.956**

2.3 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).

DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. The Council is recommended to approve the following MRP Statement

For capital expenditure incurred before 1.4.08 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former DLUHC regulations.

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

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

Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)

These options provide for a reduction in the borrowing need over approximately the asset's life. Building asset life is estimated to be 50 years, refurbishment works are over 10 years and the Mote Park Dam works over 25 years. Most other projects are over 5 years.

Repayments included in annual PFI, or finance leases are applied as MRP. MRP on the Serco Pasia Financial Commitment is based on the life of the contract.

3 BORROWING

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 overall borrowing portfolio as at 31st December 2021 is shown below.

Date	Ref	Lender	Amount £m	Rate %	Start	End
20/08/2021	078	Middlesbrough Teeside Pension Fund	4.000	0.08	20/08/2021	19/08/2022
11/11/2021	080	Public Works Loans Board	2.000	1.73	11/11/2021	11/11/2071
30/12/2021	081	Public Works Loans Board	3.000	1.56	30/12/2021	30/12/2071
		TOTAL	**9.000**			

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	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt						
Debt at 1 April	11.000	26.602	47.187	73.550	118.849	165.163
Expected change in Debt	15.582	20.554	26.335	45.586	46.623	61.906
Other long-term liabilities (OLTL)	2.010	1.473	0.905	0.309	0.000	0.000
Expected change in OLTL	-0.517	-0.537	-0.568	-0.596	-0.309	0.000
Actual gross debt at 31 March	**28.075**	**48.092**	**73.859**	**118.849**	**165.163**	**227.069**
The Capital Financing Requirement	**75.093**	**95.983**	**123.121**	**169.786**	**217.459**	**280.414**
Under / (over) borrowing	**47.018**	**47.891**	**49.262**	**50.938**	**52.296**	**53.346**

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 2022/23 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 Director of Finance and Business Improvement reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

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.

Operational Boundary

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Ext Borrowing	30.582	57.136	83.471	129.056	175.679	237.585

The authorised limit for external debt. This is a key prudential indicator and 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.

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

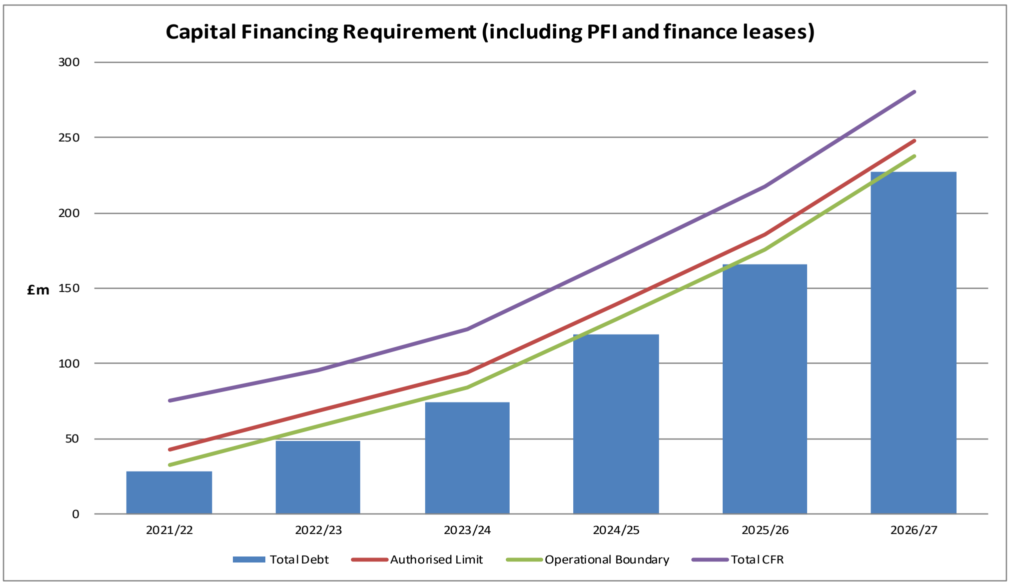
Authorised Limit for External Debt

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Ext Borrowing	40.582	67.136	93.471	139.056	185.679	247.585

The graph below forecasts the Council's debt profile, Operational Boundary and Authorised Limit remains below its CFR.

PRUDENTIAL INDICATORS GRAPH

CAPITAL FINANCING REQUIREMENT including PFI and finance leases						
	Est 2021/22 £m	Est 2022/23 £m	Est 2023/24 £m	Est 2024/25 £m	Est 2025/26 £m	Est 2026/27 £m
GF CFR	75.1	96.0	123.1	169.8	217.5	280.4
Total CFR	**75.1**	**96.0**	**123.1**	**169.8**	**217.5**	**280.4**
External Borrowing	26.6	47.1	73.5	119.1	165.7	227.6
Other long term liabilities	2.0	1.5	0.9	0.3	0.0	0.0
Total Debt	**28.6**	**48.6**	**74.4**	**119.4**	**165.7**	**227.6**
Authorised Limit	42.6	68.6	94.4	139.4	185.7	247.6
Operational Boundary	32.6	58.6	84.4	129.4	175.7	237.6



3.3 Prospects for interest rates

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 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged until the recent meeting in December 2021.

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Our forecast for Bank Rate includes four increases, one in quarter 2 of 2022 to 0.50%, then quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.

- **The Monetary Policy Committee** acts 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.

- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **German general election** in September 2021. Germany faces months of uncertainty while a new coalition government is cobbled together after the indecisive result of the election. Once that coalition is formed, Angela Merkel's tenure as Chancellor will end and will leave a hole in overall EU leadership.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

We are not expecting Bank Rate to go up fast after the initial rate rise; our view is that the supply potential of the economy has not taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to 5%. We are, therefore, forecasting four increases in Bank Rate over the forecast period to March 2025, ending at 1.25%. However, we are far from confident that these forecasts will not need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.

- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?

- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit. Link Group Interest Rate Forecast

- In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is. It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period. While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10- year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison. US treasury yields. During the first part of the year, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, which has just been passed by both houses, and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.

2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.

3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.

4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021. It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023. At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its 15th December meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period, all other things being equal. It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting

round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e., equities, or the safe haven of government bonds. The overall longer-run trend is for gilt yields and PWLB rates to rise.
There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia / China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

3.4 Borrowing strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

The Director of Finance & Business Improvement may look to procure forward borrowing terms ahead of requiring funding for the capital programme. This is to lock into preferential rates in case of future rate rises.

Any decisions will be reported to the Audit, Governance and Standards Committee at the next available opportunity.

3.5 Policy on 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.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

Due to the recent reduction in longer term borrowing rates, the Council has been looking to transfer its short term borrowing into longer term through the PWLB. These rates will be monitored throughout the year in case of changes to interest rates and/or the Council's financial situation.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the

objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8 Approved sources of long- and short-term borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills		●
	●	
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Current Investment Portfolio

The overall investment portfolio as at 31st December 2021 is shown below.

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return
Handelsbanken	Call account	5,000,000			0.20%
Goldman Sachs International Bank	Call account	2,000,000			0.23%
Lloyds Bank Plc	Call account	1,000,000			0.05%
Lloyds Bank Plc	Call account	2,300,000			0.01%
Santander Bank Plc	Call account	5,000,000			0.55%
HSBC Bank Plc	Call account	5,000,000			0.05%
Aberdeen Standard Liquidity Fund Sterling Fund	Money Market Fund	10,000,000			0.05%
CCLA Public Sector Depost Fund	Money Market Fund	10,000,000			0.08%
Federated Hermes Short-Term Sterling Prime Fund	Money Market Fund	7,290,000			0.03%
Landesbank Hessen Thuringen Girozentrale	Fixed Term Deposit	2,000,000	26/10/2021	26/04/2022	0.43%
Landesbank Hessen Thuringen Girozentrale	Fixed Term Deposit	3,000,000	30/12/2021	30/01/2022	0.18%
Goldman Sachs International Bank	Fixed Term Deposit	3,000,000	15/10/2021	14/04/2022	0.37%
Total Investments		55,590,000			

4.2 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

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

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

The above guidance from the DLUHC and CIPFA places 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 financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.3.

6. **Transaction limits** are set for each type of investment in 4.3.

7. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.4).

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

11. As a result of the change in accounting standards for 2022/23 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 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 31.3.23.

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, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year.

4.3 Creditworthiness policy

This Council applies the creditworthiness service provided by the Link Group. 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:

- "watches" and "outlooks" from credit rating agencies;

- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

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

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link 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 European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. 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.

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

	Colour (and long term rating where applicable)	Money Limit	Transaction limit	Time Limit
Banks *	**yellow**	**£8m**	**£8m**	**5yrs**
Banks	**purple**	**£7m**	**£7m**	**2 yrs**
Banks	**orange**	**£5m**	**£5m**	**1 yr**
Banks – part nationalised	**blue**	**£5m**	**£5m**	**1 yr**
Banks	**red**	**£5m**	**£5m**	**6 mths**
Banks	**green**	**£3m**	**£3m**	**100 days**
Banks	**No colour**	**Not to be used**	**£0m**	
Other institutions limit	**-**	**£m**	**£3m**	**5yrs**
DMADF	**UK sovereign rating**	**unlimited**	**£5m**	**6 months**
Local authorities	**n/a**	**£8m**	**£8m**	**5yrs**
Housing associations	**Colour bands**	**£8m**	**£8m**	**As per colour band**

	Fund rating**	Money Limit	Transaction limit	Time Limit
Money Market Funds CNAV	**AAA**	**£10m**	**£10m**	**liquid**
Money Market Funds LVNAV	**AAA**	**£10m**	**£10m**	**liquid**
Money Market Funds VNAV	**AAA**	**£10m**	**£10m**	**liquid**

Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**£8m**	**£8m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light pink / AAA**	**£8m**	**£8m**	**liquid**

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix 5.4.*
*** Please note: "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.*

Creditworthiness.
Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

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

4.4 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.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 10% of the total treasury management investment portfolio.

b) **Country limit.** 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). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

The Council's current account with Lloyds Bank is not included within the limits above. The reason for this is that the Council cannot control the income levels that are deposited through its operational bank account, which are likely to be less than investment balances. The Council does ensure that the current account balance is brought to a minimum at the start of each morning.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required 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.

Investment returns expectations.
The current forecast shown in paragraph 3.3, includes a forecast for a first increase in Bank Rate in December 2021 though there is a high risk that it could be delayed until quarter 1 or 2 of 2022.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	Now	Previously
2022/23	0.50%	0.25%
2023/24	0.75%	0.50%
2024/25	1.00%	0.50%

2025/26	1.25%	1.00%
Long term later years	2.00%	2.00%

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

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 following treasury indicator and limit:

Principal Invested for more than 364 Days

2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
2.000	2.000	2.000	2.000	2.000

4.5 Investment performance / risk benchmarking

This Council uses an investment benchmark to assess the security of institutions it deposits funds with against an average score which is based on the creditworthiness of the institution. This is reported as part of the Council's Performance Indicators to Policy & Resources Committee each quarter.

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 External fund managers

£13.3m of the Council's funds is externally managed within Money Market Funds with following institutions:

- Goldman Sachs Asset Management International
- Aberdeen Standard Investments
- Federated Investors (UK) LLP
- CCLA – The Public Sector Deposit Fund

The Council's external fund managers will comply with the Annual Investment Strategy. The agreements between the Council and the fund managers additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

5 TM STRATEGY APPENDICES

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2024/25

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

5.1.1 Capital expenditure

2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
33.179	27.530	31.099	51.404	53.572	69.738

5.1.2 Affordability prudential indicators

The previous sections cover 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 indicators:

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.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Interest Paid £000	118	508	1,009	2,057	3,223	4,770
Interest Received £000	-46	-60	-80	-100	-100	-100
Net Revenue Exp £000	19,695	22,625	21,664	23,328	24,270	25,238
%	**0.37**	**1.98**	**4.29**	**8.39**	**12.87**	**18.51**

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Cost of Borrowing	0.072	0.448	0.929	1.957	3.123	4.670

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

5.1.3 Maturity structure of borrowing

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

The Council is asked to approve the following treasury indicators and limits:

	Upper Limit %	Lower Limit %
Under 12 months	44	0
12 months to under 24 months	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and within 20 years	100	0
20 years and within 30 years	100	0
30 years and within 40 years	100	0
40 years and within 50 years	56	0

5.1.4. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2021-2025

Please see 3.3 of this report.

5.3 ECONOMIC BACKGROUND

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    - Raising Bank Rate as "the active instrument in most circumstances".
    - Raising Bank Rate to 0.50% before starting on reducing its holdings.
    - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see

Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.
See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In

addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election,

brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 25% will be held in aggregate in non-specified investment.

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

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

	Minimum credit criteria / colour band	**£ limit per institution**	**Max. maturity period**
DMADF – UK Government	yellow	£8m	6 months (max. is set by the DMO*)
UK Government gilts	yellow	£8m	5 years
UK Government Treasury bills	yellow	£8m	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	£8m	5 years
Money Market Funds CNAV	AAA	£10m	Liquid
Money Market Funds LNVAV	AAA	£10m	Liquid
Money Market Funds VNAV	AAA	£10m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£8m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£8m	Liquid

Local authorities	yellow	£5m	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£8m	

* DMO – is the Debt Management Office of HM Treasury

SPECIFIED INVESTMENTS:
(All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – housing associations	--	In-house
Term deposits – banks and building societies **	Green	In-house
Term deposits – banks and building societies **	Green	Fund Managers

Term deposits with nationalised banks, banks and building societies

	Minimum Credit Criteria	Use	*** Max % of total investments	Max. maturity period
UK part nationalised banks	Red	In-house	--	6 months
UK part nationalised banks	UK sovereign rating or * Short-term __, Long-term __, Sovereign rating	Fund Managers	--	
Banks part nationalised by high credit rated (sovereign rating) countries – non-UK	Sovereign rating or * Short-term __, Long-term __, Sovereign rating	In-house and Fund Managers		

Collateralised deposit (see note 2)	UK sovereign rating	In-house and Fund Managers
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	A-	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is explicitly guaranteed by the UK Government e.g., National Rail	UK sovereign rating	In-house buy and hold and Fund Managers
Sovereign bond issues (other than the UK govt)	A-	In-house buy and hold and Fund Managers
Treasury Bills	UK sovereign rating	In house and Fund Managers

Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs): -		
1a. Money Market Funds (CNAV)	AAA	In-house and Fund Managers
1b. Money Market Funds (LVNAV)	AAA	In-house and Fund Managers
1c. Money Market Funds (VNAV)	AAA	In-house and Fund Managers
2a. Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	In-house and Fund Managers

2b. Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	In-house and Fund Managers
3. Bond Funds	AAA	In-house and Fund Managers
4. Gilt Funds	UK sovereign rating	In-house and Fund Managers

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

NON-SPECIFIED INVESTMENTS: A maximum of 20% will be held in aggregate in non-specified investment

1. Maturities of ANY period

	Minimum Credit Criteria	Use
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Purple	In-house
Certificates of deposit issued by banks and building societies	Purple	In-house
Commercial paper other	Purple	In-house and Fund Managers
Corporate bonds	Purple	In-house and Fund Managers
Floating rate notes	Purple	In house and Fund Managers
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)		
Corporate bond fund	Purple	In house and Fund Managers
Multi Asset Income Fund, property	Purple	In house and Fund Managers

Use of external fund managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council's investment strategy. The fund managers the Council currently engages with are for Money Market Funds and Enhanced Cash Funds.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager. This includes Daily Fund Reports and access to the Money Market Portal.

5.5 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) 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 credit worthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

5.6 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit Governance & Standards Committee/ Policy & Resources Committee /Full Council

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Governance & Standards Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.7 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
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

- *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Investment Strategy

Maidstone Borough Council
2022/23

Introduction

The Authority invests its money for three broad purposes:

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

This investment strategy meets the requirements of statutory guidance issued by the government and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £10m and £55m during the 2022/23 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2022/23 for treasury management investments and borrowing are covered in a separate document, the Treasury Management Strategy Statement 2022/23.

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. The Council has made loans to Kent Savers for £25k in 2017/18 which is repayable in 2027/28 at an interest rate of 1% and an interest free loan of £60,000 to One Maidstone CIC Limited which is to be repaid in 2022/23. A loan to Cobtree Manor Estates Trust towards the construction of the new car park which had been agreed in 2019/20 for an amount of £323,000 repayment over 5 years at an annual interest rate of 3%. Balance outstanding as at 31st December 2021 is £90,918. A further loan was given to Capital & Regional for the refurbishment works to the bus station in 2021/22. This was for the amount of £178,000 which will be fully repaid in 2022/23.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2021 actual			2022/23
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries	0.000	0.000	0.000	1.000
Local businesses	0.202	0.000	0.202	0.062
Local charities	0.091	0.000	0.091	0.323
TOTAL	**0.293**	**0.000**	**0.293**	**1.385**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2020/21 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans by assessing the borrower's ability to repay the loan, based on past financial performance. This is monitored over the period of the loan in line with the agreed repayment terms.

Commercial Investments: Property

Contribution: The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

Third Party Loan Commitments and Financial Guarantees

The Authority has contractually committed to repay the loan on behalf of Serco Paisa for works to the leisure Centre which has a balance as at 31st March 2022 of £1.473m. The loan will be repaid in 2024/25.

Capacity, Skills and Culture

Elected members and statutory officers: The Section 151 Officer has ultimate decision making powers on investment decisions and has a number of key officers with the necessary skills to assess such projects, including the

Corporate Property Manager, Head of Finance, as well as the use of external consultants.

Each project is evaluated on its affordability and prudence to bear additional future revenue cost associated with each investment. It is established if the use of new or existing revenue resources to finance capital investment over competing needs for revenue expenditure and the scope for capital investment to generate future revenue savings or income, taking into account the risks associated with each proposal.

Commercial deals: The Section 151 Officer is involved with all decision making for capital projects and is aware of the core principles of the prudential framework in regard to the following:

- *service objectives, eg strategic planning for the authority*
- *stewardship of assets, eg asset management planning*
- *value for money, eg option appraisal*
- *prudence and sustainability, eg implications for external debt and whole life costing*
- *affordability, eg implications for council tax*
- *practicality, eg achievability of the forward plan.*

Corporate governance: The investment strategy is reviewed by Audit, Governance and Standards Committee prior to approval by full Council. Investment opportunities will be considered on a case by case basis with reference to the strategy, and a mid-year report will be provided during the year to ensure that the strategy remains fit for purpose.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 2: Total investment exposure in £millions

Total investment exposure	**31.03.2021 Actual (£m)**	**31.03.2022 Forecast (£m)**	**31.03.2023 Forecast (£m)**
Treasury management investments	16.160	14.230	10.000
Service investments: Loans	0.293	0.281	1.245
TOTAL INVESTMENTS	16.453	14.511	11.245
Commitments to lend (Serco Loan – Leisure Centre)	2.010	1.473	0.905
TOTAL EXPOSURE	18.463	15.984	12.150

How investments are funded: Government guidance is that these indicators should include how investments are funded. All Service Investment have to date been funded through useable reserves and income received in advance of expenditure.

Investments funded by borrowing which form part of the Council's capital programme are not included within this and details of these are included within the Capital Strategy.

MAIDSTONE BOROUGH COUNCIL
CAPITAL STRATEGY 2022/23

CONTENTS

1. INTRODUCTION

1.1. CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, requires councils to have a Capital Strategy. This document should provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with a description of how associated risk is managed and the implications for future financial sustainability.

1.2. Accordingly, the Capital Strategy articulates in a single place a number of strategies and policies that the Council already addresses elsewhere: it is an overarching document linking the Strategic Plan, the Medium-Term Financial Strategy, the Treasury Management Strategy and the Asset Management Plan.

1.3. The strategy focuses upon the long-term ambition of the Council for its local area, residents and business, and is aligned with the Strategic Plan in this regard. It is not purely a financial document but a whole organisation approach setting out how investment will support the delivery of the Council's strategic goals.

2. CAPITAL EXPENDITURE AND LINKS TO OTHER CORPORATE STRATEGIES

Strategic Plan

2.1. Capital expenditure at Maidstone Borough Council plays a vital part in the Council's Strategic Plan, since long term investment is required to deliver many of the objectives of the plan.

2.2. The current Strategic Plan went through a thorough process of discussion and refinement over the period June – October 2018 and was approved by Council on 12 December 2018. It sets out four objectives, as follows:

- Embracing Growth and Enabling Infrastructure.
- Homes and Communities.
- A Thriving Place.
- Safe, Clean and Green.

The ways in which capital expenditure can support these priorities are described below.

Embracing Growth and Enabling Infrastructure

The Council has a vital role in leading and shaping our borough as it grows. This means being proactive in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.

Separate objectives, set out below, address specifically the development of new housing, and other investments intended to make Maidstone a thriving place. In order to enable these developments to take place, investment in infrastructure will be needed. In general, infrastructure schemes are funded from the benefits gained from the development. To address any potential funding gap, the Council will enable infrastructure spending, to the extent that it meets our strategic priorities.

Accordingly, £5 million has been set aside within the current capital programme to contribute towards provision of local infrastructure, and to indicate our intention to invest to unlock development and attract matching funding.

A further £10m has been earmarked for the acquisition of property, allowing for the Council to invest in business premises within the borough where appropriate, enabling the speculative acquisition of employment property in support of the Economic Development Strategy.

Homes and Communities

The Strategic Plan seeks to make Maidstone a place where people love to live and can afford to live. This means a range of different types of homes, including affordable housing.

We aim, and are required by law, to address homelessness and rough sleeping. The Council has invested in temporary accommodation for homeless families, thereby ensuring a good standard of accommodation and providing a more cost effective solution than is offered by the private sector. The Council plans to deliver 1,000 affordable new homes over the next 5 years at an estimated cost of £110m.

The Council also works with Kent County Council Social Services to deliver adaptations and facilities to enable disabled people to remain at home. This work forms part of the capital programme, although it is funded directly by central government grant. £4 million has been provided in the capital programme for Disabled Facilities Grants.

A Thriving Place

The Strategic Plan seeks to make Maidstone a borough that is open for business, attractive for visitors and is an enjoyable and prosperous place to live for our residents. This can be achieved through investment in the County town and rural service centres.

There are a number of ways in which the Council will take the lead, including working with partners and through direct investment ourselves. The Council has a successful track record of acquiring property within the borough to support wider regeneration objectives. These acquisitions both generate a return that supports the viability of the investment and contribute to making Maidstone a thriving place. We will continue to seek good quality investment opportunities which deliver value and support our strategic goals.

Where appropriate, we will seek to achieve the necessary scale of investment by identifying joint venture partners. The amount available for direct investment by Maidstone Council is governed by the overall size of the capital programme, but we will adopt a flexible approach within this constraint in order to take advantage of investment opportunities that meet our criteria.

Specific projects that will contribute to a Thriving Place include Maidstone East, where the Council is working to redevelop a key site next to the railway station, ongoing investment in leisure and entertainment at Lockmeadow, (£1.8m), and delivery of the museum development plan at a cost of £0.4m.

In 2021, the Council delivered the Innovation Centre at Kent Medical Campus, after securing grant funding of £10.5 to match the Council's own investment. This facility will support growing businesses in the life science, healthcare and med tech sectors and ongoing investment in car parking facilities is planned for completion in 2022.

Longer term, provision has been made for a £30m investment in leisure in preparation for the expiry of the current contract with Serco for Maidstone Leisure Centre.

The Council has already made a significant investment in improving the public realm in the Town Centre, including working with partners to deliver improvements to the bus station in 2021.

Safe, Clean and Green

The Council seeks to protect and where possible enhance our environment and to make sure our parks, green spaces, streets and public areas are of a high quality.

Recent investment has included a further development of our flagship local park, Mote Park. Construction is under way for a new Visitor Centre which is hoped to be completed within spring 2022 at a cost of £2.8m. Mote Park Lake is effectively a reservoir and works were undertaken in the summer of 2020 due to the risk of the lake overtopping the dam at its western end this was at a cost of £1.7m.

The floods of winter 2013/14 highlighted the risks faced by the borough generally. Maidstone Borough Council is part of the Medway Flood Partnership, which includes the Environment Agency and Kent County Council. The Partnership plans to spend at least £19 million over the next five years in the Medway catchment area, of which Maidstone is contributing £750,000.

Medium-Term Financial Strategy

2.3. The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council adopted a Strategic Plan for the period 2021 - 2045 in December 2018; this has been refreshed annually since. In in February 2021 the specific areas of focus for the five year period from 2021/22 to 2025/26 were updated to reflect the significant change in context arising from the Covid19 public health emergency. The Strategic Plan now operates alongside the Council's Recovery and Renewal strategy, which will focus on addressing the impacts of Covid-19 within the borough, and investing in opportunities which have emerged from the pandemic, such as technology to support new ways of working.

2.4. The overall context for the MTFS is one where the Council is increasingly dependent on locally generated resources, whether from Council Tax or a range of other income streams, including parking income, planning fees and the Council's property portfolio. COVID-19 has led to a massive increase in public expenditure and has had an impact on income streams. Even though there has been some recovery, with some areas recovering more quickly than others. The MTFS supports the Council's need to become financially self-sufficient.

2.5. In drawing up the capital programme, there is therefore a focus on schemes that both meet strategic priorities and are self-funding. Specifically:

Property investment will build on the Council's existing property portfolio and assumes that we will continue to expand the portfolio, where appropriate, subject to identifying viable opportunities which support regeneration and economic development, as outlined within the Economic Development Strategy and the Local Plan.

- the Housing Development and Regeneration Investment Plan provides for the Council to develop housing ourselves, thereby addressing the need for new affordable homes in the borough as well as generating long term revenue returns through developing homes for market rent.

2.6. Below is a table of the latest draft capital programme which is due to be discussed at Policy and Resources Committee on 22nd January 2022.

A copy of the Council's medium Term Financial Strategy can be found in the link below:

Medium Term Financial Strategy 22-23 to 25-26

Treasury Management Strategy

2.7. The Treasury Management Strategy sets out how the Council manages its investments and cash flows, including banking, money market and capital market transactions, and how optimum performance is assured whilst managing the risks associated with these activities.

2.8. The specific aspects of the Treasury Management Strategy that are relevant here are how it addresses the Council's capital expenditure plans and how borrowing needs are met. Capital expenditure is funded from the internal resources, borrowing and third party contributions such as Section 106 and Community Infrastructure Levy (CIL) payments on new developments. The Council allocates some internal resources to fund capital expenditure, including revenue funding and internal borrowing, but following the purchase of the Lockmeadow Leisure Complex, it has been necessary to borrow externally. Long term borrowing costs have been budgeted for within the MTFS, although borrowing was initially short term in nature, for liquidity purposes. The Council has recently taken out long-term loans with the PWLB, and whilst rates are currently at historically lows, the Council are looking to offset short-term borrowing with secure long term funding. This strategy provides greater certainty over longer term capital financing costs.

2.9. The current local authority funding regime does not set cash limits for borrowing. However, borrowing must be sustainable in terms of the Council's ability to fund interest payments and ultimately repayment of capital.

2.10. Further details are set out in Section 4.

Asset Management Plan

2.11. The longer term maintenance of the Council's capital assets is addressed by the Council's Asset Management Plan. The Asset Management Plan ensures that the Council's assets, as a resource, support the delivery of the Council's objectives by:-

- Providing a suitable standard of accommodation for services including those shared with other authorities
- Maintaining property assets and ensuring that they continue to represent an appropriate investment for the Council
- Providing an asset management service to the property holding company
- Meeting the needs of the local community by maintaining assets in parks and open spaces and other community assets
- Safeguarding local heritage through ownership and preservation of historic
  and scheduled ancient monuments.

The current capital programme includes a provision of £4.3 million for Corporate Property Improvements and improvements to the offices of Maidstone House, based on the requirements of the Asset Management Plan.

The Asset Management Strategy is currently under review.

3. GOVERNANCE FRAMEWORK

Background

3.1. Capital expenditure proposals are developed in response to the Council's strategic priorities, as described in the previous section. Individual schemes are incorporated in the capital programme, which is included within the Council's Medium Term Financial Strategy.

3.2. The MTFS states that capital schemes will be reviewed and developed so that investment is focused on strategic priorities. The MTFS is updated on an annual basis, as part of the annual budget cycle.

3.3. Subsequent to preparation of the MTFS and its approval by Council each year, capital estimates form part of the annual budget that is submitted to Council for approval.

Developing capital expenditure proposals

3.4. The development of capital expenditure proposals follows certain core principles for the inclusion of schemes within the capital programme. Schemes may be included in the capital programme if they fall within one of the four following categories:

(i) Required for statutory reasons, eg to ensure that Council property meets health and safety requirements;
(ii) Self-funding schemes focused on Strategic Plan priority outcomes;
(iii) Other schemes focused on Strategic Plan priority outcomes; and
(iv) Other priority schemes which will attract significant external funding.

3.5. All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code and the following locally set principles:

(a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, such as the Asset Management Plan, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant service committee.

(b) Where schemes require the use of prudential borrowing, a business case must first be prepared setting out the viability and justification in terms of necessity or contribution to the delivery of strategic goals

3.6. Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed, they may still be included within the programme if they fall within one of the four categories set out above.

3.7. If, following all considerations, there are a number of approved schemes that cannot be accommodated within the current programme, a prioritised list of schemes that can be added to the programme as future resources permit will be created and approved by Policy and Resources Committee, thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

3.8. The MTFS requires the Council to identify actual funding before commencement of schemes. Accordingly, while schemes may be prioritised for the programme, ultimately commencement of any individual scheme can only occur once all the necessary resources have been identified and secured.

3.9. The MTFS principles require that the Council will maximise the resources available to finance capital expenditure, in line with the requirements of the Prudential Code, through:

(a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;

(b) Opportunities to obtain receipts from asset sales as identified in the Asset Management Plan and approved for sale by Policy and Resources Committee;

(c) The approval of prudential borrowing when the following criteria also apply to the schemes funded by this method:

   i. financial viability of the schemes can be clearly evidenced;
   ii. the outcome returns economic value commensurate to the cost incurred by borrowing to fund the schemes;
   iii. after covering the cost of funding, a further benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan or the medium term financial strategy.

(d) The use of residual New Homes Bonus for capital purposes (after a £1m topslice to support the revenue budget), in line with the Council's strategic plan priorities;

(e) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the objectives of the infrastructure delivery plan.

3.10. Service managers submit proposals to include projects in the Council's capital programme. Bids are collated by Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). Each Committee appraises the proposals with reference to corporate priorities set out in the strategic plan. Policy & Resources Committee recommends the capital programme which is then presented to Council in March each year.

3.11. Prior to any capital commitment being entered into, a detailed report setting out a full project appraisal and detailed financial projections is considered by the relevant service committee.

3.12. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). Further details are set out in section 4 of the Capital Strategy.

Performance Monitoring

3.13. The Council has a corporate project management framework that applies to most of the projects included within the capital programme. This provides for designation of a project manager and sponsor, and includes a mechanism for progress on corporate projects to be reported quarterly to a Corporate Projects Board.

3.14. The delivery of the capital programme and emerging schemes are also subject to oversight by the Strategic Capital Investment Board, which meets regularly throughout the year. Membership of the board includes the Chief Executive (Chair), Director of Finance and Business Improvement, Director of Regeneration and Place, Monitoring Officer, Head of Finance, Head of Regeneration and Economic Development and Head of Commissioning and Business Improvement.

3.15. Financial monitoring of capital projects is addressed by the Council's Financial Procedure Rules. Individual Member Service Committees receive quarterly reports on capital expenditure for the services for which they are responsible.

Capitalisation

3.16. Accounting principles govern what counts as capital expenditure. Broadly, it must yield benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets which are charged directly to service revenue accounts.

3.17. The Council has adopted a minimum threshold of £10,000 for capitalisation.

Asset Disposals

3.18. The Council's policy for asset disposals is set out in a policy adopted by Policy and Resources Committee at its meeting on 25th July 2017.

3.19. The policy distinguishes between the following categories.

- Operational Property held and used by the Council for the direct delivery of services for which it has either a statutory or discretionary responsibility. Assets may be disposed of if they have reached the end of their economic or useful life.

- Investment Property held by the Council for revenue generation purposes, which should be assessed by its potential for improved rates of return by either better asset management, or disposal and re-investment of the receipt.

- Community assets such as open space. The Council will not usually dispose of areas of parks or other areas which are classed as public open space.

3.20. Certain schemes within the capital programme are partially funded through sale of some of the completed asset(s) to partner organisations. In this case, the capital scheme value is shown net of these receipts in the capital programme, as the receipt is ringfenced for this purpose.

4. FINANCING THE CAPITAL PROGRAMME

4.1. Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, which offers rates that are usually more competitive than those available in the commercial sector. Maidstone Borough Council has so far not borrowed to fund its capital programme, instead relying primarily on New Homes Bonus to fund the capital programme. Borrowing is however likely to be required in future.

Financing Requirement

All capital expenditure must be financed, either from external sources (government grants, including New Homes Bonus, and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and other long-term liabilities). The planned financing of the expenditure set out in Table 1 is as follows:

Table 1: Capital Programme 2022/23 to 2026/27

FIVE YEAR CAPITAL PROGRAMME 2022/23 - 2026/27		Five Year Plan					Total 22/23 to 26/27
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
	£000	£000	£000	£000	£000	£000	£000
Housing - Disabled Facilities Grants Funding	1,017	1,500	800	800	800	800	4,700
Temporary Accommodation	3,008	1,560					1,560
Brunswick Street	233						
Union Street	217						
Springfield Mill - Phase 1 & 2	2,045	200					200
Private Rented Sector Housing Programme	1,125	2,316	4,632	11,579	11,579	16,211	46,317
Affordable Housing Programme	750	6,694	17,040	32,225	21,163	32,521	109,642
Acquisitions Officer - Social Housing Delivery P/ship	160	160	160	160	160	160	800
Granada House Refurbishment Works	20	980	1,000				1,980
Street Scene Investment	50	50	50	50	50	50	250
Flood Action Plan	244	200	200	200	150		750
Electric Operational Vehicles	84						
Vehicle Telematics & Camera Systems	35						
Rent & Housing Management IT System	19						
Installation of Public Water Fountains	15						
Crematorium & Cemetery Development Plan	378						
Continued Improvements to Play Areas	200						
Parks Improvements	149	50	50	50	50	50	250
Gypsy & Traveller Sites Refurbishment	50	1,900					1,900
Waste Crime Team - Additional Resources		25					25
Sub-total Communities, Housing & Environment	**9,798**	**15,635**	**23,932**	**45,064**	**33,952**	**49,792**	**168,374**
Mote Park Visitor Centre	1,233	1,543					1,543
Mote Park Lake - Dam Works	672						
Mall Bus Station Redevelopment	1,006						
Museum Development Plan		389					389
Leisure Provision		100	100	500	14,300	15,000	30,000
Cobtree Golf Course New Clubhouse		4	111	333			449
Tennis Courts Upgrade		20					20
Riverside Walk Works		250	250				500
Section 106 funded works - Open Spaces		400	400	400	400	400	2,000
Sub-total Economic Regeneration & Leisure	**2,910**	**2,706**	**861**	**1,233**	**14,700**	**15,400**	**34,901**

FIVE YEAR CAPITAL PROGRAMME 2022/23 - 2026/27	Five Year Plan						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total 22/23 to 26/27
	£000	£000	£000	£000	£000	£000	£000
Corporate Property Acquisitions	11,809	2,500	2,500	2,500	2,500	2,500	12,500
Kent Medical Campus - Innovation Centre	3,000	250					250
Lockmeadow Ongoing Investment	932	500	1,300				1,800
Garden Community	1,613	200	200	200	200	200	1,000
Infrastructure Delivery		1,000	1,000	1,000	1,000	1,000	5,000
Asset Management / Corporate Property	1,653	175	175	175	175	175	875
Other Property Works		980					980
Biodiversity & Climate Change	100	1,400		500	500	500	2,900
Feasibility Studies	162	50	50	50	50	50	250
Digital Projects	25	25	25	25	25	25	125
Software / PC Replacement	342	200	200	200	200		800
Maidstone House Works		1,000					1,000
Automation Projects		200					200
New Ways of Working - Make the Office Fit for Purpose		40					40
Archbishop's Palace		400	400				800
Fleet Vehicle Replacement Programme	748	149	456	457	270	96	1,428
Sub-total Policy & Resources	**20,384**	**9,069**	**6,306**	**5,107**	**4,920**	**4,546**	**29,948**
Bridges Gyratory Scheme	86	120					120
Sub-total Strategic Planning & Infrastructure	**86**	**120**					**120**
TOTAL	**33,179**	**27,530**	**31,099**	**51,404**	**53,572**	**69,738**	**233,343**

Table 2: Capital Financing

	21/22	22/23	23/24	24/25	25/26	26/27	Total
	£000	£000	£000	£000	£000	£000	£000
External sources	3,713	1,950	1,250	1,250	1,250	1,250	10,663
Own resources - incl Internal borrowing	13,884	5,026	3,514	4,568	5,699	6,582	39,275
External Borrowing	15,582	20,554	26,335	45,586	46,623	61,906	216,585
TOTAL	**33,179**	**27,530**	**31,099**	**51,404**	**53,572**	**69,738**	**266,522**

4.2. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out below; no assumptions have been made here about capital receipts.

Table 3: Replacement of debt finance

	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000	Total £000
MRP	889	1,474	2,338	3,115	4,276	5,159	17,253
Capital receipts	0	0	0	0	0	0	0
TOTAL	**889**	**1,474**	**2,338**	**3,115**	**4,276**	**5,159**	**17,253**

4.3. The Council's full minimum revenue provision statement is included within the Treasury Management Strategy.

4.4. The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £190.6m over the next 5 years. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing

	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000
Brought forward	49,511	75,093	95,983	123,121	169,786	217,459
Capital Expenditure	33,179	27,530	31,099	51,404	53,572	69,738
External funding	-3,713	-1,950	-1,250	-1,250	-1,250	-1,250
Own resources	-13,884	-5,026	-3,514	-4,568	-5,699	-6,582
MRP	-889	-1,474	-2,338	-3,115	-4,276	-5,159
TOTAL CFR	**64,204**	**94,173**	**119,979**	**165,591**	**212,133**	**274,205**

Borrowing Strategy

4.5. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, so the Council will seek to strike a balance between cheap short-term loans (currently available at around 0.5%) and long-term fixed rate loans where the future cost is known but higher (currently 1.4 to 1.75%).

4.6. Projected levels of the Council's total outstanding debt (which comprises borrowing and other long-term liabilities) are shown below, compared with the capital financing requirement.

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Debt (excl.PFI & leases)	26,582	47,136	73,471	119,056	165,679	227,585
Capital Financing Requirement	64,204	94,173	119,979	165,591	212,133	274,205

4.7. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this in the medium term.

4.8. Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances will be fully utilised to fund the capital programme. Actual debt in reality is likely to be lower due to slippage within the capital programme.

Table 6: Borrowing and the Liability Benchmark

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Outstanding borrowing	26,582	47,136	73,471	119,056	165,679	227,585
Liability benchmark	12,345	37,136	67,471	113,056	159,679	221,585

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

Table 7: Prudential Indicators: Authorised limit and operational boundary

Authorised Limit

	31.03.22 forecast £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m
Borrowing	40.582	67.136	93.471	139.056	185.679	247.585
Other Long Term Liabilities	2.010	1.473	0.905	0.309	0.000	0.000
Total	**42.592**	**68.609**	**94.376**	**139.37**	**185.68**	**247.58**

Operational Boundary

	31.03.22 forecast £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m
Borrowing	30.582	57.136	83.471	129.056	175.679	237.585
Other Long Term Liabilities	2.010	1.473	0.905	0.309	0.000	0.000
Total	**32.592**	**58.609**	**84.376**	**129.37**	**175.68**	**237.58**

4.10. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

4.11. The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury Management Investments

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Short-term investments	14,237	8,000	4,000	4,000	4,000	4,000
Longer-term investments	0	2,000	2,000	2,000	2,000	2,000
Total	**14,237**	**10,000**	**6,000**	**6,000**	**6,000**	**6,000**

4.12. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and Business Improvement and staff, who must act in line with the treasury management strategy approved by council. Quarterly reports on treasury management activity are included within the budget monitoring reports which are presented to the council Policy & Resources Committee with the half yearly and annual reviews which are scrutinised by Audit, Governance and Standards Committee then recommending to Full council. The Audit, Governance and Standards Committee is responsible for scrutinising treasury management decisions.

Revenue Budget Implications

4.13. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. Full budget provision is made for capital financing costs within the Council's revenue budgets. This is based on estimates derived from the capital programme, and projected 50 year borrowing costs.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	0.072	0.448	0.929	1.957	3.123	4.670
Proportion of net revenue stream (%)	0.365	1.982	4.287	8.390	12.867	18.506

4.14. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend beyond 5 years into the future. The Director of Finance and Business Improvement is satisfied that the proposed capital programme is prudent, affordable and sustainable.

5. OTHER LONG TERM LIABILITIES

5.1. This section deals with other long term liabilities to which the Council has committed itself in order to secure capital investment. The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.

5.2. The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments. The principal element of this loan is reflected on the Council's Balance Sheet, and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to revenue.

Investments for Service Purposes

5.3. The Council can make investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, Charities and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to provide value for money to the tax payer.

5.4. Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and Business Improvement and relevant committee (where appropriate) and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

6. KNOWLEDGE AND SKILLS

6.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Director of Finance and Business improvement is a qualified accountant with over 15 years' experience in local government, the Corporate Property Manager and the team are experienced in Property Management and the Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury), and ACCA.

6.2. The Council also employs Link Asset Services for Treasury Management advice, who support with the provision of training to members.

6.3. Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and Business Improvement and relevant committee (where appropriate) and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

7. RISK MANAGEMENT

7.1. The capital programme forms an increasingly important part of the Council's strategy for delivering its overall priorities. Accordingly, it is of fundamental importance that the associated risks are managed actively. The Council has a comprehensive risk management framework, through which risk in relation to capital investment is managed at all levels.

Corporate

7.2. Corporate risks are identified and reported on a quarterly basis to the Corporate Leadership Team and Policy and Resources Committee. Risks are owned by named Directors and controls developed to mitigate risk. Risks at this level may be generic, relating to a number of capital projects, although it is possible that a single capital project could pose a corporate risk.

Financial

7.3. A Budget risk register seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.

7.4. Typically, risks in this area would relate to funding of the capital programme and over/underspending on individual capital projects.

7.5. For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

Service

7.6. Individual service areas maintain risk registers, with identified risk owners and details of controls to mitigate risk.

Project

7.7. The Council's project management framework requires managers to maintain risk registers at a project level.

Maidstone Borough Council Investments/Borrowing as at 31st December 2021

Investments

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	MBC Credit Limits Maximum Term	MBC Credit Limits Maximum Deposit
Handelsbanken	Call account	5,000,000			0.20%	12 Months	£5,000,000
Goldman Sachs International Bank	Call account	2,000,000			0.23%	6 Months	£5,000,000
Lloyds Bank Plc	Call account	1,000,000			0.05%	6 Months	£5,000,000
Lloyds Bank Plc	Call account	2,300,000			0.01%	6 Months	£5,000,000
Santander Bank Plc	Call account	5,000,000			0.55%	6 Months	£5,000,000
HSBC Bank Plc	Call account	5,000,000			0.05%	6 Months	£5,000,000
Aberdeen Standard Liquidity Fund Sterling Fund	Money Market Fund	10,000,000			0.05%		£10,000,000
CCLA Public Sector Depost Fund	Money Market Fund	10,000,000			0.08%		£10,000,000
Federated Hermes Short-Term Sterling Prime Fund	Money Market Fund	7,290,000			0.03%		£10,000,000
Landesbank Hessen Thuringen Girozentrale	Fixed Term Deposit	2,000,000	26/10/2021	26/04/2021	0.43%	6 Months	£5,000,000
Landesbank Hessen Thuringen Girozentrale	Fixed Term Deposit	3,000,000	30/12/2021	30/01/2022	0.18%	6 Months	£5,000,000
Goldman Sachs International Bank	Fixed Term Deposit	3,000,000	15/10/2021	14/04/2021	0.37%	6 Months	£5,000,000

Total Investments		55,590,000					

Borrowing

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Interest Rate
Middlesbrough Teeside Pension Fund	Local Authority	4,000,000	20/08/2021	19/08/2022	0.08%
Public Works Loans Board	Central Government	2,000,000	11/11/2021	11/11/2071	1.73%
Public Works Loans Board	Central Government	3,000,000	30/12/2021	30/12/2071	1.56%

Total Loans		9,000,000			

Counterparty List as at 24th December 2021

Appendix E

	Fitch Rating Long Term	Fitch Rating Short Term	Moody's Long Term	Moody's Short Term	S&P Ratings Long Term	S&P Ratings Short Term	Suggested Duration
Australia	AAA		Aaa		AAA		Not Applicable
Australia and New Zealand Banking Group Ltd.	A+	F1	Aa3	P-1	AA-	A-1+	O - 12 mths
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	O - 12 mths
Macquarie Bank Ltd.	A	F1	A2	P-1	A+	A-1	R - 6 mths
National Australia Bank Ltd.	A+	F1	Aa3	P-1	AA-	A-1+	O - 12 mths
Westpac Banking Corp.	A+	F1	Aa3	P-1	AA-	A-1+	O - 12 mths
Belgium	AA-		Aa3		AA		Not Applicable
BNP Paribas Fortis	A+	F1	A1	P-1	A+	A-1	R - 6 mths
KBC Bank N.V.	A+	F1	A1	P-1	A+	A-1	R - 6 mths
Canada	AA+		Aaa		AAA		Not Applicable
Bank of Montreal	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
Canadian Imperial Bank of Commerce	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
National Bank of Canada	A+	F1	Aa3	P-1	A	A-1	R - 6 mths
Royal Bank of Canada	AA-	F1+	Aa2	P-1	AA-	A-1+	O - 12 mths
Toronto-Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
Denmark	AAA		Aaa		AAA		Not Applicable
Danske A/S	A	F1	A2	P-1	A+	A-1	R - 6 mths
Finland	AA+		Aa1		AA+		Not Applicable
Nordea Bank Abp	AA-	F1+	Aa3	P-1	AA-	A-1+	O - 12 mths
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	O - 12 mths
France	AA		Aa2		AA		Not Applicable
BNP Paribas	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Credit Agricole Corporate and Investment Bank	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Credit Agricole S.A.	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Credit Industriel et Commercial	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Societe Generale	A-	F1	A1	P-1	A	A-1	R - 6 mths
Germany	AAA		Aaa		AAA		Not Applicable
Bayerische Landesbank	A-	F1	Aa3	P-1	NR	NR	R - 6 mths
Commerzbank AG	WD	WD	A1	P-1	BBB+	A-2	G - 100 days
Deutsche Bank AG	BBB+	F2	A2	P-1	A-	A-2	G - 100 days

Counterparty List as at 24th December 2021

Appendix E

	Fitch Rating Long Term	Fitch Rating Short Term	Moody's Long Term	Moody's Short Term	S&P Ratings Long Term	S&P Ratings Short Term	Suggested Duration
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
Landesbank Baden-Wuerttemberg	A-	F1	Aa3	P-1	NR	NR	R - 6 mths
Landesbank Berlin AG			Aa2	P-1			O - 12 mths
Landesbank Hessen-Thueringen Girozentrale	A+	F1+	Aa3	P-1	A-	A-2	R - 6 mths
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	P - 24 mths
Norddeutsche Landesbank Girozentrale	A-	F1	A3	P-2	NR	NR	G - 100 days
NRW.BANK	AAA	F1+	Aa1	P-1	AA	A-1+	P - 24 mths
Netherlands	AAA		Aaa		AAA		Not Applicable
ABN AMRO Bank N.V.	A	F1	A1	P-1	A	A-1	R - 6 mths
Bank Nederlandse Gemeenten N.V.	AAA	F1+	Aaa	P-1	AAA	A-1+	P - 24 mths
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	O - 12 mths
ING Bank N.V.	AA-	F1+	Aa3	P-1	A+	A-1	O - 12 mths
Nederlandse Waterschapsbank N.V.			Aaa	P-1	AAA	A-1+	P - 24 mths
Qatar	AA-		Aa3		AA-		Not Applicable
Qatar National Bank	A+	F1	Aa3	P-1	A	A-1	R - 6 mths
Singapore	AAA		Aaa		AAA		Not Applicable
DBS Bank Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
Oversea-Chinese Banking Corp. Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
United Overseas Bank Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
Sweden	AAA		Aaa		AAA		Not Applicable
Skandinaviska Enskilda Banken AB	AA-	F1+	Aa3	P-1	A+	A-1	O - 12 mths
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	O - 12 mths
Swedbank AB	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Switzerland	AAA		Aaa		AAA		Not Applicable
Credit Suisse AG	A	F1	A1	P-1	A+	A-1	R - 6 mths
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
United Arab Emirates	AA		Aa2		AA		Not Applicable
First Abu Dhabi Bank PJSC	AA-	F1+	Aa3	P-1	AA-	A-1+	O - 12 mths

Counterparty List as at 24th December 2021

Appendix E

	Fitch Rating Long Term	Fitch Rating Short Term	Moody's Long Term	Moody's Short Term	S&P Ratings Long Term	S&P Ratings Short Term	Suggested Duration
United Kingdom	AA-		Aa3		AA		Not Applicable
Collateralised LA Deposit*							Y - 60 mths
Debt Management Office							Y - 60 mths
Multilateral Development Banks							Y - 60 mths
Supranationals							Y - 60 mths
UK Gilts							Y - 60 mths
Al Rayan Bank Plc			A1	P-1			R - 6 mths
Bank of Scotland PLC (RFB)	A+	F1	A1	P-1	A+	A-1	R - 6 mths
Barclays Bank PLC (NRFB)	A+	F1	A1	P-1	A	A-1	R - 6 mths
Barclays Bank UK PLC (RFB)	A+	F1	A1	P-1	A	A-1	R - 6 mths
Close Brothers Ltd	A-	F2	Aa3	P-1			R - 6 mths
Clydesdale Bank PLC	A-	F2	Baa1	P-2	A-	A-2	G - 100 days
Co-operative Bank PLC (The)	B+	B	Ba3	NP			N/C - 0 mths
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	R - 6 mths
Handelsbanken Plc	AA	F1+			AA-	A-1+	O - 12 mths
HSBC Bank PLC (NRFB)	AA-	F1+	A1	P-1	A+	A-1	O - 12 mths
HSBC UK Bank Plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	O - 12 mths
Lloyds Bank Corporate Markets Plc (NRFB)	A+	F1	A1	P-1	A	A-1	R - 6 mths
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	R - 6 mths
National Bank Of Kuwait (International) PLC	AA-	F1+			A	A-1	O - 12 mths
NatWest Markets Plc (NRFB)	A+	F1	A2	P-1	A-	A-2	R - 6 mths
Santander Financial Services plc (NRFB)	A+	F1	A1	P-1	A-	A-2	R - 6 mths
Santander UK PLC	A+	F1	A1	P-1	A	A-1	R - 6 mths
SMBC Bank International Plc	A	F1	A1	P-1	A	A-1	R - 6 mths
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	R - 6 mths
Coventry Building Society	A-	F1	A2	P-1			R - 6 mths
Leeds Building Society	A-	F1	A3	P-2			G - 100 days
Nationwide Building Society	A	F1	A1	P-1	A+	A-1	R - 6 mths
Nottingham Building Society			Baa3	P-3			N/C - 0 mths
Principality Building Society	BBB+	F2	Baa2	P-2			N/C - 0 mths
Skipton Building Society	A-	F1	A2	P-1			R - 6 mths

Counterparty List as at 24th December 2021

Appendix E

	Fitch Rating Long Term	Fitch Rating Short Term	Moody's Long Term	Moody's Short Term	S&P Ratings Long Term	S&P Ratings Short Term	Suggested Duration
West Bromwich Building Society			Ba3	NP			N/C - 0 mths
Yorkshire Building Society	A-	F1	A3	P-2			G - 100 days
National Westminster Bank PLC (RFB)	A+	F1	A1	P-1	A	A-1	B - 12 mths
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	B - 12 mths
United States	AAA		Aaa		AA+		Not Applicable
Bank of America N.A.	AA	F1+	Aa2	P-1	A+	A-1	O - 12 mths
Bank of New York Mellon, The	AA	F1+	Aa1	P-1	AA-	A-1+	P - 24 mths
Citibank N.A.	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
JPMorgan Chase Bank N.A.	AA	F1+	Aa1	P-1	A+	A-1	O - 12 mths
Wells Fargo Bank, NA	AA-	F1+	Aa1	P-1	A+	A-1	O - 12 mths

Counterparty List as at 24th December 2021

Appendix E

	Fitch Rating Long Term	Fitch Short Term	Moody's Long Term	Moody's Short Term	S&P Ratings Long Term	S&P Short Term	Suggested Duration

Key

Duration	Limit
Y - 60 mths	£ 8,000,000
P - 24 mths	£ 7,000,000
B - 12 mths	£ 5,000,000
O - 12 mths	£ 5,000,000
R - 6 mths	£ 5,000,000
G - 100 days	£ 3,000,000
N/C - 0 mths	£ -

Audit, Governance and Standards Committee	**17 January 2022**

External Audit Procurement

Final Decision-Maker	Council
Lead Head of Service	Director of Finance and Business Improvement
Lead Officer and Report Author	Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

The Council must decide by 11 March 2022 on arrangements for external audit for the financial years 2023/24 to 2027/28. The options available are to procure independently (or in conjunction with other authorities) or to opt in to an outsourced procurement with Public Sector Audit Appointments (PSAA).

Purpose of Report

Decision.

This report makes the following recommendations to this Committee:

1. That the Committee recommends to Council that it accepts an invitation from the PSAA to become an opted-in authority, in accordance with the decision making requirements of the Local Audit (Appointing Person) Regulations 2015.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	17 January 2022
Council	23 February 2022

External Audit Procurement

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendation will materially affect achievement of corporate priorities.	Director of Finance and Business Improvement
Cross Cutting Objectives	The recommendation will not materially affect the four cross-cutting objectives.	Director of Finance and Business Improvement
Risk Management	Refer to paragraph 5 of the report.	Director of Finance and Business Improvement
Financial	The current external audit fee is £38,866. For the reasons set out in this report, it is likely that this fee will increase under any new contractual arrangements and budget provision will be made as appropriate at the time.	Director of Finance and Business Improvement
Staffing	We will deliver the recommendations with our current staffing.	Director of Finance and Business Improvement
Legal	Section 7 of the Local Audit and Accountability Act 2014 requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on selecting and appointing a local auditor. Section 12 provides for the failure to appoint a local auditor. The authority must immediately tell the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor for the authority. Section 17 gives the Secretary of State the power to regulate for an 'appointing person'.	Interim Deputy Head of Legal Partnership.

	The Secretary of State exercised this power in the Local Audit (Appointing Person) Regulations 2015 (SI 192). These give the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State named PSAA as the appointing person. Regulation 19 states that the Council as a whole must take the decision to opt in to the arrangements.	
Privacy and Data Protection	The recommendation will not affect the nature or volume of data held by the Council.	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Equalities & Communities Officer
Public Health	No impact.	Public Health Officer
Crime and Disorder	No impact.	Director of Finance and Business Improvement
Procurement	The recommendation sets out a proposed approach to procurement of the external audit service which is in accordance with legislation and the Council's own financial procedure rules.	Director of Finance and Business Improvement
Biodiversity and Climate Change	No impact.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

2.1 Local authorities have been subject to external audit since the nineteenth century. The role of the external audit has varied over time, but essentially it exists to safeguard public money by ensuring true and fair financial reporting.

2.2 From 1983, local authorities had their external auditor selected on their behalf by the Audit Commission. However, in 2010, the Secretary of State for Communities and Local Government in the newly formed Coalition Government set out the Government's intention to abolish the Audit Commission and move towards a position where local authorities were able to select their own external auditors. This objective was eventually realised in the Local Audit and Accountability Act 2014 (the Act) and various pieces of secondary legislation. The Act and the Regulations give every local authority a choice of three different routes to choosing its auditor:

a) solo procurement through an independent Auditor Panel
b) joint procurement with another authority or authorities, again via an independent auditor panel
c) outsourced procurement.

2.3 The Act allowed the Secretary of State to authorise a Specified Person who would have the authority to make auditor appointment decisions on behalf of those authorities who wished to outsource procurement under option c). Authorities that chose to procure via a Specified Person did not need to create or maintain an Auditor Panel. In this route, once the Council had decided to opt in, the Specified Person would negotiate contracts and make the appointment on behalf of the councils. The Specified Person would also take on all the existing tasks of an Auditor Panel on behalf of the opted-in councils.

2.4 Public Sector Audit Appointments Ltd (PSAA), a subsidiary of the Local Government Association, applied to the Secretary of State to act as a Specified Person and was successful. In the event, almost all local authorities, and 180 out of 181 non-metropolitan districts, including Maidstone Borough Council, opted to outsource external audit procurement to the PSAA.

2.5 The benefits of outsourcing were seen as being the saving in time and resources by avoiding the need to establish an Auditor Panel and to undertake a procurement process, together with the expectation that the PSAA would be able to attract the best audit suppliers and command highly competitive prices. The PSAA awarded five year contracts for external audit of local authorities, commencing 2018/19, to six audit firms. Grant Thornton won 39% of the market and was allocated as Maidstone Borough Council's auditor; the Council had no say in the selection of Grant Thornton, having outsourced procurement to PSAA.

2.6 It is generally accepted that the performance of external audit under the existing procurement arrangements has deteriorated. Amongst the issues faced by both this council and the sector as a whole have been the following:

- Late audit opinions (only 9% of 2020/21 audits met the 30 September deadline; Maidstone's audit opinion remains outstanding at the time of writing)
- Lack of skilled and experienced audit staff
- Delays in response to officer queries
- Increasing demand on officer time to service audits
- Increasing focus on issues of little relevance to local taxpayers
- Audits becoming more technical and moving away from public accountability
- Low fees, but frequent supplements.

There are a number of reasons for the poor performance. It is believed that the firms that won audit contracts in 2018/19 submitted bids at below the cost of carrying out the work to a reasonable standard. The audit sector as a whole has suffered from staff shortages. Finally, the increased number of high profile corporate failures over the past few years has led the auditors' regulator to require an increased focus on ostensibly high risk areas. Unfortunately, the high risk areas for corporates, such as property valuations, are not necessarily the same as high risk areas for local authorities. This has meant that limited external audit resources have not always been targeted appropriately.

Next steps

2.7 2022/23 is the final year of the existing external audit contract and the Council must decide on arrangements for 2023/24 and subsequent years. The options remain as set out in paragraph 2.2 above, namely to procure independently (or in conjunction with other authorities) or to opt in to the PSAA procurement arrangements.

2.8 The PSAA recognises the problems faced by local authorities under the present arrangements and has published a Procurement Strategy, attached as Appendix A, which seeks to address some of the issues, for example by giving greater emphasis on quality versus cost when making appointments. No alternative has emerged to the PSAA, and there appears to be little appetite amongst local authorities, either locally in Kent or nationally, for independent procurement.

2.9 The Council must decide by 11 March 2022 whether to opt in to the PSAA arrangements for 2023/24 and subsequent years.

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3. AVAILABLE OPTIONS

3.1 Option 1 – Independent Procurement

3.2 Option 2 – Opt in to the PSAA's outsourced external audit procurement arrangements.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 It is recommended that the Council accepts an invitation from the PSAA to become an opted-in authority, for the following reasons.

- The administration of procurement will be outsourced, leading to a significant saving in Council time and resource
- Management of the audit contract will be outsourced, likewise leading to a significant saving in Council effort
- The PSAA is better placed than the Council to achieve good value for money from the procurement, owing to its dominant position in the marketplace

- Outsourcing external audit procurement to the PSAA provides assurance that the Council's statutory obligation to have an external audit can be met
- The PSAA has taken on board lessons from operation of the initial five year outsourced contracts and has framed a procurement strategy which reflects these
- Whilst there have been serious issues about the delivery of audits over the past four years, it is considered that a sector-wide approach to addressing these, led by the PSAA, is more likely to improve standards.

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5. RISK

5.1 The risks associated with this proposal relate to the independent assurance provided by external audit about the Council's arrangements for safeguarding public money. As between the two options set out above, it is considered that opting in to the PSAA procurement arrangements has a lower level of risk. The PSAA is better placed to source a high quality external auditor than the Council would be able to if acting by itself or with a group of other local authorities.

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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 Members received a briefing about choosing an external auditor on 15 November 2021 and expressed their initial views on the subject. These are reflected in this report.

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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 Council will be asked to make a decision on arrangements for procurement of external audit, based on the recommendations of this Committee, at its meeting on 23rd February 2022.

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8. REPORT APPENDICES

Appendix A – PSAA Procurement Strategy

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9. BACKGROUND PAPERS

None.

Audit services procurement strategy 2022

September 2021

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Contents

Introduction

1. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association (LGA) in August 2014. It has a Board of non-executive directors supported by a Chief Executive and a team of staff who have significant experience and skills in managing contracts for public audit services. More information about the PSAA Board and Executive team can be found at http://www.psaa.co.uk/about-us/who-we-are/.

2. In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 (the Act) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations). Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

3. During the next few months all eligible bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.

4. In relation to appointing auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme managed by PSAA.

5. Events since 2018 have resulted in an audit industry that is under enormous pressure and the local audit system is experiencing its share of the strain and unavoidable instability as impacts cascade down to the frontline of individual audits.

6. We believe that PSAA's national scheme offers the best option for local bodies to secure the appointment of appropriately qualified auditors in the current challenging market conditions. The Local Government Association and MHCLG[1] have expressed similar views.

Background to the procurement

7. One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

[1] Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

8. In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.

9. We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the outcomes of a further procurement to take effect from 1 April 2025), we believe that it is strongly preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

10. We will, however, consider the circumstances in which it may possibly be necessary to extend one or more current contracts nearer to the commencement of the procurement. This will enable our approach to take into account latest information including any relevant policy announcements or clarifications.

11. MHCLG's Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. Following the publication of its response to the consultation on changes to the Local Audit (Appointing Person) Regulations 2015, the government has committed to introduce secondary legislation to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year. New regulations are expected to come in to force this Autumn. These changes would enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.

12. PSAA has set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.

13. PSAA needs to enter into new contracts with audit firms in order to make auditor appointments to opted-in bodies by 31 December 2022, as required by the Appointing Person Regulations. This procurement strategy sets out our current plans for the basis on which the procurement of audit services will be carried out.

Objectives of the procurement

14. Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

15. The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;

- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.

16. It is necessary to enter into contracts with a number of audit suppliers to provide sufficient capacity for all of the audits required, enable PSAA to manage auditor independence issues and, if possible, grow the number of active suppliers in the local audit market.

Scope of the procurement

17. The procurement will cover the audits of the accounts of all eligible bodies that opt into the appointing person scheme. Eligible bodies include local authorities, combined authorities, police and crime commissioners including PFCCs, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.

18. There are currently 476 eligible bodies that will receive invitations to opt into the appointing person arrangements during September 2021. This number may reduce slightly from 1 April 2023 given the planned reorganisation in the counties of Cumbria, North Yorkshire, and Somerset. The closing date for acceptance of the opt-in invitation is 11 March 2022. We expect to receive acceptances from eligible bodies throughout the opt-in period and will maintain and publish an up to date record of bodies joining the scheme on the PSAA website.

19. PSAA has allowed a considerably longer period during which an eligible body can opt in compared to the statutory minimum period of eight weeks. It is hoped this will enable eligible bodies to meet the requirement under the regulations to make the decision to opt in at a full council meeting. (As corporations sole, the full council requirement does not apply to police and crime commissioners and police, fire and crime commissioners).

20. In order to maximise the potential economies of scale for eligible bodies as a result of entering into large contracts with firms, and to manage any auditor independence issues, PSAA will seek to provide as much clarity and certainty as possible concerning the volume and nature of audits it is able to offer to firms.

Evolution of this strategy

21. This strategy has been developed based on our knowledge and experience of previous procurements for audit and related services, including the lessons learned from our 2017 procurement and the research we have commissioned since that time. Importantly it has

been shaped by the feedback received to the market engagement exercise and consultation with eligible bodies, which we undertook in June 2021. A summary of the response to PSAA's consultation and market engagement has been published.

22. PSAA has produced a risk allocation matrix (attached as an appendix) to inform the development of its commercial model and pricing approach as described in this strategy. It sets outs PSAA's assessment of the risks that each party is required to bear so provision can be made to mitigate and manage these risks in the most effective and economical manner.

23. This procurement strategy was agreed by the PSAA Board on 15 September 2021. It has also been shared and discussed with members of the Liaison Committee chaired by MHCLG and involving representatives of FRC, NAO, CIPFA, ICAEW and the LGA. In a number of areas feedback has helped us to evolve our thinking on the procurement characteristics outlined in the June 2021 draft prospectus and market engagement documents.

24. PSAA will continue to informally engage with the market following the publication of this procurement strategy until the contract notice is published.

25. Two market briefings will be held – in November 2021 and January 2022 – to explain and answer questions about our procurement strategy.

26. Shortly after the January briefing, we expect to publish the contract notice. From that point forward, all engagement in respect of the procurement will be conducted in accordance with the arrangements described in the procurement documentation.

27. The significant work to reform audit in the wake of the four government reviews (Kingman's review of the FRC; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit) is underway.

28. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Alongside changes to the general and local audit framework, the Government is reviewing the public sector procurement regulations, following the UK's withdrawal from the European Union.

29. Given this context we will keep the procurement strategy under review and may make appropriate revisions as a result of any policy, regulatory or other significant changes arising.

The procurement strategy

The procurement route

30. The Public Contract Regulations 2015 (the Contract Regulations), unless superseded, will apply to the procurement and it will be carried out in accordance with those Regulations.

Choice of procurement procedure

31. PSAA is keen, if possible, to enter into contracts with a larger number of suppliers registered as local public auditors than the current five. This could include a non-registered firm working with a registered firm.

32. This will give PSAA the ability to manage auditor independence issues, for example, where an audit supplier has a pre-existing relationship with an opted-in body which prevents it from accepting an audit appointment. It will also provide the flexibility to enable PSAA to respond to the significant number of joint or shared working arrangements for which partner eligible bodies often express a preference for the appointment of a common audit supplier. By entering into contracts with a number of suppliers, PSAA will help to support the drive towards a long term competitive and more sustainable market for local public audit services.

33. Because the nature of the services being procured is highly specialised, PSAA will follow the restricted procedure (rather than the open procedure) in accordance with the Contract Regulations. This will enable PSAA to identify those suppliers with the necessary financial standing, technical capability, skills and experience to provide services and then invite all those shortlisted to tender.

34. Bids will be accepted from suppliers which are registered as, or that are currently proceeding through the registration process to become, a local public auditor with a supervisory body approved by the Financial Reporting Council, currently the Institute of Chartered Accountants in England and Wales (ICAEW). The registration and ongoing monitoring processes test supplier quality and competence.

35. Bids from consortia or other forms of joint working arrangements will be permitted where at least one member organisation within the consortium or arrangements is individually registered as (or going through the process of registration to become) a local public auditor with the ICAEW.

36. An award made to a supplier going through the registration process will be conditional on the ICAEW, as the Registered Supervisory Body, approving their registration and the procurement will not seek to prejudice ICAEW's approval process.

37. Suppliers invited to tender will be asked to quote prices for a contract length of five years, which matches the opt-in period for eligible bodies. The contracts will include the option to extend the contract duration by up to a further two years, by mutual agreement.

38. Variant bids will not be permitted.

Contract lots

39. PSAA will structure its procurement and invite bids as set out in the paragraphs below, subject to confirmation once the number of eligible bodies opting into the scheme is known.

40. There will be a single England-wide contract area, containing between 7 and 11 lots. There will also be a further two lots which will be classed as “development lots”.

41. The size of the lots will be graduated to enable bidders to match their capacity and risk appetite with their preferred lot size.

42. The number of individual lots and their indicative value will be clearly set out in the invitation to tender. PSAA will reserve the right to award work in excess of the lot size as a mitigation should we be unable to award all lots.

43. For each individual lot, PSAA will give an indication of the minimum volume of work which the lot will contain.

44. The two “development lots” will be sized at around 2% and 1% of opted-in bodies in order to encourage new entrants.

45. There will be no requirement for bidders to participate in joint audits.

46. Except for the development lots, each lot in its final form will reflect a sensible balance of geography and a blend of the different authority types, taking account of the guiding principles used when making auditor appointments as set out in para 54 below. Most lots are likely to include one or more public interest entity (PIE) audits. However, in addition to the two development lots, two further lots will exclude any PIE audits.

47. The indicative value of each lot will be expressed by reference to the ‘audited body notional value’ (ABNV), which comprises the published scale fees for 2021/22 for all opted-in bodies. This will establish a consistent baseline for bidders’ pricing.

48. Within the invitation to tender we will provide further information that will be helpful to bidders in their consideration of bid prices covering:

    - those future regulatory and Code-related changes up to April 2023 that we expect bidders to reflect in their pricing. Correspondingly, we will identify those possible changes where there is insufficient information available to do so and outline how these will be handled; and
    - a schedule of opted-in bodies which details the most recent audit year completed, the scale fee and the nature and value of recurring fee variations that are already baked into the scale fee.

49. Named audits will not be allocated to a lot until the procurement is complete and the subsequent consultation processes with opted-in bodies and successful bidders have taken place. Having a larger number of lots increases the opportunity for a greater

proportion of a lot to be concentrated in specific geographical areas rather than being spread across the country.

50. There is no “auditor of last resort” in England, unlike other UK public sector procurers of volume public audit services. Given the statutory nature of audit, and its obligation to make an auditor appointment to every opted-in body, PSAA will endeavour to encourage the market to bid in a manner which represents value for money for the public purse, without damaging sustainability.

51. When making auditor appointments following contract award, PSAA will consider the status of prior year audits and will be guided by the following principles:

- ensuring auditor independence;
- ensuring any contractually guaranteed levels of work are met;
- ensuring a blend of authority types for each audit firm;
- taking account of a firm’s principal locations (as specified in its tender response);
- providing continuity of audit firm, where appropriate; and
- accommodating joint/shared working arrangements between local bodies where possible.

Bidding rules relating to lots

52. In the interests of market sustainability, and subject to receiving sufficient bids and to the outcome of the evaluation of responses to the invitation to tender, PSAA expects to award no more than 35% of the aggregate value of its total portfolio (and potentially a lesser maximum percentage) to any single supplier. Ideally PSAA wants to enter into long term contracts with a larger number of suppliers than we do currently, reflecting a more balanced distribution of work. Our lot structure will aim to enable this, subject to us receiving sufficient bids. The exact number of lots that any successful bidder could be awarded will be set out in the invitation to tender documents.

53. Bidders will be required to indicate the maximum amount of work per annum that they are able/would be willing to deliver, as a percentage of PSAA’s total work based on 2021/22 scale fees. Where a bidder submits bids for multiple lots, this information would be used by PSAA to ensure that any bidder is not awarded work in excess of its stated capacity. In addition, bidders will be permitted to indicate that, should they win a lot, their bids for smaller sized lots are to be withdrawn.

54. Bidders will not be required to bid for all lots. However, they will be able to bid for all lots which fall within the range which they have specified as their maximum capacity.

55. PSAA will award contracts to a number of suppliers, to enable it to:

- manage any independence issues that may arise when making auditor appointments to opted-in audited bodies;
- respond to shared or joint working arrangements between audited bodies;

- make an appropriate auditor appointment to each opted-in audited body after fulfilling its statutory duty to consult such bodies on proposed appointments; and
- support the drive for longer-term market sustainability.

56. Contract lots will be awarded to the suppliers submitting the most economically advantageous tenders i.e. assessed using a price/quality ratio.

57. Bidders will be invited to express their bids for each lot as a fixed proportion of the relevant ABNV. Bidders can submit a percentage value that is greater or less than 100%. Bidders will be able to submit different bid rate percentages for each lot.

58. PSAA recognises that the location of an audit is an important consideration for bidders. Bidders for all lots, other than the "development lots", will therefore be able to select up to four geographical areas which would be least attractive/convenient for them to audit (from a pre-defined list of English County and Combined Authority areas[2]). PSAA would seek to avoid appointing the bidder, if successful, to audits within the selected geographic areas. In the event that it was necessary to appoint the bidder to any audits in those areas, the relevant bid rate would be increased by a premium of 30% in respect of the audits concerned.

59. It is recognised that bidders for the "development lots" may have the capacity to work in a relatively limited geographical area compared to larger suppliers. They will therefore be able to select up to 4 areas in which they would be able to undertake audits and provide details of any exclusions within those areas using the same predefined list of English County and Combined Authority areas.

60. Should either or both of the development lots not be awarded, PSAA would seek to offer the additional volume of work initially to the highest scoring winning bidder across all the lots and, if this is declined, to offer it to the second highest scoring winning bidder across the lots and so on working down through lot winning bidders.

Audit Fees

61. PSAA strongly believes the national, sector-led, collective scheme offers benefits to both audit services suppliers and eligible bodies. By opting into PSAA's scheme, individual bodies will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members. Audit services suppliers avoid the expense of participating in multiple procurements and, where successful, the challenge of being subject to and managing a range of different contract management regimes.

62. PSAA's costs of managing the scheme are covered by audit fees paid by opted-in bodies. Over the current contract term, from 2018 to 2023, our annual operating costs have averaged approximately 4% of total annual contract spend. We plan to continue to

[2] Counties (including any Councils or Other Relevant Local Bodies within the County area), and Combined Authorities (including any Councils or Other Relevant Local Bodies within the Combined Authority area)

manage our own costs appropriately and to ensure that the national scheme offers excellent value for its members.

63. PSAA will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties.

64. As a not-for-profit organisation, PSAA returns to opted-in bodies any surplus funds generated by the scheme after all costs have been met. This obligation is set out clearly in our articles of association. Our most recent distribution of surplus funds, totalling £5.6m was announced in August 2021.

65. PSAA expects to make a statement on the impact of the procurement outcome on 2023/24 scale fees following contract award in late Summer 2022.

66. PSAA will consult on the proposed scale of fees for 2023/24 and subsequently expects to publish the fees applicable no later than the end of November 2023, subject to approval of the anticipated amendment to the Appointing Person Regulations which would move the latest date by which audit fees must be set from 31 March to 30 November of the year to which the audit relates.

67. For each year of the contract, PSAA intends to increase the remuneration paid to its audit firms by reference to the annual increase in CPI.

68. Additional fees (fee variations) are part of the legal framework. They only occur if substantially more or less work is required than is envisaged in the scale fee or the auditor is entitled to recover costs or expenses from the audited body under specific provisions in the regulations, for example in relation to public interest reports or objection work.

69. The regulations require PSAA to consider every fee variation on a case-by-case basis. Over the past nine months we have made improvements to our internal processes to enable the handling of a larger number of claims and we will continue to review and make improvements where possible for the benefit of all parties.

70. PSAA reviews and robustly assesses each fee variation proposal. We apply our technical knowledge and experience of all audits to assess each submission and can compare with similar submissions for other bodies across all our audit suppliers before reaching a decision. Our process requires that fees for additional work are discussed with and explained to the audited body before they can be proposed to PSAA. The Regulations require that the proposals must be approved by PSAA before they can be invoiced.

71. PSAA will provide a copy of the current rate card with the invitation to tender. Each winning bidder will be remunerated for additional work for each lot that it wins at a rate equal to the current rate card multiplied by its bid rate for that particular lot.

72. PSAA will update the rate card through the appointing period in line with changes to scale fees that are not related to the level of work – for example, inflation.

73. The hourly rates used as part of the determination of the valuation of variations will continue to be the same for all audited bodies.

Procurement process

74. The key stages in the procurement process are set out below. In accordance with the Contract Regulations, PSAA will ensure that at each stage the process complies with the requirements of equal treatment, non-discrimination, transparency, and proportionality.

75. PSAA will use the Delta e-tendering platform to undertake this procurement.

Timetable and key milestones

76. The timetable and key milestones for the procurement are summarised in Table 1. The target dates are provisional and may be subject to change.

Table 1 – indicative procurement timetable

Key milestone	Target Date
Publish Contract Notice and issue documentation on request	w/c 7 February 2022
Deadline for submission of Selection Questionnaires	w/c 14 March 2022
Issue invitation to tender to short-listed suppliers	w/c 4 April 2022
Deadline for submission of tenders	w/c 11 July 2022
PSAA Board approval of contract awards, assuming a satisfactory outcome	August 2022

77. Following a statutory consultation process auditor appointment for opted-in bodies will be made by 31 December 2022 for audit years from 2023/24.

78. This timetable is consistent with the requirement set out in the Local Audit and Accountability Act 2014, for an authority to appoint an auditor to audit its accounts for a financial year by no later than 31 December in the preceding financial year.

Contract Notice

79. The purpose and scope of the procurement will be set out in the Contract Notice to be published on the Find A Tender Service and Contracts Finder.

Pre-qualification (selection) stage

80. The pre-qualification (selection) stage will be designed to enable PSAA to assess potential audit suppliers' ability to meet PSAA's requirements.

81. The selection questionnaire evaluation criteria will be:

- compliance with grounds that would otherwise lead to mandatory or discretionary rejection under the Contract Regulations;
- satisfactory organisational, financial and economic standing and insurance arrangements;
- capability and capacity;
- technical and professional knowledge and experience; and
- eligibility for appointment under the Act and Regulations, either through being registered with ICAEW or going through the process of registration.

82. Evaluation at this stage will result in a pass or fail outcome for each potential supplier. All suppliers achieving a pass outcome will be invited to tender.

Tender stage

83. The tenders for each lot will be evaluated in accordance with the published evaluation criteria to identify the most economically advantageous tenders. The relative weighting of price and quality will be 20:80 with 5 marks of the 80 quality marks being attributed to social value, which equates to 5% of the overall score. PSAA plan to ask bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.

84. The quality of responses at tender stage will be assessed against a range of relevant criteria such as audit approach, quality assurance, client communications and resourcing and capacity & capability including sector knowledge. Aligned with the Government's proposal that the ARGA become the local audit system leader, we will seek the FRC's input in developing our approach.

85. Bidders will only be requested to provide one response to the quality section of the tender irrespective of the number of contract lots they bid for, although some questions may require a lot-specific response. The "development lots" will be assessed against the same criteria but in some areas may have a different assessment focus requiring a separate response from bidders interested in these lots.

86. The formal tender evaluation criteria and methodology will be described in the invitation to tender documentation, and published on the PSAA website.

Establishment of a Dynamic Purchasing System (DPS)

87. Alongside the publication of a Contract Notice for the main audit services procurement outlined above, PSAA will publish a second, separate Contract Notice to establish a DPS.

88. The form of selection questionnaire used for the main audit services procurement would include a box that bidders could tick to signal their agreement to automatically qualify to participate in the DPS if they pass the pre-qualification stage of the main audit services procurement.

89. Once the DPS is established, a supplier that is not a member of the DPS (e.g. a firm that decided not to tick the box on the main procurement selection questionnaire or a new supplier to the local audit market) could apply to join at any point during the DPS's period of validity if they satisfy the selection requirements, and none of the grounds for exclusion apply. PSAA would evaluate the supplier's selection questionnaire within the legally required timescale of 10 working days of receipt unless there are justifiable reasons for an extension.

90. The establishment of a DPS has the potential to offer several benefits over the life of the term of the contracts awarded from the main audit services procurement:

    - provide an alternative to the current practice of automatically seeking to distribute additional audits between contracted firms, for example, in the event of local government reorganisation, or if existing bodies request to join the scheme after the initial opt-in invitation and procurement processes;
    - enable suppliers who are not awarded a contract from the main audit services procurement to bid for PSAA work, so they are not "locked out" (and provide winning suppliers the opportunity to bid for further audits);
    - enable consideration of different contract durations and the potential to stagger future tenders, subject to the proposed changes to the Regulations being implemented; and
    - should any of the 2017 audit services contracts need to be extended, provide a mechanism through which to undertake the procurement of services for the audits beyond 2023/24 or 2024/25.

91. Additionally, the DPS will provide a potential option in the event of not receiving sufficient bids to the main audit services procurement.

92. PSAA do not intend to use the DPS to procure replacements for auditor appointments made as part of the 2022 contract award before the end of the contract's duration unless there is a specific reason for doing so. Such reasons might include the identification of an independence conflict, the breakdown of auditor-audited body relationship, or as a result of a supplier's poor performance in line with agreed contract terms.

93. The key characteristics of any procurement undertaken through the DPS are likely to be very similar to those used for the main procurement, for example the evaluation ratio of 20:80, price to quality. Clearly there will also need to be some differences, for example, to reflect that a DPS procurement may be for an individual audit, small group of audits

or a more significant volume of work. All procurement documentation will be available when the Contract Notice for the DPS is published at the same time as the Contract Notice for the main procurement in early February 2022.

94. PSAA expect the DPS to become operational during May 2022, and intend to maintain it throughout the next contract period.

Appendix - Risk Allocation Matrix

Introduction

The allocation and management of risk is central to all commercial contracts and is one of the core commercial principles informing the approach to contracting with third parties. Each party seeks to minimise its overall risk and maximise its reward, which creates an inherent tension between contracting parties. Effectiveness and value for money of contracted services will only be achieved where risk allocation is appropriate and where the party managing the risk is the one most reasonably able to do so.

Purpose

PSAA produced this risk allocation matrix to inform the development of its commercial model and pricing approach for contract of audit services to deliver the national scheme for local auditor appointments from April 2023. It sets outs PSAA's assessment of the risks that each party is required to bear so provision can be made to mitigate and manage these risks in the most effective and economical manner.

Review

The risk allocation matrix will be reviewed periodically up to the point that the procurement is initiated where appropriate in the light of comments from audit firms and to ensure that it reflects the emergence of new information and any changes in circumstances.

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
1.	**Data inaccuracy** Risk that inaccurate (or incomplete) data is provided to bidders during the procurement exercise leading to inaccurate pricing or solution.	• PSAA will make available the latest information about the audits at the commencement of the procurement, e.g. the most recent audit year completed, the scale fee and the nature and extent of recurring fee variations that are already baked into the scale fee but do not warrant the accuracy of this information. PSAA will adjust the ABNV to reflect any inaccuracies subsequently discovered in this information (see 12 below).	●	
2.	**Inflation** Risk that the cost of supplier's inputs will rise over time due to inflation.	• The contract will provide indexation on the price paid to audit firms based on the annual application of the prevailing rate of CPI. • There is also an inflation risk for the audit firm; the cost pressures they experience may exceed their estimates and any allowance provided by an index-based adjustment.	**shared**	

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
3.	**Performance / availability** Risk that the service will not be delivered to the requisite performance/availability levels.	• Audit firms must deliver the service in accordance with the NAO's Code of Audit Practice and all regulatory requirements e.g. of the FRC. • The contract will include a performance measure that relates to the audit firm's stated capacity to deliver to a number of audits equal in value to the lot size plus a margin (say 5% of the lot size) for audits awarded before the end of 2022. The availability of sufficient audit resources is a supplier risk.		●
4.	**Volume /demand** Risk that the actual usage of the service is less than the guaranteed minimum.	• Local bodies that decide to opt into PSAA's scheme are then statutorily committed to remain in the scheme for the full appointing period of five years, unless they are abolished under local government reorganisation. • Contractual provision will guarantee a minimum volume of work.	●	
5.	**Volume /demand** Risk that the actual usage of the service is greater than the lot size plus a small margin (say 5%) for audit awards before the end of 2022.	• PSAA may only award work in excess of this figure with the supplier's agreement.	●	
6.	**Volume/demand** Substantial additional work.	• PSAA will pay for substantial additional work and certain statutory actions as defined in the Appointing Person regulations namely ○ the consideration of the making of and the making of a public interest report or a written recommendation under Schedule 7 of the 2014 Act; ○ the exercise of any functions under section 27 of the 2014 Act in relation to the right to make objections at the audit; ○ any application to the court under section 28 of the 2014 Act for a declaration that an item of account is contrary to law or any appearance as respondent to any appeal against such a declaration; ○ the consideration of the issue of and any issue of an advisory notice under Schedule 8 of the 2014 Act; ○ any application for judicial review under section 31 of the 2014 Act or any appearance as respondent to any application for judicial review made in respect of the exercise of the auditors' functions.	●	

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
		• Substantial additional work will include future regulatory and code related changes unless notified to bidders in the ITT.		
7.	**Change in law**	• The supplier mostly takes this risk. The supplier shall neither be relieved of its obligations to supply services under the contract nor be entitled to an increase in charges as the result of the general change in law.	.	●
8.	**Performance risk** Risk that the services have/project has not been planned adequately for the purpose required or are not properly performed. Performance Indicators.	• Audit firms will have the responsibility for the adequacy of the planning and performance of the service provided and their compliance with the output/performance specification. The scope of local audit is fixed by third parties. It is determined by the requirements of the: ○ NAO's Code of Audit Practice which sets the scope of the audit; ○ The Code of Practice on Local Authority Accounting published by CIPFA/LASSAC which sets the format of the financial statements; ○ HM Treasury in respect of the arrangements for Whole of Government Accounts; and ○ FRC (expected to become ARGA in the year this contract starts) who regulate the work of auditor in the application of International Auditing Standards. • PSAA intends to establish a series of KPIs as part of its contract management arrangements.		●
9.	**Delivery risk** Risk that the delivery of the audit does not meet planned timescales.	• The Accounts & Audit Regulations effectively set a target date for completion of the audit. The past two years (2018/19 and 2019/20) have featured high levels of delayed opinions as a result of a variety of factors. As a result there is a current backlog of outstanding opinions. • Audit firms must meet the target dates unless there are good reasons outside their control such as the poor preparation of audit papers or the need for statutory actions.	**shared risk**	

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
10.	**Scope of the Contract** Audits are not allocated until after contract award. Audits are awarded remote from the audit firm's principal office.	• Current thinking is that contract lots will be based on work of a specified value of work that is populated with named audits, reflecting a blend of authority types, after completing the tender evaluation process, in consultation with both winning firms and bodies. We are aware that audit firms expressed a preference for bidding for audits on a geographic basis. However, having considered this approach thoroughly we have concluded that it is likely to put at risk the statutory requirement on the appointing person to appoint an independent auditor to every opted-in authority. We intend to introduce a mechanism to enable bidders to reflect geographical preferences in their bids. In addition, when making auditor appointments following contract award (and therefore with audit quality matters already having been assessed), PSAA will have regard to the status of prior year audits and will be guided by the following principles: ○ ensuring auditor independence; ○ ensuring any minimum guarantees of work are delivered; ○ ensuring a blend of authority types for each audit firm; ○ taking account of a firm's principal locations (as specified in its tender response); ○ providing continuity of audit firm, where appropriate; and ○ accommodating joint/shared working arrangements where possible.		●
11.	**The audit services fee** Pricing for Code compliant audits where there is no substantial additional or lesser work or no statutory actions.	• The ITT will ask for prices based on the "audited body notional value" for 2021/22. The ABNV is the scale fee for 2021/22 plus any recurring fee variations that have subsequently been approved. • The winning bidder of each lot will be remunerated for their work to deliver Code compliant audits at a rate equal to the ABNV for that lot multiplied by its bid rate for that lot. • Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, PSAA propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body		●

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
	       Valuation of substantial additional work.	for this purpose). • PSAA cannot anticipate scale fees for the next appointing period at this stage because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale. • The hourly rates used as part of the determination of the valuation of variations will continue to be the same for all audited bodies. • The winning bidder of each lot will be remunerated for additional work at a rate equal to the current rate card (which will be included in the ITT) multiplied by its bid rate for that lot. • The rate card will be updated through the appointing period in line with changes to scale fees that are not related to the level of work – for example, inflation.		
12.	**Termination** Risk that PSAA will terminate (or partially terminate) the contract early i.e. before the end of the initial contract term.	• Contractual provisions describe the conditions under which termination would be invoked, covering: ○ Insolvency or change of control ○ Material irremediable or unremedied breach ○ Persistent failure ○ Corruption, bribery, or discrimination ○ Serious security risk ○ Legislative changes.		•
13.	**Subcontractor insolvency** Risk that a subcontractor within the supplier's or subcontractors' supply chain becomes insolvent during the course of the contract term.	• The audit firm must take this risk as it is responsible for its own supply chains. Failure in the subcontractor supply chain is explicitly excluded from the definition of a 'Force Majeure Event'.		•

Risk Allocation Matrix

Risk id	Risk Category	Explanatory comments	Potential risk allocation	
			PSAA	Audit Firms
14.	**Industrial action** Risk of industrial action including by any of the supplier’s staff.	• The audit firm must take this risk as it is responsible for its own employee relations and it has the ability to control and it is a core element of service delivery. An industrial dispute relating to the audit firm’s (or any subcontractor’s) personnel is explicitly excluded from the definition of a ‘Force Majeure Event’. The audit firm must also take the risk of disruption by other industrial action e.g. the transport network but not industrial action at PSAA or the audited body.		●
15.	**Force majeure** Risk of unforeseen events outside of the reasonable control of the supplier, that affect the supplier’s ability to deliver any aspect of the contract to requirement time, budget, and performance.	• Neither Party shall be liable to the other Party for any delay in or failure to perform its obligations under the Contract (other than a payment of money) if such delay or failure results from a Force Majeure Event. Each Party shall use all reasonable endeavours to continue to perform its obligations hereunder for the duration of such Force Majeure Event. However, if any such event prevents either Party from performing all of its obligations under the Contract for a period in excess of six (6) Months, either Party may terminate the Contract by notice in writing with immediate effect.	**shared risk**	

Agenda Item 15

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	17 January 2022

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

Current monitoring indicates that in year financial performance in 2021/22 remains in line with budget. Budget proposals for 2022/23 currently being presented to Service Committees will, if agreed, also allow a balanced budget to be achieved for next year. Nevertheless, future years' performance remains subject to a range of risks, including continued high inflation, the impact on third party income from further pandemic outbreaks, and challenges in delivering the capital programme when materials and labour are scarce.

This report makes the following recommendations to this Committee:

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	17 January 2022

Budget Strategy – Risk Assessment Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	The Council has a statutory obligation to set a balanced budget and development of	Director of Finance and Business Improvement

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	None identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	None identified.	Director of Finance and Business Improvement

2. INTRODUCTION AND BACKGROUND

2.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the

Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

Delivering the revenue budget

2.2 Details of the Council's financial performance for the third quarter of 2021/22 are due to be reported to Service Committees in the next Committee cycle. At present, indications are that the Council will remain within budget overall, although there are a number of offsetting overspends and underspends.

Provisional Local Government Finance Settlement 2022/23

2.3 The government announced the Provisional Local Government Finance Settlement for 2022/23 on 16th December 2021. This broadly confirmed existing assumptions about Council Tax, our main source of income, and Business Rates. It also gives the Council further one-off funding in the form of Services Grant (£225,000), Lower Tier Services Grant (£146,000) and New Homes Bonus (£4.216 million). Given that the Council was already projecting a budget surplus for 2022/23, this gives a reasonable degree of comfort about the financial position in the short term.

2.4 The settlement only covers one year. It is likely that there will be changes in funding arrangements in 2023/24, so there remains uncertainty about the position looking further forward.

Delivering the capital budget

2.5 The capital programme plays a vital part in delivering the Council's corporate objectives. There are two main risks associated with the capital programme.

2.6 Firstly, the availability of funding is essential to delivery of the programme. At present, funding for the capital programme is readily available at very low cost. In the short term, funding is available through the market in borrowing and lending between local authorities. Longer term funding is available from the Public Works Loan Board (PWLB). There is no indication that the government will withdraw this facility for local authorities, so long as the lending is not for purely commercial investment purposes. Whilst short term interest rates have increased, longer term rates remain stable and borrowing costs remain within the Council's 2% budgeted level.

2.7 A second risk to the capital budget is the impact of inflation and supply blockages. Over time, the impact of higher input costs should be reflected in higher returns from capital investment and increases in the value of capital assets. However, the Council is likely to see severe budget pressures in the short term at the level of individual capital projects, requiring additional funding to be transferred within the overall capital budget envelope and reducing the overall amount of funding available.

External factors

2.8 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register includes risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic and this has been mirrored in the Budget Risk Register.

2.9 As already indicated above in relation to the capital programme, inflation poses a risk to the Council's budget over the medium term. Over the past year, the Bank of England has steadily raised its projection for the peak level of inflation. It currently states that inflation will reach about 6% by spring 2022, and expects it to start to come down after that. However, there is a risk that higher levels of inflation may become embedded.

2.10 Higher levels of inflation affect the Council in a variety of ways. The most direct is through contracts which are linked to inflation. The main item of Council expenditure, comprising around 50% of the total, is pay. Market pay rates are increasing, particularly in sectors where qualified staff are scarce. The Council will need to respond in order to attract and retain good quality staff.

2.11 Whilst increases in cost inputs can be offset to an extent by increasing fees and charges, some of these are fixed statutorily. The Council's main source of revenue is Council Tax, which is subject to a referendum limit of 2% next year. Council Tax increases in future years may continue being capped at less than the rate of inflation, implying a squeeze on service delivery.

2.12 In light of the higher levels of risk described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
G	Inflation rate is higher than the 2% government target[1]	Inflation is now expected to peak at 6% and there is a risk that it will remain high.	Impact – major (no change) Likelihood – almost certain (increased)
J	Capital programme cannot be funded	Inflation and supply blockages lead to price increases, thus limiting the amount that can be delivered within the overall capital budget envelope.	Impact – major (no change) Likelihood – possible (increased)

1 This risk was formerly described as 'Inflation rate predictions in MTFS are inaccurate', and the base case MTFS projections assumed 2% as the inflation rate. This assumption is now under review, so the new description refers directly to the rate of inflation.

2.13 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee's request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks' financial magnitude. The information is also set out in the form of a bar chart.

2.14 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

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3. AVAILABLE OPTIONS

3.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.

3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 Option 2 – It is recommended that the Committee notes the risk assessment.

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5. RISK

5.1 Risk is addressed throughout this report so no further commentary is required here.

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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey will be completed for the 2022/23 budget and the results will be reported to Service Committees as part of the budget setting process.

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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.

8. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

- Appendix A: Budget Strategy Risks

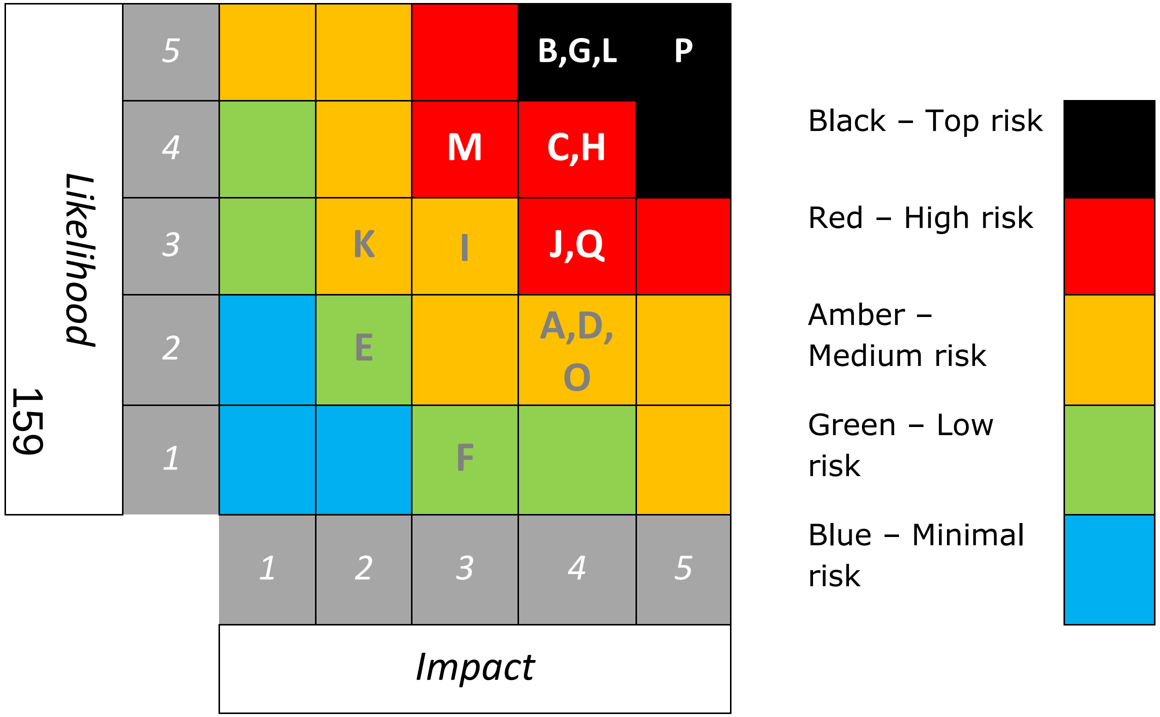
9. BACKGROUND PAPERS

None.

APPENDIX A

Budget Strategy Risks

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail.

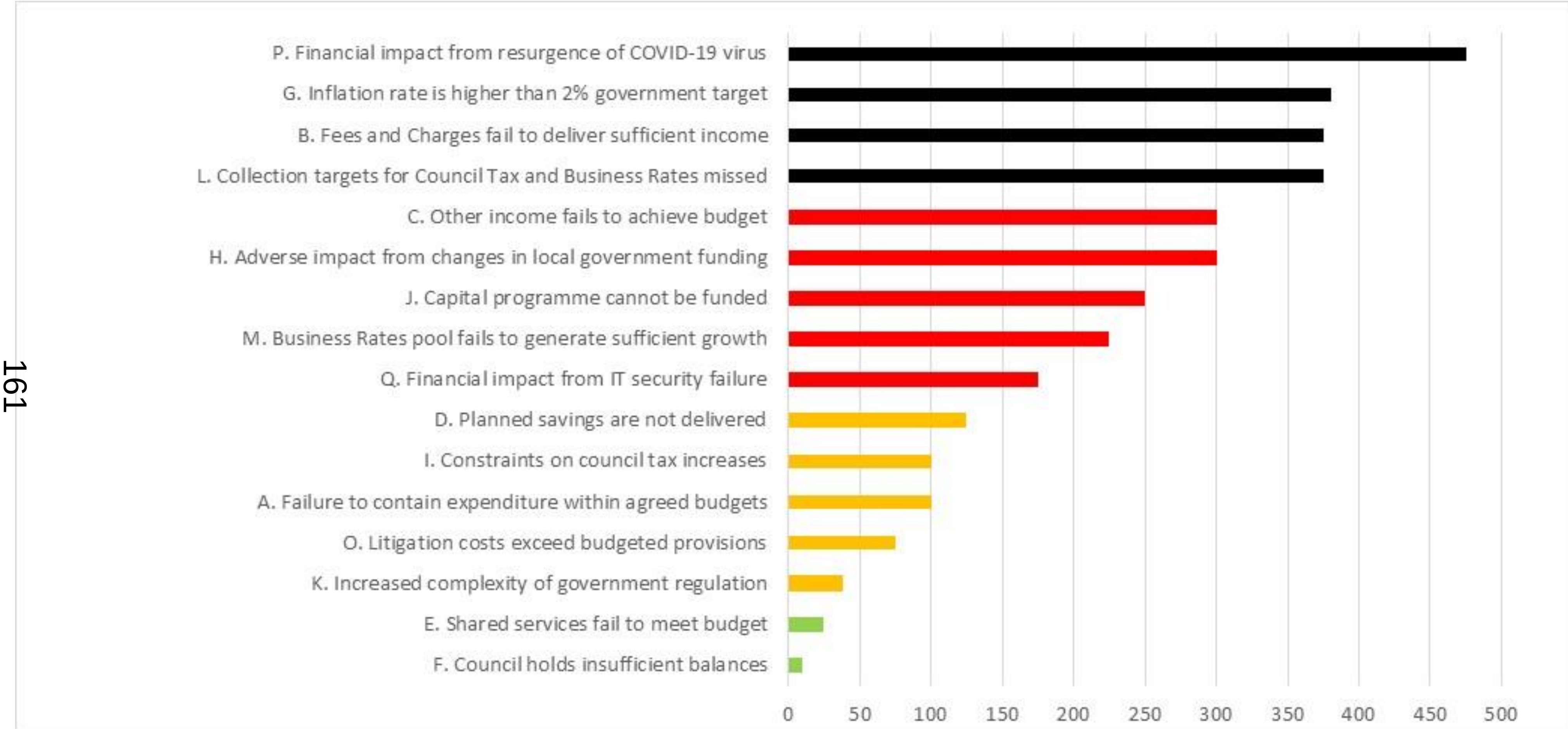


A. Failure to contain expenditure within agreed budgets	**I. Constraints on council tax increases**
B. Fees and Charges fail to deliver sufficient income	**J. Capital programme cannot be funded**
C. Other income fails to achieve budget	**K. Increased complexity of government regulation**
D. Planned savings are not delivered	**L. Collection targets for Council Tax and Business Rates missed**
E. Shared services fail to meet budget	**M. Business Rates pool fails to generate sufficient growth**
F. Council holds insufficient balances	**O. Litigation costs exceed budgeted provisions**
G. Inflation rate is higher than 2% government target	**P. Financial impact from a resurgence of Covid-19**
H. Adverse impact from changes in local government funding	**Q. Financial impact from IT security failure**

The budget risks may be ranked, based on the scores shown below, as follows:

		Financial impact (in any one financial year)				
Risk	Ranking	Lower	Upper	Mid-point	Likelihood	Weighted
		£000	£000	£000	%	£000
P. Financial impact from resurgence of COVID-19 virus	1	250	750	500	95	475
G. Inflation rate is higher than 2% government target	2=	200	600	400	95	380
B. Fees and Charges fail to deliver sufficient income	2=	200	600	400	95	380
L. Collection targets for Council Tax and Business Rates missed	2=	200	600	400	95	380
C. Other income fails to achieve budget	5=	200	600	400	75	300
H. Adverse impact from changes in local government funding	5=	100	900	400	75	300
J. Capital programme cannot be funded	7	250	750	500	50	250
M. Business Rates pool fails to generate sufficient growth	8	150	450	300	75	225
Q. Financial impact from IT security failure	9	100	600	350	50	175
D. Planned savings are not delivered	10	250	750	500	25	125
A. Failure to contain expenditure within agreed budgets	11=	200	600	400	25	100
I. Constraints on council tax increases	11=	100	300	200	50	100
O. Litigation costs exceed budgeted provisions	13	100	500	300	25	75
K. Increased complexity of government regulation	14	50	100	75	50	38
E. Shared services fail to meet budget	15	50	150	100	25	25
F. Council holds insufficient balances	16	100	300	200	5	10

Chart - Budget risks



Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
A	**Failure to contain expenditure within agreed budgets** The Council overspends overall against its agreed budget for the year	Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.	- Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2021/22. - Strong controls over expenditure and established process for recovering from overspends	4	2	8
B	**Fees & Charges fail to deliver sufficient income** Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.	The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.	- Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised.	4	5	20
C	**Other income fails to achieve budget** In addition to fees and charges, the Council relies on other income from capital investment, which may not deliver the expected level of income.	The medium term financial strategy includes a contribution from investment opportunities, so any shortfall would have an impact on the overall strategy. Income generation from investment activities supports the revenue budget and is required in ordered to pay back capital investment.	- The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within the capital strategy will be assessed, both as part of the project	4	4	16

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
			appraisal process and during the course of delivering the projects.			
D	**Planned savings are not delivered** Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget	The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation. Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.	- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees.	4	2	8
E	**Shared Services** Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.	Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.	The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.	2	2	4
F	**Insufficient Balances** Minimum balance is insufficient to cover unexpected events OR Minimum balances exceed the real need and resources are held without identified purpose with low investment returns	Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves. The Council would not gain best value from its resources as Investment returns are low in the current market.	- The Council has set a lower limit below which General Fund balances cannot fall of £4 million. - At the beginning of the 2021/22 financial year unallocated General Fund reserves stood at £9.2 million.	3	1	3
G	**Inflation rate is higher than 2% government target**	Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.	- Allowances for inflation are developed from three key threads:	4	5	20

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
	Actual levels are significantly above or below target	Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.	○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally - MTFS inflation projections are based on the government's 2% inflation target but this is under review.			
H	**Adverse impact from changes in local government funding** The financial implications of the new local government funding regime, now unlikely to be introduced until 2022/23, remain unclear.	The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government.	- The Medium Term Financial Strategy to 2025/26 includes an adverse scenario which allows for a significant impact on the Council's resources, - The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.	4	4	16
I	**Constraints on council tax increases** The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.	The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.	- The budget for 2021/22 incorporates a Council Tax increase of 2%. - Budget planning is based around the assumption of ongoing 2% increases in subsequent years. .	3	3	9
J	**Capital Programme cannot be funded** Reduction or total loss of funding sources means that the capital programme cannot be delivered or demands on funding exceed available supply	The main sources of funding are: ○ Internal borrowing ○ PWLB borrowing ○ New Homes Bonus ○ Capital Grants ○ Developer contributions (S106)	- Council has access to borrowing. - Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.	4	3	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		A reduction in this funding will mean that future schemes cannot be delivered.	- Capital expenditure is monitored carefully against the borrowing limits that the Council sets itself.			
K	**Increased volume and complexity of government regulation** Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation.	Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities. Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council.	- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents. - Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.	2	3	6
L	**Business Rates & Council Tax collection** Council fails to maintain collection targets for business rates and council tax	Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected. Business rates amount to around £60 million in 2021/22 and Council Tax due amounts to around £120 million.	- The Council has a good track record of business rates and Council Tax collection. - Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc. - Nonetheless, Covid-19 has led to a reduction in collection rates, particularly in relation to business rates.	4	5	20
M	**Business Rates pool** Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income	Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.	- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around £12m in 2021/22. - Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.	3	4	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
O	**Litigation costs exceed budgeted provisions.** The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.	Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves.	- Corporate Leadership Team is updated regularly on outstanding legal cases. - Appropriate professional advice is taken at all times.	4	2	8
P	**Financial impact from a resurgence of COVID-19** A resurgence of the pandemic would see similar impact to those experienced in the first wave, eg reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances.	In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves.	- Senior officer group mobilised to address short term impacts - Mitigations to be developed over longer term	5	5	25
Q	**Financial impact from IT security failure** Local authorities have been subject to cyber attacks over the past few years, often with severe financial and service implications.	The Council might have to suspend normal financial transactions for a period of time.	- Anti-virus software - Regular communications with staff to warn about risks - Back-up arrangements with neighbouring authorities	4	3	12

Impact & Likelihood Scales

RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	punishable by imprisonment or significant fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (4)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history