Public Document Pack

Northumberland
County Council

Your ref:
Our ref:
Enquiries to: Kay Norris
Email: kay.norris@northumberland.gov.uk
Tel direct: 01670 622611
Date: 19 January 2021

Dear Sir or Madam,

Your attendance is requested at a virtual meeting of the **AUDIT COMMITTEE** to be held on **WEDNESDAY, 27 JANUARY 2021** at **10.15 AM**.

Please note this will be a "virtual meeting" that will be streamed live on our Youtube channel at youtube.com/NorthumberlandTV

Yours faithfully

Daljit Lally
Chief Executive

To Audit Committee members as follows:-

Councillors G Hill (Chair), M Swinburn (Vice Chair), G Castle, L Grimshaw, M Purvis, L J Rickerby, I C F Swithenbank, D Towns

Any member of the press or public may view the proceedings of this virtual meeting live on our YouTube channel at https://www.youtube.com/NorthumberlandTV. Members of the press and public may tweet, blog etc during the live broadcast as they would be able to during a regular Committee meeting. However, the only participants in the virtual meeting will be the Councillors concerned and the officers advising the Committee.

AGENDA

PART I

It is expected that the matters included in this part of the agenda will be dealt with in public.

1. APOLOGIES FOR ABSENCE

2. MINUTES (Pages 1 - 14)

Minutes of the meeting of the Audit Committee held on 25 November 2020, as circulated, to be confirmed as a true record and signed by the Chair.

3. DISCLOSURE OF MEMBERS' INTERESTS

Unless already entered in the Council's Register of Members' interests, members are required to disclose any personal interest (which includes any disclosable pecuniary interest) they may have in any of the items included on the agenda for the meeting in accordance with the Code of Conduct adopted by the Council on 4 July 2012, and are reminded that if they have any personal interests of a prejudicial nature (as defined under paragraph 17 of the Code Conduct) they must not participate in any discussion or vote on the matter and must leave the room. NB Any member needing clarification must contact Legal Services, on 01670 623324. Please refer to the guidance on disclosures at the rear of this agenda letter.

4. REPORT OF THE EXTERNAL AUDITOR

AUDIT PROGRESS REPORT (Pages 15 - 30)

To consider the above report from Mazars.

5. REPORTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

5.1 TREASURY MANAGEMENT STRATEGY STATEMENT FOR THE FINANCIAL YEAR 2021-22 (Pages 31 - 110)

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policy. This report sets out the Treasury Management Strategy, Treasury Management Policy Statement, the Annual Investment Strategy for the Financial Year 2021-22, Prudential Indicators 2021-22 to 2023-24 and the Minimum Revenue Provision Policy 2021-22.

5.2 Northumberland County Council Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2020 (Pages 111 - 120)

Northumberland County Council is required to assess whether it should be considered as a 'going concern' organisation, and whether the Council's annual accounts should be prepared on that basis. This report considers the Council's status as a going concern and recommends that Members approve this.

6. REPORT OF THE CHIEF INTERNAL AUDITOR

APPROACH TO PREPARING THE STRATEGIC AUDIT PLAN 2021/22 (Pages 121 - 126)

The purpose of this report is to outline the approach to preparing the 2021/22 Strategic Audit Plan for consideration and endorsement by the Audit Committee. The report also ensures the Audit Committee, as a key stakeholder of Internal Audit's work, is engaged at an early stage in the planning process.

7. URGENT BUSINESS

8. DATE AND TIME OF NEXT MEETING

The next meeting is scheduled for Wednesday, 24 March 2021 at 10:15 am.

PART II

It is expected that matters included in this part of the Agenda will be dealt with in private. Reports referred to are enclosed for members and officers only, coloured pink and marked "Not for Publication".

9. EXCLUSION OF PRESS AND PUBLIC

The Committee is invited to consider passing the following resolution:

(a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the Agenda as it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act, and

(b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda Items	Paragraph 3 of Part I of Schedule 12A
10, 11, 12, 13, 14a, 14b	Information relating to the financial or business affairs of any particular person (including the authority holding the information)

10. MINUTES 25 NOVEMBER 2020 (Pages 127 - 132)

The confidential part of the Minutes of the meeting of the Audit Committee held on 25 November 2020, as circulated, to be confirmed as a true record and signed by the Chair.

11. MINUTES 16 DECEMBER 2020 (Pages 133 - 140)

The confidential part of the Minutes of the meeting of the Audit Committee held on 16 December 2020, as circulated, to be confirmed as a true record and signed by the Chair.

12. REPORT OF THE EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

Overview of Treasury Management Investment Procedures (Pages 141 - 156)

The report provides an overview of the Council's rationale and procedures for placing treasury management investments. The report identifies the risks associated with investments and the steps taken to mitigate the risks, as far as possible. The report follows discussion about the inherent risks associated with treasury investments and the risk mitigations measures undertaken, at Audit Committee on 25 November 2020.

13. REPORT OF THE DIRECTOR OF CORPORATE ASSURANCE

Group Audit Committee: Initial Report and Proposal for Self-Assessment of Framework of Governance, Risk Management and Control by Entities within the Advance Northumberland Group (Appendix F) (Pages 157 - 174)

This is the initial report in relation to the Audit Committee undertaking its role as Group Audit Committee (GAC) for the Council's group of companies, in accordance with the Terms of Reference approved at the County Council meeting on 4 November 2020. As reported at the County Council meeting, the active companies within the Council's group currently relate to those within the Advance Northumberland Group of Companies (the Advance Group).

The report presents summary information in relation to work completed by Internal Audit, and publicly available external audit information, in relation to all non-dormant entities within the Advance Group.

The report also proposes an approach to invite all non-dormant entities within the Advance Group to provide information so that the GAC can develop its understanding of the framework of governance, risk management and control within the group boundaries. This will help identify areas of emerging risk which the GAC may then wish to commission Internal or External audit to examine further.

14. REPORTS OF THE CHIEF EXECUTIVE

14.1 Commercial Enterprises

(Pages 175 - 312)

To provide an update from the Chief Executive on relevant governance matters relating to the County Council's commercial enterprises.

14.2 Advance

(Pages 313 - 330)

To provide an update on the current position from the Shareholder's Representative on the County Council's assessment of performance of Advance Northumberland, the County Council's wholly owned subsidiary.

IF YOU HAVE AN INTEREST AT THIS MEETING, PLEASE:

- Declare it and give details of its nature before the matter is discussion or as soon as it becomes apparent to you.
- Complete this sheet and pass it to the Democratic Services Officer.

Name (please print):
Meeting:
Date:
Item to which your interest relates:
Nature of Registerable Personal Interest i.e either disclosable pecuniary interest (as defined by Annex 2 to Code of Conduct or other interest (as defined by Annex 3 to Code of Conduct) (please give details):
Nature of Non-registerable Personal Interest (please give details):
Are you intending to withdraw from the meeting?

1. Registerable Personal Interests – You may have a Registerable Personal Interest if the issue being discussed in the meeting:

a) relates to any Disclosable Pecuniary Interest (as defined by Annex 1 to the Code of Conduct); or

b) any other interest (as defined by Annex 2 to the Code of Conduct)

The following interests are Disclosable Pecuniary Interests if they are an interest of either you or your spouse or civil partner:

(1) Employment, Office, Companies, Profession or vocation; (2) Sponsorship; (3) Contracts with the Council; (4) Land in the County; (5) Licences in the County; (6) Corporate Tenancies with the Council; or (7) Securities - interests in Companies trading with the Council.

The following are other Registerable Personal Interests:

(1) any body of which you are a member (or in a position of general control or management) to which you are appointed or nominated by the Council; (2) any body which (i) exercises functions of a public nature or (ii) has charitable purposes or (iii) one of whose principal purpose includes the influence of public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management); or (3) any person from whom you have received within the previous three years a gift or hospitality with an estimated value of more than £50 which is attributable to your position as an elected or co-opted member of the Council.

2. Non-registerable personal interests - You may have a non-registerable personal interest when you attend a meeting of the Council or Cabinet, or one of their committees or sub-committees, and you are, or ought reasonably to be, aware that a decision in relation to an item of business which is to be transacted might reasonably be regarded as affecting your well being or financial position, or the well being or financial position of a person described below to a greater extent than most inhabitants of the area affected by the decision.

The persons referred to above are: (a) a member of your family; (b) any person with whom you have a close association; or (c) in relation to persons described in (a) and (b), their employer, any firm in which they are a partner, or company of which they are a director or shareholder.

3. Non-participation in Council Business

When you attend a meeting of the Council or Cabinet, or one of their committees or sub-committees, and you are aware that the criteria set out below are satisfied in relation to any matter to be considered, or being considered at that meeting, you must : (a) Declare that fact to the meeting; (b) Not participate (or further participate) in any discussion of the matter at the meeting; (c) Not participate in any vote (or further vote) taken on the matter at the meeting; and (d) Leave the room whilst the matter is being discussed.

The criteria for the purposes of the above paragraph are that: (a) You have a registerable or non-registerable personal interest in the matter which is such that a member of the public knowing the relevant facts would reasonably think it so significant that it is likely to prejudice your judgement of the public interest; **and either** (b) the matter will affect the financial position of yourself or one of the persons or bodies referred to above or in any of your register entries; **or** (c) the matter concerns a request for any permission, licence, consent or registration sought by yourself or any of the persons referred to above or in any of your register entries.

This guidance is not a complete statement of the rules on declaration of interests which are contained in the Members' Code of Conduct. If in any doubt, please consult the Monitoring Officer or relevant Democratic Services Officer before the meeting.

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NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE

At a virtual meeting of the **Audit Committee** held on Wednesday, 25 November 2020 at 10:15 am.

PRESENT

G Hill (Chair)

COUNCILLORS

L Grimshaw
M Purvis
L Rickerby
M Swinburn
D J Towns

CO-OPTED MEMBERS

P Topping
S Watson

ALSO PRESENT

Councillor B Flux, Business Chair
Councillor N Oliver, Portfolio Holder for Corporate Services

OFFICERS IN ATTENDANCE

K Angus	Executive Director of HR and OD and Deputy Chief Executive
T Candlish	Senior Auditor
C Hand	Executive Director of Finance (Section 151 Officer
A Hartwell	Senior Manager Safeguarding and Education Performance
D Lally	Chief Executive
K McDonald	Acting Chief Internal Auditor
B McKie	Group Assurance Manager
A Mitchell	Director of Corporate Assurance
K Norris	Democratic Services Officer
M Oldham	Senior Auditor
A Stewart	Finance Manager

ALSO IN ATTENDANCE

D Reay, C Waddell - Mazars (External Auditors)

Ch.'s Initials……

A Lister, South Tyneside Pension Service

56. CHAIR'S OPENING COMMENTS

The Chair said, notwithstanding the pandemic and economic conditions, this authority was currently facing significant challenges. Members of the public and those internally had raised concerns about conduct at some of the County Council meetings and this was a concern across Local Government which would be the subject of future reports and discussions. There were concerns that virtual meetings had led to a decline in Councillors' behaviour generally. The Chair said that she had spoken to Councillor Flux, the Business Chair, who had agreed that it would be appropriate for Chairs to remind members to be respectful to each other and to officers at meetings and otherwise. Councillor Flux emphasised the importance of members showing respect to everyone, having patience, showing general adherence to the rules of the Council and rules about behaviour.

57. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Castle.

58. MINUTES

RESOLVED that the minutes of the Audit Committee meeting held on 30 September 2020, as circulated, be confirmed as a true record and signed by the Chair.

59. REPORTS OF THE EXTERNAL AUDITOR

(a) Verbal Update on the audit progress of the Council's Statement of Accounts 2019-20

Mr C Waddell, Mazars, said the above audit was currently ongoing and there were a number of issues for the team to consider in the context of this year's value for money conclusion. At this stage he could not add anything further.

RESOLVED that the information be noted.

(b) Update on the audit progress of the Pension Fund Accounts 2019-20

The Audit Completion Report had been circulated to members on Thursday and set out the status of audit work providing an update on each area of work as it currently stood.

A letter summarising the results of the audit had been issued to the auditor of Northumberland National Park Authority to enable that audit to be signed off.

In terms of the work, Mr Waddell said this was broadly complete. Advice had been taken from the National Audit Office to ensure consistency in approach and whilst they had advised that the audit could not be signed off until the County Council audit was complete, work could be carried out and finalised at that time. Regarding the actual accounts, it was

anticipated that an unqualified opinion would be issued, which was good. In context of the uncertainty around the financial markets at the end of March, extra work had been carried out to obtain assurances needed.

A draft report was included with an Emphasis of Matter paragraph to highlight the merger between Northumberland County Council and Tyne and Wear Pension Funds from 1 April 2020. The Pension Fund had not declared a material valuation of certainty in relation to investments, so it was not considered appropriate to include an Emphasis of Matter in relation to that issue. Work was mostly complete with some minor tweaking required.

The Annual Report would need to be published by the deadline date noting that when the Pension Fund Audit was finished completely and issued, the consistency report would be issued at the same time.

In terms of wider powers, no members of the public/press had raised any issues during the 2019/20 audit.

The status of audit work was set out on page 4 of the report and a verbal update, which would be followed up in writing, was provided as follows:

- Transfers in – work was now complete with nothing significant to report.
- Contributions receivable – work was now signed off with nothing significant to report.
- Commutations and lump sums – work was now signed off with nothing significant to report.
- Benefits payable – work was now complete with nothing significant to report.
- Transfers out – a sample was still to be tested, information had been received yesterday and it was anticipated this work would soon be complete.
- Work of an expert – Further information was required, and this should be forthcoming shortly. It was noted that this had not held up a letter being issued to EY, which had been done.
- Disclosure points – a run through of the revised set of accounts was required.
- Audit closure procedures – this would be done at the end of the process.

Significant findings were set out on page 5 of the report, assurances had been received and there were no issues to bring to members' attention.

One internal control recommendation regarding Accounts payable had been made details of which were set out on page 9 of the report.

A summary of misstatements was included on pages 10 and 11. Letters of representation would be required from officers at the time the audit was signed off.

Adjusting the statements to the auditor of Northumberland National Park Authority was reported so that it would be considered upon conclusion for that entity. It was unlikely this would cause any material issues but that was a judgement for EY.

Changes to disclosure amendments were included.

In response to a question from the Chair regarding timescales, Mr Waddell said Mazars would issue a follow up letter for members' consideration when all the work on the Pension Fund was complete. This would include his verbal update and the work outstanding on transfers out and work of an expert. The sign off would be at the same time the Council signed off the Pension Fund.

Work was ongoing in terms of the Council's Statement of Accounts and the FM and to give a timeframe for completion would be difficult.

RESOLVED that the information be noted.

60. REPORTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER

(a) Pension Fund Accounts 2019-20

Mr C Hand, Executive Director of Finance and Section 151 Officer, introduced the above report which provided the Audit Committee with an overview of the key issues related to the Council's 2019-20 Pension Fund Annual Report and to assist Members in carrying out their role in reviewing the Financial Statements. (A copy of the report is attached to the signed Minutes as Appendix A.) The Pension Fund Annual Report and Accounts had been circulated to members separately (a copy of which is also attached to the signed Minutes).

This was a stand-alone document which formed part of Northumberland County Council's Financial Statements but required a separate Annual Report, under the LGPS Regulations, to be published by 1 December. The two documents needed to be consistent which was one of the checks carried out by External Audit as reported in the previous item.

Members were being asked for approval to publish this version of the accounts on the website to meet that requirement for the pension scheme. A summary of the purpose of the key statements were set out in the table on pages 3 and 4 of the report. Mr Hand highlighted that there had been an increase in the number of active members from 9,248 to 9,326 during the year and also an increase in pensioner members from 8,806 to 9,198 during the year as shown on page 59 of the accounts with more detail in Appendix 1 on page 92. The report also highlighted the financial position as shown on page 71 and 72 of the accounts, showing the market fund was £1.4 billion at the end of the year which was a 7.5% reduction and reflected the current economic climate.

As reported earlier, the Pension Fund transferred to Tyne and Wear on 1 April so Northumberland's last day of reporting on this entity was 31 March 2020.

Mr Hand thanked Andrew Lister from the pension service for all his hard work on the accounts and for being in attendance today to answer any questions members may have.

In response to a query from the Chair about the structure of South Tyneside Pension fund, it was confirmed that this was led by South Tyneside Councillors.

Upon a show of hands it was:

RESOLVED that the Pension Fund Annual Report and Accounts 2019-20 be approved.

(b) Treasury Management Mid-Year Review Report for Period 1 April to 30 September 2020

Mr C Hand, Executive Director of Finance and Section 151 Officer, introduced the above report which provided the Audit Committee with a mid-year review of the activities of the Treasury Management function for the period 1 April to 30 September 2020 and performance against the Treasury Management Strategy Statement (TMSS) 2020-21, as approved by the County Council on 19 February 2020. The report provided a review of borrowing and investment performance for the period set in the context of the general economic conditions prevailing so far during the year. It also reviewed specific Treasury Management prudential indicators defined by the (CIPFA) Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by Council in the TMSS. (A copy of the report is attached to the signed Minutes as Appendix B.)

Mr A Stewart, Financial Manager, drew the committee's attention to page 9 of the report which covered borrowing activity 2020-21 and highlighted that interest rates had fallen with a forecast that they would remain low for a prolonged period. Shorter term rates were particularly attractive at present, as highlighted in the graph on page 6 of the report, and with that in mind, opportunities for shorter deals had been sought for the 2020/21 borrowing requirements of £115 million. At the date of writing the report nine forward borrowing deals had been secured for £75 million with other local authorities at an average term of 1.73 years.

In terms of total external borrowing, this had increased over the period by £37.3 million to £787.7 million. The figure was forecast to increase to £845.4 million by the end of the year in order to fund the capital programme. It was highlighted that interest payable on borrowing was forecast to be £2.6 million lower than estimated in the budget for this year due to lower than expected interest rates, market conditions, the Council's emphasis on shorter term borrowing and the reduced need to borrow.

Investment activity was covered in pages 9 to 11 of the report. Page 10 highlighted that the balance had reduced from £191 million to £176 million over the period and was projected to reduce further to £100 million by the end of the year as capital spend was incurred. Over a 6 month period the overall average rate of return achieved on investments was 0.85% which was slightly higher than the average due to previous decisions made in securing deals with other authorities. The Council's budgeted investment return was £1.4 million and that figure was forecast by the financial year end. Investment balances had been higher which had offset the lower interest rates currently being paid.

In summary Mr Stewart said the Council had operated within all its prudential limits as set out on pages 11 to 14 of the report.

Questions were raised and the following information was provided:

- In response to comments from the Vice Chair, Mr Stewart acknowledged that more local authorities were now finding themselves in financial difficulties, the risks

associated with lending to other Local Authorities could therefore be perceived to have increased. He said there was a question as to whether the Government would allow a Local Authority to go bust and not be able to honour commitments so that would offset the risks associated with placing investments with other Local Authorities. It was, however, worth taking up with Treasury Advisors in Link Asset Services for their view.

- With reference to Paragraph 7.1, page 11, Capital Expenditure - Human Resources, Mr Stewart said he did not have details of the existing capital programme to hand so he did not know exactly which scheme or schemes that would relate to. He would follow this up and provide members with details.
- Mr S Watson, Independent Member, said the document did not provide a flavour regarding the actual risk of any activity and felt that more clarity was needed. The risk landscape was shifting quite rapidly at present and he queried if it would be possible to be provided with more information. In response Mr Hand said the Council was working in unprecedented circumstances but he acknowledged the point made and said officers would reflect on this, look at the risk register and follow it up with the Treasury Advisors. He added that it should be recognised that any investment had an element of risk and it was part of Treasury Management's role to manage that risk appropriately. He would ask officers to produce a report to show in more detail the position regarding investments by counter party risk ratings.
- Mr P Topping, Independent Member, said one of the points about risk strategy was its ability to identify and respond to new and emerging risks. It had been acknowledged there was a risk regarding other Local Authorities and he said the strategy could not be static from one year to another. If there were increasing risks mitigation could include how to act if one of the Local Authorities with which the Council was dealing was flagged up as being financially vulnerable and the Council must be dynamic in terms of managing this risk.
- Mr Hand said it was better to deal with each individual treasury management transaction on its own merits at the time. There was an appropriate process and due diligence before each amendment was made and the portfolio was reviewed. Mr Stewart assured members that in terms of investments placed, regular updates were received through the markets and through Link Asset Services. The team were monitoring these daily but officers would pick up the previous point about other Local Authorities.
- Councillor Towns referred to a particular Local Authority being in financial difficulties as they had invested heavily in shopping centres and retail. He said there was some familiarity in that, previously with Arch and now Advance Northumberland. He queried if, under the Committee's new remit going forward, it would receive similar reports for the Council's own development company. In response the Cabinet Member for Corporate Services said the whole retail scene was very uncertain but there was an Advance Shareholder Group which met monthly and included Senior Council Officers and Members. Financial reports were received from Advance and these were scrutinised at a higher level than before because of the current situation. Officers were carrying out scenario planning and monitoring all the finances within the group boundary. Debt analysis was being received across the portfolio and it was being looked at in detail. Mr Hand added that the Council's investments in these areas were for regeneration and policy reasons and were not reliant on commercial investments to support core services.
- Mrs Lally, Chief Executive, said as shareholder representative she had expressed some serious concerns about some of the issues relating to Advance currently and a report had been added to the work programme for February which would cover

those issues. For clarity this was not just about retail but about wider issues around the loans.

- Following discussion about some of the comments made around retail decisions, the Chair said the role of the Audit Committee was to look at the wider point of the whole risk framework and some decisions could have had more scrutiny.

Upon a show of hands it was:

RESOLVED that

(1) The report be received and the performance of the Treasury Management function from 1 April to 30 September 2020 be noted.

(2) The report be presented to County Council for information.

(3) The Finance Manager would provide members with details of why Human Resources was showing the forecasted outturn as detailed in the report on page 11, paragraph 71.

(4) A report be provided with regard to actual risks around activities to show in more detail the position in terms of investments by counter party risk ratings.

61. REPORT OF THE EXECUTIVE DIRECTOR OF ADULTS SOCIAL CARE AND CHILDREN'S SERVICES

Review of External Inspection Reports – Adults & Children's Services

Mr A Hartwell, Senior Manager Performance Education and Safeguarding, presented the above report which informed members of the activity pertaining to Adults and Children's Services regarding external inspections and associated actions. This was over the period from 1 April 2020 to 30 September 2020. (A copy of the report is attached to the signed Minutes as Appendix C.)

The report differed from those presented to previous meetings as there had been no formal inspections undertaken since COVID 19 restrictions had been implemented in March. The report provided details of the following areas:

- Scrutiny was continuing both internally and externally and the regulators of the Care Quality Commission (CQC) and Ofsted had been active within Northumberland.
- The report described activity in relation to adult care settings where there had been support calls to establishments and no concerns had been raised.
- Improvements had been made in Children's residential homes.
- From September there had been 13 visits to schools.
- With reference to the Special Educational Needs and Disabilities action plan and the action plan for the Joint Target Area Inspection in relation to Child Exploitation, quarterly monitoring had been undertaken.
- Inspections had started again by the CQC in Adult Services and across the country Ofsted had initiated a series of focussed visits in Local Authorities, but these had been paused due to the latest COVID restrictions.

In response to questions the following information was provided:

- In terms of online technology, there had been quarterly virtual meetings held with the Department for Education (DfE) and NHS England around the Special Educational Needs and Disabilities written statement of action. Visits to schools had been carried out physically, likewise when inspectors visited Kyloe House. It was a challenge to do those assessments remotely but, where possible, regulators had tried to use virtual methods.
- Concerns were raised as to whether there was sufficient equipment available to provide children with what they needed to reach the required standard when they had been behind for so long. Mr Hartwell said there had been coordinated work in place between Children's Services and schools since the beginning of the pandemic to ensure equipment was distributed to those children and families who needed it most and that was an ongoing task. The Cabinet Member for Corporate Services added that another 300 devices would be provided, and work was being carried out to ensure they were well used and monitored. He would keep Councillor Grimshaw informed.
- Assurance was sought that should an issue arise, virtually or otherwise, that measures were in place to protect the Council to ensure any problems were dealt with quickly and efficiently. Mr Hartwell stated that all systems in place before the pandemic, such as whistleblowing, were still in place and were allocated and responded to. The Senior Management Team was meeting more regularly and situations were monitored to ensure they were concluded satisfactorily. In response to further comments, Mr Hartwell said whistleblowing had been prominent in discussions at senior management meetings and had been a technique that had been used as referenced in his report. It had been active and present within senior management circles and he was confident that managers would be sharing this with their staff.

The Chair thanked Mr Hartwell for his report and upon a show of hands it was:

RESOLVED that the findings of the report be noted.

62. REPORT OF THE ACTING CHIEF INTERNAL AUDITOR

Key Outcomes from Internal Audit Reports (Issued 2 July 2020 – 6 November 2020).

Mr K McDonald, Acting Chief Internal Auditor, introduced the above report which advised members of key outcomes from Internal Audit report issued between 2 July 2020 and 6 November 2020. (A copy of the report is attached to the signed Minutes as Appendix D.)

The report outlined outcomes from six issued Internal Audit Reports as well as a briefing note prepared following the closure of a school within the county. Mr McDonald drew members' attention to the table which started on page 5 of Appendix 1 to the report and said members would be aware that Internal Audit undertook evidence checking where recommendations were stated as implemented. As reported to the committee in July, officers had been unable to carry out evidence checking due to the pandemic arrangements. They had therefore gone back and performed appropriate evidence checking against all of July's reports to ensure nothing had been missed.

Reference was made to page 13 which reflected the change in arrangements during the pandemic and provided a short summary of some additional work undertaken during the period to provide a flavour of the outcomes.

The Chair commented on the challenges faced by Internal Audit to complete risk checks and, in accordance with Government advice, pay all grants as soon as possible when sometimes the money had not even been received.

The Vice Chair referred to many Council staff having an increased and varied workload and raised concerns regarding some of the items on page 8 of Appendix 1:

- Due to some previous questionable activity on a previous report, it was of concern that a significant number of Purchase Orders were being raised retrospectively and Councillor Swinburn questioned why the correct process was not being followed.
- In terms of service areas not meeting the invoice payment target dates set out by the Authority, this had a knock-on effect to suppliers which could be quite significant in the current climate. It was therefore even more important to meet target dates and pay bills on time.
- The lack of a robust process for approval of purchase card expenditure raised concerns and reference was made to activities this had led to in another authority.

On page 9, with reference to a single point of failure. this raised wider concerns that had been raised previously. Problems arose when individuals within the Authority were absent and work could not be progressed. It was suggested that shared mailboxes or a process of delegated access was the way forward as work should not come to a halt if an individual was absent.

The Chief Executive said she fully agreed with the Vice Chair's comments around procurement, purchase orders and contractual arrangements and advised members that some of the exception reporting around Audit now came to the Executive Team. Mrs Lally said that, irrespective of COVID, payment of invoices and raising of purchase orders ensured good governance within an organisation and some of these areas needed to improve rapidly. There was a plan of work in place to address this and the Executive Team received regular reports from the Acting Chief Internal Auditor who attended their meetings to present them. Mrs Lally had been very clear, irrespective of management arrangements, that if Internal Audit was unhappy with any process, they must raise that through the appropriate governance channels. She acknowledged that times were challenging but actions would be reviewed regularly and if the required progress was not forthcoming this would be raised with the Director and management team for that area.

In response to Mr Watson's concerns about some of the issues being identified as medium priority, Mr McDonald reiterated the comments made by the Chief Executive about Internal Audit reporting to the Executive Team and said this was a good step forward. He explained that when discussions around those issues were held with management in terms of finalising the report, Internal Audit was assured that action had already been taken to address the points raised. In terms of accounts payable and the procure to pay audit, additional reports had been raised and run by the management team to identify

areas of non-compliance which were then escalated quickly. With reference to purchase card expenditure, the issues identified had only applied to a proportion of it and, had they applied to all of it, this would have warranted a higher recommendation. Similarly, with the purchase order recommendation, the number of individual orders in comparison to the value across the entire Authority warranted a medium priority recommendation. Officers then monitored the situation and if it was found there had been no progress it would be escalated to a higher priority recommendation.

Mr Topping referred to the audit about perimeter security in which the report stated there was limited capacity to identify breaches from security events. He asked for assurance about this as the inability to identify security events would limit the Council's ability to anticipate more serious security incursions. In response the Cabinet Member for Corporate Services said a new Security Board had been set up and described the work being undertaken by it to improve systems. Progress was being made and this would continue to be a priority. Mr McDonald added that the system in place at the time of the audit was a temporary solution and since then a new system had been put in place by Information Services. This was currently being evaluated to identify any shortfalls.

RESOLVED that the key findings from good practice identified and management action taken in response to the Internal Audit reports issued, as summarised in Appendix 1 of the report, be noted.

63. URGENT BUSINESS

Governance Framework

The Chair said she had agreed to a request from Mrs K Angus, Executive Director of HR and OD and Deputy Chief Executive that she be allowed to give a brief update on the recent meetings regarding the new governance structure and the progress of investigations

Mrs Angus said, as members would be aware, at the last meeting she had presented a summary governance framework in relation to providing some assurance as to how the Council was managing an unprecedented set of governance issues which it was experiencing.

The purpose of that framework was to establish and reassure Audit Committee that there were lines of accountability and also potential future learning from the number and nature of the unprecedented set of governance issues which were taking a significant amount of officer time to review, categorise and ensure that robust governance was being applied to the processes which the organisation was needing to facilitate.

She was pleased to report that the Council had made good progress regarding the many matters which it had been dealing with and that the Director of Corporate Assurance and a team of independent consultants had assisted with. She asked members of the Audit Committee to note that the Council was still managing these unprecedented set of extraordinary governance matters and therefore the issues that the Council was dealing with were predominantly live issues and were likely to remain so for some time until the matters came to a conclusion.

Due to confidentiality and the sensitive nature of these matters, Mrs Angus said it would be inappropriate to expand on these matters further at this time. In order to reassure members of the Audit Committee regarding the robustness of the assurance arrangements which were currently in place she had requested, with the Chair's agreement, an extraordinary Audit Committee to be held in the coming weeks to provide more detailed assurance to members on the set of unprecedented governance matters which were currently being managed by the Council and members should receive notification of the date and time of that meeting very shortly. Mrs Angus reiterated that the details provided would not be about the live issues but about the processes and assurance which could be provided to ensure that matters were being managed in line with the appropriate policies, procedures, governance and legal advice being provided to the authority at this time.

It was anticipated that in the future, a learning exercise would be completed to consider the unprecedented set of governance issues that the authority had experienced, the learning which could be obtained from that and how that could be applied in the future, however, the Council could only do that when all matters were concluded which was some way off.

Mrs Angus said that was as much information she could provide at the present time.

64. DATE OF NEXT MEETING

The Chair asked members to look out for notification of the extraordinary Audit Meeting.

The next ordinary meeting was scheduled for Wednesday, 27 January 2021 at 10.15 am.

65. EXCLUSION OF PRESS AND PUBLIC

RESOLVED

a) That under Section 100A of the Local Government Act 1972, the press and pubic be excluded from the meting during consideration of the following items on the agenda as they involved the likely discussion of exempt information as defined in Part 1 of the Schedule 12(A) of the 1972 Act, and

b) That the public interest in maintaining the exemption outweighed the public interest in disclosure for the following reasons:-

Agenda Item	Paragraphs 1,2, 3 and 5 of Part 1 of Schedule 12A
11	Information relating to any individual; Information which was likely to reveal the identity of an individual; Information relating to the financial or business affairs of any particular person (including the authority holding the information); Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.
Agenda Items	Paragraph 3 of Part 1 of Schedule 12A

12, 13	Information relating to the financial or business affairs of any particular person (including the authority holding the information).

66. MINUTES

RESOLVED that the confidential minutes of the Audit Committee meeting held on 30 September 2020, as circulated, be confirmed as a true record and signed by the Chair.

67. REPORT OF THE SERVICE DIRECTOR – CORPORATE ASSURANCE

Risk Management Update

Ms A Mitchell, Service Director – Corporate Assurance introduced the above report which provided Audit Committee with an update on progress with the development, implementation and embedding of risk management within the County Council; and to inform Audit Committee of the latest position of the corporate risks as agreed by Executive Team on 19 October 2020. (A copy of the report is attached to the signed Minutes as Appendix E.)

Mrs B McKie, Corporate Assurance Manager highlighted the key points within the report and invited questions from members.

Discussion ensued and several points were raised.

RESOLVED that

1) the contents of the report be noted.
2) the points put forward by Members of the Audit Committee be noted and followed up.

68. REPORT OF THE ACTING CHIEF INTERNAL AUDITOR

Strategic Audit Plan 2020/21 – Interim Monitoring Statement

Mr K McDonald, Acting Chief Internal Auditor, introduced the above report which provided the Audit Committee with an interim monitoring statement in respect of the Strategic Audit Plan for 2020/21. (A copy of the report is attached to the signed Minutes as Appendix F.)

The table on page 2 of the report showed the current status of all 42 planned audit assignments. As mentioned to members at July's Audit Committee, the Plan was prepared before the pandemic and had been required to change to mirror the changing risk profile of the Authority.

Appendix 1 provided updates and outlined additional work Audit Committee had been involved with following the Coronavirus Pandemic.

RESOLVED that the progress set out in the Strategic Audit Plan Interim Monitoring Statement, attached as Appendix 1, be noted along with the levels of planned coverage achieved by Internal Audit at this stage in the year.

CHAIR: _____

DATE: _____

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Audit Progress Report

Northumberland County Council

January 2021

Appendix A

4

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Northumberland County Council

1. Audit Progress
2. National Publications

01

Section 01:

Audit Progress

Audit Progress

Purpose of this report

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

Audit progress

2019/20 audit

Since the Committee last met we have:

- continued our audit of your 2019/20 statement of accounts and continued to liaise with relevant staff at the Authority. We aim to report our findings to the Audit Committee in March 2021; and
- continued to liaise with management and review key Council and Committee papers to inform our ongoing risk assessment for our VFM conclusion.

There are no significant matters arising from our work that we are required to report to you at this stage.

Audit Progress

2020/21 audit

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

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

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

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

Audit Progress

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

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

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

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

02

Section 02:

National Publications

National Publications

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

NATIONAL PUBLICATIONS
CIPFA

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

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

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

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

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

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

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

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

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

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

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

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

NATIONAL PUBLICATIONS
CIPFA

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

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

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

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

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

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

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

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

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

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

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

NATIONAL PUBLICATIONS
National Audit Office

7. Local auditor reporting application, December 2020

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

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

NATIONAL PUBLICATIONS
MHCLG

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

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

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

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

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

NATIONAL PUBLICATIONS
Financial Reporting Council

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

The framework for the inspection of local audit work

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

Our response to the FRC's findings

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

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

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

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

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

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

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

What this means for the Council

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

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

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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Northumberland
County Council

AUDIT COMMITTEE

27 JANUARY 2021

TREASURY MANAGEMENT STRATEGY STATEMENT FOR THE FINANCIAL YEAR 2021-22

Report of Chris Hand, Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services and Cabinet Secretary

Purpose of Report

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policy.

This report sets out the Treasury Management Strategy, Treasury Management Policy Statement, the Annual Investment Strategy for the Financial Year 2021-22, Prudential Indicators 2021-22 to 2023-24 and the Minimum Revenue Provision Policy 2021-22.

Recommendations

- Members consider the report and recommend that County Council approve the Treasury Management Strategy Statement which includes the Treasury Management Policy Statement, the Annual Investment Strategy and Borrowing Strategy for the Financial Year 2021-22.
- Members recommend that County Council approve the Prudential Indicators (Appendix 4) for three years 2021-22 to 2023-24 to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- Members recommend that County Council approve the Minimum Revenue Provision Policy (Appendix 5) 2021-22.

Link to Corporate Plan

This report supports the “We want to be efficient, open and work for everyone” priority included in the Council’s Corporate Plan 2018-21.

Key issues

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010), to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act).

The Treasury Management Strategy Statement details the proposed activities of the Treasury Management function for the financial year 2021-22 and is based upon the treasury management officers’ views on interest rates, supplemented with leading market forecasts provided by the Council’s treasury management advisors, Link Asset Services.

TREASURY MANAGEMENT STRATEGY STATEMENT 2021-22

1. INTRODUCTION

1.1. Background

This Treasury Management Strategy Statement details the expected activities of the Treasury Management function for the financial year 2021-22. Its production and submission to full Council is a requirement of the CIPFA Code of Practice on Treasury Management.

Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low/medium risk counterparties or instruments commensurate with the Council's 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 expenditure or for larger capital projects. The financial cost of these activities - i.e. the balance between interest costs of debt and the investment income arising from cash deposits - has a significant impact on the overall revenue budget. In addition, since cash balances are mostly generated from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will result in a loss to the General Fund Balance.

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.

CIPFA defines treasury management as:

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

1.2. Statutory and Regulatory Requirements

The Local Government Act 2003 (the Act) and supporting Regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy's

(CIPFA) Prudential Code 2017, and the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017.

The codes define the manner in which capital spending plans are to be considered and approved. They require the Council to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. In conjunction with this, they also require the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, as required by the (revised) Investment Guidance issued by The Ministry of Housing, Communities and Local Government (MHCLG) which came into effect 1 April 2018.

With effect from 2019-20 there was a requirement that the report included a Capital Strategy, to provide a longer-term focus to the capital plans, and an extension of the meaning of 'investments' to include both financial and non-financial investments or commercial activity undertaken under the Localism Act 2011. The Capital Strategy is reported to County Council for approval with the annual budget report and Medium Term Financial Plan in February each year.

Non-financial investments, especially in property, do not generally form part of treasury management activities carried out by the treasury management team of a local authority.

Treasury management investments represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers; namely residual cash resulting from the authority's day to day activities.

Non-financial, or non-treasury investments tend to relate to s1 expenditure powers under the Act and be either of the following:

- Policy type investments, whereby capital or revenue cash is advanced for a specific council objective. This may be an advance to a third party for economic regeneration, or to enable care facilities etc.
- Commercial type investments, whereby the objective is primarily to generate capital or revenue resources. The resources generated would then help facilitate Council services.

This report deals solely with financial investments. Non-financial investments, which from the Council's perspective relate to the loans provided to third parties, are covered in the Capital Strategy report.

1.3. Basis and Content of Treasury Management Strategy for 2021-22

The proposed strategy for 2021-22 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented by leading market forecasts provided by the Council's treasury advisors, Link Asset Services. The strategy covers:

- Current portfolio position;
- Economic outlook and prospects for interest rates;
- Borrowing Strategy for 2021-22;

- Annual Investment Strategy for 2021-22;
- Housing Revenue Account (HRA) treasury costs;
- Treasury management limits and Prudential Indicators;
- Minimum Revenue Provision Policy Statement;
- Policy on use of external service providers, and;
- Implementation of the Treasury Management Strategy, scheme of delegation, reporting and training requirements.

1.4. Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that the impact of increases in capital expenditure, such as interest charges associated with any new borrowing, and any increases in running costs from these capital projects, must be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

The Council also has a statutory duty under S.3 of the Local Government Act 2003, and supporting regulations, to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Link benchmarking clubs.

2. THE PORTFOLIO POSITION AT 30 NOVEMBER 2020

2.1. Current Borrowing

The Council's borrowing at 30 November 2020 is shown below:

	General Fund £m	HRA £m	Total Principal 30 Nov 2020 £m	Weighted Average Rate %
Public Works Loan Board Loans	422.376	40.704	463.080	2.65
LOBOs	153.500	23.000	176.500	3.95
Market / Local Authority (>1yr)*	109.000	8.100	117.100	2.96

Salix	0.028	0.000	0.028	0.00
Short Term loans* (<1yr)	10.000	0.000	10.000	1.15
TOTAL EXTERNAL BORROWING	**694.904**	**71.804**	**766.708**	**2.98**

* Note: above figures are based on the term of loans at their inception

Total external borrowing has decreased by £58.273 million from £824.981 million at the start of year to £766.708 million at 30 November 2020. Following further repayments and forward borrowing arrangements, the year-end figure is expected to be around £805.438 million.

2.2. Current Investments

The table below summarises the investment position at 30 November 2020:

	Total Principal 30 Nov 2020 £m	Weighted Average Rate %
Money Market Funds and Call Accounts	126.606	0.09
Fixed Term Investments – Short Term (<1yr)*	20.000	0.26
Fixed Term Investments – Long Term (>1yr)*	33.250	3.24
TOTAL EXTERNAL INVESTMENTS	**179.856**	**0.69**

* Note: above figures are based on the term of investments at their inception

3. FORECAST FOR INTEREST RATES AND ECONOMIC OUTLOOK

The Council has appointed Link Asset Services (Link) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link's central view of rates for 2021-22 (at 27 November 2020). A longer view and more detailed forecast are included at Appendix 1.

	Quarter 1 (Q/E Jun 2021)	Quarter 2 (Q/E Sep 2021)	Quarter 3 (Q/E Dec 2021)	Quarter 4 (Q/E Mar 2022)
Bank Rate	0.10%	0.10%	0.10%	0.10%
5yr PWLB	0.80%	0.80%	0.80%	0.90%
10yr PWLB	1.10%	1.10%	1.10%	1.20%
25yr PWLB	1.60%	1.60%	1.60%	1.60%
50yr PWLB	1.40%	1.40%	1.40%	1.40%

3.1. Economic Outlook (at November 2020)

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent

meetings up to 05 November 2020; although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected as economic recovery is expected to be only gradual and, therefore, prolonged.

One key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems to say that even if inflation rises to 2% in a couple of years' time, do not expect any action from the Monetary Policy Committee (MPC) to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February 2020; suggesting that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis.

The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations. However, the impact of the second national lockdown starting on 05 November may push back recovery of GDP to pre pandemic levels by six months, and into sometime during 2023. Although the recovery could be much quicker if successful vaccines were widely administered in the UK in the first half of 2021.

Further afield, the result of the US elections means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. And it is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.

The US economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that it could be in the early stages of a third wave; which poses a threat that the recovery could stall. This is the single biggest downside risk to the shorter-term outlook.

3.2. Bond Yields / PWLB Rates

There was much speculation during the second half of 2019 that bond markets were in a bubble – where bonds are trading above their true worth (fuelled by a belief that no matter how high prices go, someone is likely to pay an even higher price), and that, eventually, this must come to an end. This in turn heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around

the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.

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

Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The flip side is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020-21.

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

3.3. The Balance of Risks to the UK

The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

3.4. Downside Economic Risks

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and therefore PWLB borrowing rates currently include:

- Further national lockdowns or severe regional restrictions in major conurbations during 2021.
- UK / EU trade negotiations – if they were to cause significant economic disruption and downturn in the rate of growth.
- The Bank of England 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.
- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, which will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets, and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- German minority government in 2021. In the last German general election, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party. The SPD has done particularly badly in state elections since then which has raised a major question mark over continuing to support the CDU.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU.
- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

3.5. Upside Economic Risks

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include:

- Recovery in the UK economy being stronger than currently expected, especially if effective vaccines are administered quickly to the UK population and lead to a

resumption of normal life and a return to full economic activity across all sectors of the economy.

- Brexit. If Post-Brexit agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

4. THE BORROWING STRATEGY 2021-22

4.1. Introduction

The Council borrows to fund the Capital programme, including loans to third parties for policy reasons (such as those to Advance Northumberland and Northumbria Healthcare NHS Foundation Trust etc.). Its capital expenditure plans are therefore the key driver of treasury management activity.

The output of capital expenditure plans is reflected in the Prudential Indicators, as set out in Appendix 4.

4.2. Borrowing Need – Capital Financing Requirement

The Council's long-term borrowing requirement is measured by the Capital Financing Requirement ("CFR"). The CFR represents total historic outstanding capital expenditure which has not yet been paid for from either revenue or cash-backed capital resources (such as grants and capital receipts). The CFR is repaid over time by an annual charge to revenue, known as the Minimum Revenue Provision (MRP). This charge, which is equivalent to depreciation, effectively spreads the cost of debt associated with capital expenditure over the useful economic life of the underlying assets.

At the same time the Council has significant levels of 'cash-backed' balances that are available for investment. Accordingly, the capital financing requirement (or borrowing requirement) need not always be met or funded externally from physical loans: At least in the short term, investment balances can be 'used' in lieu of borrowing externally; by withdrawing investments (in turn foregoing investment income) and instead using the cash to fund part of the borrowing requirement. This is often referred to as 'internal' or 'under' borrowing. Such an approach also has the added benefit of reducing 'counter-party' credit risk in terms of investments; because it reduces the need to place investments with external institutions.

The following tables summarises the forecast CFR movements for the next three financial years (based on the latest capital expenditure plans) along with the anticipated external borrowing over this period; assuming a significant degree on internal borrowing as proposed further below:

CFR Forecast (exc. PFI)	2021-22 £m	2022-23 £m	2023-24 £m
Opening CFR (exc. PFI)	987.102	1,107.008	1,193.235
Increase in CFR (exc. PFI)	119.906	86.227	58.572
Closing CFR (exc. PFI) [Need to Borrow]	**1,107.008**	**1,193.235**	**1,251.807**

External Borrowing Forecast (exc. PFI)	2021-22 £m	2022-23 £m	2023-24 £m
Opening External Borrowing (exc. PFI)	805.438	941.893	1,035.349
Increase in External Borrowing (exc. PFI)	136.455	93.456	53.456
Closing in External Borrowing (exc. PFI)	**941.893**	**1,035.349**	**1,088.805**
Under / (Over) Borrowing	165.115	157.886	163.002

4.3. Proposed Borrowing Strategy

With investment returns anticipated to remain low (at least in the short term), it is proposed to continue with the practise adopted in recent years of wherever possible using investments in lieu of external borrowing – i.e. operating an under-borrowing position.

Whilst the principal strategy of maintaining an under-borrowing position will reduce short term revenue costs, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs.

As identified above, by the end of 2021-22 14.92% (£165.115 million) of the Council's borrowing requirement is proposed to be covered by internal borrowing. The effective cost of this 'borrowing' is the foregone investment income. For 2021-22 this is estimated at 0.10% or around £0.174 million (based on the average mid-year internal borrowing position). Taking into consideration the forecast average cost for external borrowing (i.e. average interest rate on actual loans) for 2021-22 of 2.62%, this equates to a notional saving of 2.52% or around £4.373 million (or alternatively the notional cost of externalisation).

However, it is important to point out that this element of the borrowing requirement is subject to interest rate movements and therefore not without risk. Clearly if investment returns were to increase, or the borrowing had to instead be externalised (and funded by actual loans), the costs associated with this would increase accordingly. In order to identify and quantify this risk a local indicator is included in the Council's Prudential Indicators (see Appendix 4), identifying the level of internal borrowing and the impact of interest rate movements on this proportion of the borrowing requirement.

Despite utilising investments balances to support the borrowing need, as identified above a significant amount of external borrowing will still be required during 2021-22

(estimated at around £185.000 million, after taking into consideration maturing loans of £48.545 million) and going forward to fund the proposed capital programme.

Against the above backdrop that interest rates are projected to remain low over the next few years, and the risks within the economic forecast, it is envisaged the external borrowing requirement will be met primarily from shorter term / temporary borrowing (up to 2 years). However medium to longer term borrowing may also be considered to provide a degree of longer term certainty, and in particular if rate increases start to materialise earlier than projected (due to increased optimism in the economy etc.).

The Section 151 Officer will continue to monitor the interest rate market and scrutinise all lending opportunities to ensure borrowing is taken at the most advantageous time and limit the risk of exposure to increased borrowing costs in the future.

In line with the scheme of delegation set out in the Treasury Management Practices (TMP's, section 10), The Section 151 Officer will continue to approve all borrowing.

4.4. Policy on borrowing in advance of need

While not expected to happen due to the internal/under borrowing policy, the Council does have flexibility to borrow funds this year for use in future years. Where there is a clear business case for doing so, borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

4.5. Debt Rescheduling

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

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and,
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

The Council will monitor the situation and seek advice from Link Asset Services before any rescheduling of debt. All rescheduling will be reported to the Council as part of the in-year treasury management updates.

4.6. Municipal Bond Agency and European Investment Bank

The Municipal Bond Agency, which is currently in the process of being set up, may be in a position to offer loans to local authorities in the near future; perhaps at rates lower

than those offered by the PWLB. Consideration may therefore be given to making use of this new source of borrowing as and when appropriate.

Consideration will also be given to borrowing from the European Investment Bank (EIB), where rates can be forward fixed, if this represents better value of money.

5. ANNUAL INVESTMENT STRATEGY 2021-22

5.1. Introduction – Investment Policy

The Council has significant levels of 'cash-backed' balances that are available for investment, in the form of General Fund and HRA balances, and the numerous earmarked reserves and provisions.

5.2. Investment Returns Expectations

As outlined in section 3 above and Appendix 1, Bank Rate is unlikely to rise from 0.10% for a considerable period. As a result it is assumed that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future. Against this background, Link Asset Services suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	2021-22	2022-23	2023-24	2024-25	2025-26
Budgeted Rate	0.10%	0.10%	0.10%	0.25%	0.75%

5.3. Negative investment rates

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

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

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

5.4. Investment Strategy

As proposed in section 4 above, it is expected that during 2021-22 a significant proportion of available investment balances will be used as 'internal borrowing' to support the financing of the CFR. As a result, external investments will be limited and may decrease further during the year.

All remaining funds will be invested in-line with the following Investment Policy, which has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The overall aim of the Investment Strategy is to provide security of capital and minimise risk while ensuring the Council has sufficient liquidity.

The Council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity. The risk appetite of the Council is low/medium, therefore specified and unspecified investments (see below) will be considered. However, security and liquidity will continue to take precedence over yield. All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices (Appendix 3).

5.5. Investment objectives

The general policy objective for this Council is the prudent investment of its surplus cash balances, which includes monies borrowed for the purpose of expenditure in the reasonably near future (i.e. over the 3 year medium term planning cycle). The Council's investment priorities are:

- the security of capital;
- the liquidity of its investments; and,
- the achievement of optimum yield.

Security and liquidity of principal have always been the priority, and will continue to be so. In CIPFA's view "The priority is to protect capital rather than maximise return. However, the avoidance of all risk is neither appropriate nor possible and a balance must be struck with a keen responsibility for public money." In times of budget constraints, making the Council's funds work and generate increased returns is becoming increasingly important. CIPFA encourages Local Authorities to look carefully at their Counterparty Lists to ensure return on investments is achieved.

CIPFA recommends that "Responsibility for local authorities investment decisions lies, and must continue to lie with the local authorities themselves". The best authorities:

- explicitly balance risk and reward;
- review and scrutinise policies and procedures regularly;
- have well trained staff and engaged elected members; and,
- use a wide variety of information.

The Credit and Counterparty Criteria List (Appendix 2), which has not changed from last year, offers diverse counterparties and takes into account country, sector and group limits.

This list clearly sets out the minimum acceptable credit criteria for organisations with which the Council will place funds.

All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices (Appendix 3).

The borrowing of monies purely to invest or lend-on and make a return is unlawful and this Council will not engage in such activity.

5.6. Security of Capital and Creditworthiness (Credit and Counterparty Policy)

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria when determining which organisations it can place investments with. The criteria are set out in Credit and Counterparty Policy which is attached at Appendix 2.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty policy and limits reflect a prudent attitude towards organisations with which funds may be deposited.

The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from Fitch and Moody's. The credit ratings of counterparties are supplemented with the following overlays:

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

  * Credit default swaps (CDS) are a type of insurance against default risk by a particular company/financial institution. In the event of a default, the buyer receives the face value of the bond or loan from the insurer.

The Council is alerted daily of changes to ratings of all three agencies. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, no new investment will be made. Consideration will also be given to whether or not existing

investments will be withdrawn, which is dependent on whether the bank concerned is agreeable.

As with previous practice, ratings and the use of this external service 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. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

The assessment will also take account of information that reflects the opinion of the markets. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.7. Types of investments the Council may use

The Council may use various financial instruments for the prudent management of its treasury balances (as listed in the Credit and Counterparty Policy in Appendix A).

The Credit and Counterparty Policy does not identify individual counterparty names in order to ensure that the Section 151 Officer has the flexibility to place investments with the most suitable organisations, which meet the agreed criteria, in a timely manner.

Treasury staff investigates various products and instruments as they become available to see if they meet the Council's investment priorities and criteria list.

In line with the MHCLG Guidance, the Credit and Counterparty Policy categorises investments instruments between 'Specified' and 'Non-Specified' investments:

Specified Investments offer high security and high liquidity. All such investments are:

- in pounds sterling;
- due to be repaid within 12 months or which may be required to be repaid within 12 months;
- not capital expenditure;
- made with high credit quality organisations, (for the purpose of this strategy high credit ratings are "A-" and above for long term and "F2/P-2" and above for short term investments); or,
- made with the United Kingdom Government or local authority (including the North East Combined Authority), parish council or community council.

Non-Specified Investments are those which do not meet the criteria for specified investments and give greater potential risk. The MHCLG does not discourage the use of non-specified investments but states that there is a need for these to be dealt with in more detail.

As in previous years, it is anticipated that the majority of investments will be specified but it is proposed to maintain a maximum of 25% of total Council investments being held in non-specified investments at any one time during the year. This is primarily to allow

the use of large, non-rated, building societies as well investments beyond 1 year with other local authorities.

Investments will only be placed with organisations which meet the criteria set out in the approved Credit and Counterparty Policy. Individual investments or aggregate of investments to one organisation should comply with the monetary limits set out in Credit and Counterparty Criteria List.

Nationalised/part-nationalised banks in the UK have credit ratings which do not comply with the credit criteria used by the Council. However, due to significant Government ownership the Council feels more comfortable applying higher limits for investments.

Investments are to be arranged in line with Treasury Management Practices (Appendix 3) and all investments with new counterparties must be approved by the Section 151 Officer or the Deputy Section 151 Officer or in their absence Finance Managers. There is currently no proposed change to this practice.

5.8. Forecast Investment Balances and Liquidity

Based on current reserves and balances forecast, and allowing for the proposed strategy of using some of the investable balances as 'internal borrowing' to support the financing of the CFR (see Section 4), it is anticipated that in 2021-22 the Council's external investment balances will fluctuate throughout the year within a range between £59.000 million and £129.000 million.

To ensure liquidity a minimum of 20% of overall investments, or £5.000 million, whichever is lower, will be held in liquid accounts. For cash flow generated balances, the Council will seek to utilise its money market funds, call accounts and short-dated deposits (overnight to six months).

As investment rates are forecast to remain low and there is a requirement for liquid funds to support the under-borrowing position, it is envisaged the Council will avoid locking into longer term deals. However, if exceptionally attractive rates are available then they will be considered. Close contact will be maintained with the money market to ascertain the most favourable interest rates on offer to achieve best value from the return on surplus monies available in line with the Counterparty Policy in Appendix 2.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

5.9. Non Treasury Management Investments Defined as Capital Expenditure

In addition to the above standard treasury management activity, the Council also receives interest from two other 'non-treasury' activities; namely the investment shares NIAL Holdings (Newcastle Airport) [£13.527 million] and Advance Northumberland [£4.338 million], and the loans to Newcastle Airport, Northumbria Healthcare NHS Foundation Trust, Advance Northumberland and other organisations.

These non-treasury activities are deemed by Statutory Regulations as capital expenditure and are provided to support Council service objectives and corporate priorities. They are not made or regarded as part of the 'core' treasury management

activity - i.e. the investment of surplus cash flow balances, as made under the power to invest inferred by s12 of the Local Government Act 2003. As a result these activities were previously outside of the scope of the Investment Strategy.

The MHCLG's investment guidance recommend that these non-financial or non-core investments should be included within the Annual Investment Strategy.

Whilst it is entirely appropriate to highlight the scope of these activities, there is a view amongst some practitioners that it may be misleading to refer to items of expenditure in the context of an investment strategy, and that a more suitable mechanism to explain and cover these activities would be within the newly re-introduced Capital Strategy.

Due to their nature, it is difficult to assess and consider non-financial or non-core investments in the context of liquidity and security, which arguably does not apply to these activities, at least not in the same way as it does for standard cash investments. Beyond the terms of the underlying agreement, loans to third parties are not liquid and have no need to be. The expenditure is incurred in the support of service objectives and funded from capital resources, which is different to the requirements and policies surrounding management of the Council's investments and cash flows. Similarly, whilst the return of the funds advanced is key, security for third party loans may need to be considered differently to the credit ratings modelling approach utilised for core-treasury investments.

For these reasons, the Council's policy on non-financial or non-core investments, specifically the loans to third parties, is covered separately within the Capital Strategy document which is considered and approved by Council at its budget setting meeting in February, and is attached at Appendix 6 for information.

A summary of value of loans to third parties and the interest expected to be received is summarised below:

Borrower	Estimated Balance at 1 Apr 2021 £m	Weighted Average Interest Rate	Forecast Interest Income 2021-22* £m
Northumbria Healthcare NHS Foundation Trust	112.672	3.80%	3.819
Advance Northumberland Group	281.906	5.00%	14.255
Newcastle Airport	11.916	8.60%	0.000**
North East Local Enterprise Partnership	12.759	3.83%	0.707
Northumberland College	6.552	4.40%	0.289
Northumberland Aged Miners	1.270	3.50%	0.056
Cramlington Town Council	0.307	4.00%	0.012
Active Northumberland	0.237	3.30%	0.047
Newcastle City Council	0.209	5.00%	0.011
Alnwick Juniors	0.177	0.00%	0.000
Arts Groups (The Maltings, Alnwick Playhouse, Queen's Hall)	0.119	3.80%	0.003
Calvert Trust	0.096	2.10%	0.002
Alnwick Youth Hostel	0.100	2.10%	0.003
Haltwhistle Pool	0.051	2.10%	0.001
Northumberland Community Bank	0.050	2.54%	0.001
Other Parish/Town Councils and Housing Associations	0.067	11.90%	0.003
Alexa's Animal Charity	0.139	2.40%	0.003
Total	**428.627**	**4.73%**	**19.212**

*Note: the above includes forecast advances to be made.

**No interest payments are due from Newcastle International Airport in 2021-22.

The Medium Term Capital Programme for 2021-22 to 2023-24 includes a provision of £49.814 million for further loans to Advance Northumberland and other third parties, plus an additional £9.312 million for loans to the North East Local Enterprise Partnership in respect of Enterprise Zone investments (which will ultimately be repaid by future business rate increases).

Whilst the income from these advances is significant, the intention is largely only to cover the associated underlying borrowing costs to the Council. The loans are considered and approved to support the Council's service and policy objectives not to generate a financial return for the Council.

5.10. Provision for credit related losses

If any of the Council's investments appear at risk of loss due to default (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

6. HOUSING REVENUE ACCOUNT (HRA) TREASURY MANAGEMENT COSTS

6.1. Overview

Following implementation of the HRA self-financing reforms in April 2012, a separate pool of specific loans is now maintained for the HRA. The interest costs associated with these loans are charged direct to the HRA. This arguably negates the need for the former HRA Item 8 charge; which allocated a share of the Authority's overall borrowing costs to the HRA.

For the most part, the HRA will aim to ensure that new loans are taken out (or repaid) to match any anticipated movement in its borrowing requirement - known as the HRA Capital Financing Requirement (HRA CFR). There will however be instances during the year when the balance of the HRA loan pool - i.e. actual external borrowing charged to the HRA does not equate exactly to the HRA CFR. In such circumstances the HRA is borrowing from (or lending to) the General Fund and an additional charge (or credit) is necessary in order to reflect the notional cost of this imbalance. The Council's proposed policy for this arrangement is as follows, the policy remains unchanged from the previous year:

6.2. Policy for HRA Under and Over Borrowing

HRA Under-Borrowing

Where the weighted average balance of the HRA (external) loans pool is less than the weighted average HRA CFR for the same period, notional interest will be charged to the HRA at the average rate of interest for 30 year PWLB borrowing for the period.

HRA Over-Borrowing

Where the weighted average balance of the HRA (external) loans pool is greater than the weighted average HRA CFR for the same period, notional interest will be paid to the HRA at the average 3 month London Interbank Bid (LIBID) rate for the period.

6.3. Other Treasury Management Charges to HRA

As under the former Item 8 arrangements, the HRA will continue to receive interest (or investment income) on its weighted average balances for the year, based on the Council's overall average investment rate.

The HRA will also continue to be charged a proportion of the authority's overall debt management expenses (based on the CFR proportions), as well its share of any historic premiums or discounts associated with the premature repayment of borrowing. Any future/new premiums or discounts will be met fully by the relevant fund of the underlying loan – i.e. premiums or discounts related to loans within the HRA loan pool will be charged fully to the HRA, and vice versa.

7. PRUDENTIAL INDICATORS and TREASURY LIMITS 2021-22 to 2023-24

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

Councils are required to approve a set of Prudential Indicators for the new financial year and adhere to these indicators during the course of that year. The indicators are to be set on a rolling basis, for the forthcoming financial year and two successive financial years. Prudential Indicators for 2021-22 to 2023-24 are set out in Appendix 4.

8. THE ANNUAL MINIMUM REVENUE PROVISION 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 make additional voluntary payments if required.

MHCLG Regulations have been issued which requires Full Council to approve an MRP policy in advance of each year. A variety of options are provided to councils, with an overarching requirement there is a prudent provision.

MHCLG revised their MRP guidance in 2018. However, none of the amendments impact on the Council's current or proposed policy.

The 2021-22 policy is unchanged from that approved for 2020-21.

The Council is recommended to approve the Annual Minimum Revenue Provision Policy Statement including Additional Voluntary Provision as detailed within Appendix 5.

9. POLICY ON USE OF EXTERNAL SERVICE PROVIDERS

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 regard to all available information, including, but not solely, the Council's 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 the appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

The Council uses Link Asset Services Ltd as its treasury management consultant. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and templates of Member reports;
- Economic and interest rate analysis;
- Debt services which include advice on the timing of borrowing;

- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and,
- On line up to date credit ratings.

10. IMPLEMENTATION OF THE TREASURY MANAGEMENT STRATEGY, SCHEME OF DELEGATION, TRAINING AND REPORTING REQUIREMENTS

10.1. Implementation of the Treasury Management Strategy

The continued implementation of the above strategy and procedures is the responsibility of the Section 151 Officer, who is authorised to arrange the necessary borrowings within the limits set out in the Prudential Indicators, and necessary investments as set out in the investment strategy.

Northumberland County Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet.

The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

There are no proposed changes to this methodology.

10.2. Treasury Management Practices (TMPs)

Treasury Management Practices (Appendix 3) set out the manner in which the Council will seek to achieve the treasury management policies and objectives. The Council has adopted the recommended form of words defining the Council's treasury management practices (TMPs), in compliance with CIPFA's Treasury Management in the Public Services: Code of Practice and the Prudential Code for Capital Finance in Local Authorities. These set out the specific details of the systems to be employed and the records to be maintained.

These practices are as follows:

TMP1 Credit and Counterparty Risk management;

TMP2 Best value and performance measurement;

TMP3 Decision-making and analysis;

TMP4 Approved instruments, methods and techniques;

TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements;

TMP6 Reporting requirements and management information;

TMP7 Budgeting, accounting and audit arrangements;

TMP8 Cash and cash flow management;

TMP9 Money laundering;

TMP10 Training and qualifications;

TMP11 Use of external service providers; and,

TMP12 Corporate governance.

There are no proposed changes to these practices, other than the inclusion of three further companies for potential money broking services – Imperial Treasury Services Ltd, Munix Ltd and RP Martin Ltd (see Appendix 3, section 11.1.2).

10.3. Responsible Officers

Daily treasury management activities will be undertaken by a Senior Accountant within the Corporate Finance team, as set out in TMP5. If they are absent a Principal Accountant within the Corporate Finance team will undertake these activities.

The three annual Treasury Management reports submitted to Cabinet and Council will be produced by the Technical Accountant.

The Finance Manager will ensure all treasury management activities are made in accordance with agreed policies and practices.

10.4. 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. Members received training in October 2018 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed. Each officer concerned will receive appropriate training and guidance on their duties and the constraints within which they operate.

10.5. Reports and Monitoring

To ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities, reports need to be submitted to full Council which need to be reviewed by Members of the Council in both Cabinet and Scrutiny functions.

The adequacy of the strategy statement will be monitored and reports requesting amendments to the statement will be produced when changes are thought to be necessary. The changes will be made in consultation with the Cabinet Portfolio holder for Corporate Services, whose role relates to the strategy and associated risks. Any strategy changes will be reported to the Audit Committee.

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. The following reports are required to be adequately scrutinised by Audit Committee before being recommended to the Council.

Treasury Management Strategy Statement

The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision 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).

A Mid-Year Treasury Management Report

This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury activity is meeting the strategy or whether any policies require revision.

An Annual Treasury Report

This provides details of prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

It is proposed that the Council follow reporting arrangements in accordance with the requirements of the revised Treasury Management Code of Practice.

Area of Responsibility	Council/ Committee/ Officer	Frequency
Scrutiny of treasury management strategy	Audit Committee or Risk Appraisal Panel	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy and Treasury Management Practices	Cabinet / Full Council	Annually before the start of the year
Annual Treasury Outturn Report	Cabinet / Full Council	Annually by 31 July after the end of the year
Treasury Management Budget Monitoring Reports	Incorporated within the Budget Monitoring report and reported separately to Scrutiny Committee	Quarterly
Scrutiny of treasury management performance	Audit Committee	As required
Updates or revisions to Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet / Full Council	Ad- hoc

The policies and strategies set out in this document will ensure that the management and administration of treasury management will be robust, rigorous, disciplined and help minimise risk.

The procedures for monitoring treasury management activities through audit, scrutiny and inspection will be applied with an openness of access to information and provide well-defined arrangements for review and implementation of changes.

Implications

Policy	The report sets out the Treasury Management Policy Statement for 2021-22, and is consistent with "We want to be efficient, open and work for everyone" priority included in the Council's Corporate Plan 2018-21.
Finance and value for money	The financial implications of the 2021-22 investment and borrowing transactions have been taken into account within the revenue budget for 2021-22 and Medium Term financial Plan 2021-234. Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Link benchmarking clubs.
Legal	The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice, 2017.
Procurement	There are no direct procurement implications for the County Council.
Human Resources	There are no direct staffing implications for the County Council.
Property	There are no direct property implications for the County Council.
Equalities (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	Not applicable for the County Council.

Risk Assessment	The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.
Crime & Disorder	There are no Crime and Disorder implications for the County Council.
Customer Consideration	There are no Customer Considerations for the County Council.
Carbon reduction	There are no specific Carbon Reduction implications within this report.
Health and Wellbeing	There are no Health and Wellbeing implications for the County Council.
Wards	All divisions.

Background Papers:

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes 2017.

CIPFA Prudential Code for Capital Finance in Local Authorities 2017.

Guidance on Local Government Investments The Local Government Act 2003,

Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265)

List of Appendices

Appendix 1 – Economic Forecasts

Appendix 2 – Credit and Counterparty Criteria Policy

Appendix 3 – Treasury Management Practices

Appendix 4 – Prudential Indicators

Appendix 5 – Minimum Revenue Provision Policy

Appendix 6 – Capital Strategy

Report sign off:

	Name
Monitoring Officer/Legal	Helen Lancaster
Executive Director of Finance and S151 Officer	Chris Hand
Relevant Service Director	Alison Elsdon
Chief Executive	Daljit Lally
Portfolio Holder(s)	Nick Oliver

Author and Contact Details

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ECONOMIC FORECAST - NOVEMBER 2020

APPENDIX 1

LINK ASSET SERVICES	End Q3 2020	End Q1 2021	End Q2 2021	End Q3 2021	End Q4 2021	End Q1 2022	End Q2 2022	End Q3 2022	End Q4 2022	End Q1 2023	End Q2 2023	End Q3 2023	End Q4 2023	End Q1 2024
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
3 Month LIBID / ave earnings	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
6 Month LIBID / ave earnings	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
12 Month LIBID / ave earnings	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB	0.80%	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	0.90%	0.90%	0.90%	1.00%	1.00%	1.00%	1.00%
10yr PWLB	1.10%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.20%	1.30%	1.30%	1.30%	1.30%
25yr PWLB	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%
50yr PWLB	1.30%	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%

Interest Rate View

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%
Bank Rate						
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%
5yr PWLB Rate						
Link Asset Services	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%
Capital Economics	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%
10yr PWLB Rate						
Link Asset Services	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%
Capital Economics	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%
25yr PWLB Rate						
Link Asset Services	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%
Capital Economics	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%
50yr PWLB Rate						
Link Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%
Capital Economics	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%

Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
1.50%	1.50%	1.75%	-	-	-	-	-
1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
2.90%	2.90%	2.90%	-	-	-	-	-
2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
3.30%	3.30%	3.30%	-	-	-	-	-
3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
3.90%	3.90%	3.90%	-	-	-	-	-
3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
3.80%	3.80%	3.80%	-	-	-	-	-

0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00
0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00
0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10
1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30
2.20	2.30	2.50	2.60	2.70	2.70	2.80	2.90
2.50	2.60	2.80	2.90	3.00	3.00	3.10	3.20
3.10	3.30	3.40	3.50	3.60	3.70	3.70	3.80
3.00	3.20	3.30	3.40	3.50	3.60	3.60	3.70

0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%
0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.00%
0.80%	0.80%	0.80%	0.80%	0.90%	1.00%	1.10%	1.10%
1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.30%	1.30%
2.20%	2.30%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%
2.50%	2.60%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%
3.10%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%
3.00%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%

1.00	1.00	1.25
1.00	1.10	1.20
1.20	1.30	1.40
1.40	1.50	1.60
3.00	3.00	3.10
3.30	3.30	3.40
3.90	4.00	4.00
3.80	3.90	3.90

1.00%	1.00%	1.25%
1.00%	1.10%	1.20%
1.20%	1.30%	1.40%
1.40%	1.50%	1.60%
3.00%	3.00%	3.10%
3.30%	3.30%	3.40%
3.90%	4.00%	4.00%
3.80%	3.90%	3.90%

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CREDIT AND COUNTERPARTY CRITERIA POLICY

The Council recognises the need for security of principal to be of paramount importance. In recognition of the need to minimise risks associated with its treasury management activities, credit rating criteria, as outlined below will be used to select counterparties with whom the Council will place funds. Treasury management staff will analyse all counterparties prior to investing funds.

Specified Investments

Type of Organisation	Minimum Credit Rating Criteria		Max Amount of Principal	Max Period
	Fitch	Moody		
UK Local Authorities (Including the North East Combined Authority)	N/A	N/A	Unlimited	15 years (with annual calls)
DMO	N/A	N/A	Unlimited	6 mths
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	12 mths
Semi-nationalised banks	N/A	N/A	£35m per bank £70m per banking group	12 mths
Money Market Funds: Public Debt Constant Net Asset Value ("CNAV") MMFs and Low Volatillity NVA ("LVNAV") MMFs	AAA	Aaa	£25m per fund (£150m in total)	Instant Access
Deposits and Certificates of Deposit with approved eligible financial institutions which meet the following criteria				
Very High Grade U.K. Clearing Banks / Building Societies	ST: F1+ LT: AA-	ST: P-1 LT: Aa3	£25m £50m per banking group	12 mths
High Upper Medium Grade U.K. Clearing Banks/ Building Societies	ST: F1 LT: A-	ST: P-1 LT: A3	£15m £30m per banking group	12 mths
High Grade Foreign Banks – minimum sovereign rating of AA	ST: F1 LT: A-	ST: P-1 LT: A3	£10m Country limit £30m	6 mths

Non-specified Investments

No more than 25% of the total investment portfolio will be placed in non-specified investments.

Type of Organisation	Minimum Credit Rating Criteria		Max Amount of Principal	Max Period
	Fitch	Moody		
UK Local Authorities (Including the North East Combined Authority)	N/A	N/A	Unlimited	15 Years
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	15 Years
Enhanced Cash Funds (Variable net asset value)	AAA	Aaa	£15m per fund (£60m in total)	30 (1) days notice
Deposits or Corporate Bonds with institutions which meet the rating criteria.	ST: F1 LT: A-	ST: P-1 LT: A3	£10m per institution	5 Years
Deposits or Corporate Bonds with institutions which meet the rating criteria.	ST: F2 LT: A-	ST: P-2 LT: A3	£5m per institution	12 mths
Good, Medium grade, moderate credit risk	ST: F2 LT: BBB	ST: P-2 LT: Baa1	£10m per banking group	6 mths
Building Societies which have assets in excess of £10 billion	N/A	N/A	£12m per Building Society	12 mths
Building Societies which have assets in excess of £5 billion	N/A	N/A	£10m per Building Society	6 mths
Building Societies which have assets in excess of £1 billion	N/A	N/A	£5m per Building Society	3 mths

Ratings determine limits except for nationalised, semi-nationalised and local authorities.

Unrated subsidiaries can be used providing there is an unconditional guarantee from a rated parent.

Rating Symbols

Gradations of creditworthiness are indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same.

Moody - The Moody's rating scale runs from a high of Aaa to a low of C, and comprises of 21 notches. It is divided into two sections; investment grade and speculative grade. The lowest investment grade rating is Baa3. The highest speculative grade rating is Ba1.

Fitch - The Fitch rating scale runs from a high of AAA to a low of D, and comprises of 21 notches. It is divided into two sections; investment grade and speculative grade. The lowest investment grade rating is BBB. The highest speculative grade rating is BB. Thus, the use of credit ratings defines their function: "investment grade" ratings (international long-term 'AAA' - 'BBB' categories; short-term 'F1+' - 'F3') indicate a relatively low probability of default, while those in the "speculative" or "non-investment

grade" categories (international long-term 'BB' - 'D'; short-term 'B' - 'D') may signal a higher probability of default or that a default has already occurred.

Fitch Rating	Moody Rating	Risk
Long term ratings (maturities of one year or greater)		
Investment Grade		
AAA	Aaa	Highest rating, representing lowest level of credit risk
AA+, AA, AA	Aa1, Aa2, Aa3	Very High grade, very low credit risk
A+, A, A-	A1, A2, A3	High (Fitch) Upper medium grade(Moody's), low credit risk
BBB	Baa1, Baa2, Baa3	Good, Medium grade, moderate credit risk
Speculative Grade		
BB+, BB, BB-	Ba1, Ba2, Ba3	Speculative elements, vulnerable to default
B+, B, B-	B1, B2, B3	Subject to high credit risk
CCC, CC+, CC,CC-	Caa1, Caa2, Caa3	Poor standing very high credit risk
DDD	Ca	Highly speculative, or near default
D+, D	C	Lowest rating, typically in default, little prospect for recovery of principal or interest
Short term ratings (maturities of less than one year)		
F1+	Prime-1 (P-1)	Superior ability to repay ST debt
F2	Prime-2 (P-2)	Strong ability to repay ST debt
F3	Prime-3 (P-3)	Acceptable ability to repay ST debt
B-D	Not Prime	Poor, risk of default

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APPENDIX 3

TREASURY MANAGEMENT PRACTICES – SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by the Council. There are no changes to practices from last year.

1. TMP1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

The Ministry of Housing, Communities and Local Government (MHCLG) issued Investment Guidance in 2010, and this forms the structure of the Council's strategy. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and ensure that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This Council adopted the Code on 10 February 2010 and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs).

1.1. LIQUIDITY

1.1.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to keep to a minimum the balance in the Council's main bank accounts at the close of each working day, in order to minimise the amount of bank overdraft interest payable, and maximise the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

1.1.2. Standby facilities

The Council has several instant access Money Market Funds and call accounts, where monies can be invested or withdrawn as required on the same day.

1.1.3. Bank arrangements

The balance held in Barclays can be up to the limit stipulated in the Credit and Counterparty Criteria list. A transfer called a 'sweep' can be made between the Barclays main bank account and a Barclays interest bearing account. The overdraft limit is £500,000, with an annual fee of £2,500 and interest is charged at 2%. An unauthorised overdraft will be charged at 3%. The overdraft is assessed on a group basis for the Council's accounts

1.2. INTEREST RATE

1.2.1. Details of approved interest rate exposure limits

Please refer to Prudential Indicators Appendix 4.

1.2.2. Trigger points and other guidelines for managing changes to interest rate levels

Please refer to annual Treasury Strategy which will outline views for the year.

1.2.3. Minimum/maximum proportions of variable rate debt/interest

The maximum proportion of interest on borrowing which is subject to variable rate interest permissible is 50%.

The minimum proportion of interest on borrowing which is subject to variable rate interest permissible is 0%.

1.2.4. Minimum/maximum proportions of fixed rate debt/interest

The minimum proportion of interest on borrowing which is subject to fixed rate interest permissible is 50%.

The maximum proportion of interest on borrowing which is subject to fixed rate interest permissible is 100%.

1.2.5. Policies concerning the use of financial derivatives and other instruments for interest rate management

a) **Forward dealing (agreeing to invest money at a future date)**: Consideration will be given to arranging forward deals, dependent upon market conditions. Any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs. The policy for the use of derivatives is clearly detailed in the annual strategy. All forward dealing should have the approval of either the Section 151 Officer or the Deputy Section 151 Officer.

b) **Callable deposits**: Callable deposits are permitted subject to approval from the Section 151 Officer.

c) **LOBOS (borrowing under lender's option/borrower's option)**: The use of LOBOs is considered as part of the borrowing strategy. Any money borrowed for periods in excess of one month must be approved by either the Section 151 Officer, the Deputy Section 151 Officer or a Finance Manager.

1.3. EXCHANGE RATE

1.3.1. Approved criteria for managing changes in exchange rate levels

Exchange rate risk will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Northumberland County Council rarely deals with foreign currency so an exposure to exchange rate risk will be extremely minimal.

On rare occasions where investments are not made in sterling, advice on the risk to exchange rate fluctuations will be sought from the Council's bankers and other professionals as necessary.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange

transactions will be considered, with professional advice. The unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity, unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

1.4. INFLATION

1.4.1. Details of approved inflation exposure limits for cash investments/debt

There is significant uncertainty with economic forecasts. Whilst short term investment rates are expected to remain low, borrowing rates are expected to rise very gently. Inflation is expected to return to around 2%.

The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

1.4.2. Approved criteria for managing changes in inflation levels

Inflation both current and projected will form part of the debt and investment decision making criteria within both the strategy and operational considerations.

1.5. CREDIT AND COUNTERPARTY POLICIES

1.5.1. Criteria to be used for creating/managing approved counterpartylists/limits

a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed.

b) Treasury management staff will decide which counterparties to use in line with the strategy on criteria for selection of counterparties. Changes to the Credit and Counterparty Criteria List will be included in the annual report, mid year report, or where necessary an ad hoc report to Council.

c) Credit ratings will be used as supplied from the following credit rating agencies:

- Fitch Ratings;
- Moody's Investors Services;

d) Treasury Management Advisors provide a weekly update of all ratings relevant to the Council, as well as any changes to individual counterparty credit ratings. This information is accessible on line via Link Asset Service's website - Passport.

e) No lending is allowed without prior approval.

f) Subsidiaries that do not have a credit rating in their own right may be used if they are guaranteed by a highly rated parent company.

g) The maximum value for any one investment transaction will be £35 million.

h) Investment in the building society sector should be limited to 30% of the average annual investment balances.

1.5.2. Approved methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Section 151 Officer is responsible for applying the credit rating criteria detailed in the Treasury Management Strategy Statement for selecting approved counterparties.

The Section 151 Officer will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria set out in the Treasury Management Strategy Statement. This is delegated on a daily basis to staff in the treasury management function.

1.6. REFINANCING

1.6.1. Debt/other capital financing maturity profiling, policies and practices

Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) The generation of cash savings at minimum risk;

b) To reduce the average interest rate;

c) To enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility).

d) To reduce the risk associated with the investment of surplus funds.

The Section 151 Officer has delegated authority to reschedule current long-term debt and to arrange the necessary borrowings within the following remit:

a) The maximum amount of outstanding borrowing shall be as stated in the prudential indicators.

b) Within that sum the maximum amount of short term borrowing is 25%.

c) The limit on the proportion of borrowings on which interest is payable at variable rates is 50%,

The Council will seek to limit refinancing exposure by ensuring that no more than 25% of the loan portfolio matures in any one year.

1.6.2. Projected capital investment requirements

As part of the annual budget setting process a three year plan for capital expenditure for the Council is produced. The capital plan will be used to prepare a three year revenue budget for asset rentals which include loan charges for

principal repayments, interest and expenses. These take account of the plans for capital expenditure, loan repayments and forecasts of interest rate changes.

1.6.3. Policy concerning limits on revenue consequences of capital financing

The Prudential Code supports local authorities in determining their Capital Programmes, within the clear framework that the plans are affordable, prudent and sustainable. To demonstrate that local authorities fulfil these criteria the Code sets out indicators that must be used.

A number of these Prudential Indicators are relevant to setting an integrated Treasury Management Strategy. The indicators are set on a rolling basis, for the forthcoming financial year and two successive financial years. Please refer to the prudential Indicators contained within Appendix 4.

1.7. LEGAL AND REGULATORY

1.7.1. References to relevant statues and regulations

The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:

a) CIPFA's Treasury Management Code of Practice (revised 2009, 2011 and 2017)

b) The Prudential Code for Capital Finance in Local Authorities 2003 (revised 2009, 2011 and 2017)

c) CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities

d) CIPFA Standard of Professional Practice on Treasury Management

e) Local Government Act 2003 (revised 2010)

f) The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

g) Council's Constitution relating to Contracts

h) Council's Finance and Contract Rules

i) Council's Scheme of Delegations

j) The Bribery Act 2010

1.7.2. Procedures for evidencing the organisation's powers/authorities to counterparties

The Council will prepare, adopt, and maintain, as the cornerstone for effective treasury management:

a) A Treasury Management Strategy Statement, stating the overriding principles and objectives of its treasury management activities; and,

b) The Annual Investment Strategy.

1.7.3. Required information from counterparties concerning their powers / authorities

Lending shall only be made to counterparties which meet the criteria set out in the Credit and Counterparty Criteria List.

Northumberland County Council hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Conduct Authority under the provisions of the Financial Services and Markets Act 2000.

1.7.4. Statement on the organisation's political legislative or regulatory risks

The Council recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

1.8. FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

1.8.1. Details of systems and procedures to be followed, including internet services

a) Authority:

- Loan procedures are defined in the Council's Financial Regulations.
- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by authorised persons within the Corporate Finance team.

b) Occurrence:

- Detailed register of loans and investments is maintained on Excel spreadsheets in the Corporate Finance section. This is reconciled to the ledger balance.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend, invest or borrow.
- Written confirmation is received from the lending, investment or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

c) Completeness:

- The loans register spreadsheet is updated to record all lending and borrowing. This includes the date of the transaction, interest rates etc.

d) Measurement:

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the senior accountant responsible for Treasury Management.
- A senior accountant calculates periodic interest payments of loans. This is used to check the amount paid to these lenders.

e) Timeliness:

- The Treasury Management spreadsheet prompts the treasury management officer that money borrowed or invested is due to be repaid.

f) Regularity:

- Investments and loans are only made to institutions which meet the Credit and Counterparty Criteria List.
- All loans and investments raised and repayments made go directly to and from the Council's bank account.
- Authorisation limits are set for every institution by the Credit and Counterparty Criteria List. Brokers have a list of named officials authorised to perform investment transactions.
- There is adequate insurance cover for employees involved in loans management and accounting.
- There is a separation of duties in the Section between the authorisation of transactions and their execution.
- The bank reconciliation is carried out monthly from the bank statement to the financial ledger by a senior accountant and checked by a Finance Manager.

g) Security:

- Barclays Net can only be accessed by users using their individual security card and PIN through a card reader.
- Payments are checked and authorised by an agreed bank signatory. The list of signatories having previously been agreed with the current provider of our banking services.

h) Substantiation:

- A quarterly reconciliation is carried out matching transactions from the treasury management spreadsheets to the financial ledger codes.

1.8.2. Emergency and contingency planning arrangements

Barclays Net online can be accessed on a number of PCs and mobile devices which have the necessary software installed. All spreadsheets are held on the shared drive and therefore can be accessed by other PCs if necessary. If Barclays Net cannot be accessed cash balances can be obtained from Barclays

Bank via e-mail. CHAPs payments, which are normally input directly into Barclays Net by the income section, can be faxed, emailed or delivered to the bank for processing.

1.8.3. Insurance details

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees. The excess for Fidelity guarantee is £5,000. The Council also has a 'Professional Indemnity' insurance policy with Zurich Municipal which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £5 million (named departments) for any one event with an excess of £25,000 for any one event with the exception of legal services where the limit is £1,000,000 with an excess of £1,000 for any one event.

The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal.

1.9. MARKET VALUE OF INVESTMENTS

1.9.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDS etc.)

In order to minimise the risk of fluctuations in the capital value of investments, capital preservation is set as the primary objective.

2. TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS

2.1. METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

Northumberland County Council is a member of the CIPFA and Link Asset Services benchmarking clubs. Comparisons will be made with a number of similar authorities. The Council's treasury management consultant will carry out a regular health check of the treasury management function.

2.2. POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT

2.2.1. Frequency and processes for tendering

Tenders are normally awarded on a five yearly basis. The process for advertising and awarding contracts will be in line with the Council's Financial Regulations.

2.2.2. Banking services

Banking services will be tendered for every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3. Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An

approved list of brokers will be established which takes account of both price and quality of services.

2.2.4. Advisers' services

This Council's policy is to appoint professional treasury management advisors.

2.2.5. Policy on External Managers (Excluding Superannuation Funds)

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

2.3. METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES

Performance is measured against Annual Treasury Management Strategy Statement targets.

a) Compliance with CIPFA Code of Treasury Practice.

b) Expenses contained within approved budget.

c) Review of benchmarking club data.

2.4. BENCHMARKS AND CALCULATION METHODOLOGY

2.4.1. Debt management

a) Average rate on all external debt.

b) Average period to maturity of external debt.

c) Average rate on external debt borrowed in previous financial year.

2.4.2. Investment

The performance of in-house investment earnings will be measured against 7 day LIBID, (London Inter-Bank Bid Rate). Performance will also be measured against other local authority funds with a similar benchmark.

3. TMP3 DECISION-MAKING AND ANALYSIS

3.1. FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS / TECHNIQUES:

3.1.1. Records to be kept

a) All loan transactions are recorded in a spreadsheet.

b) Daily cash projections.

c) Telephone/e-mail rates.

d) Dealing slips for all money market transactions – including rate changes.

e) PWLB loan schedules.

f) Temporary loan receipts.

g) Brokers confirmations for deposits/investments.

3.1.2. Processes to be pursued

a) Cash flow analysis.

b) Maturity analysis.

c) Ledger reconciliations

d) Review of borrowing requirement.

e) Comparison with prudential indicators.

f) Monitoring of projected loan charges and interest and expenses costs.

g) Review of opportunities for debt rescheduling.

3.1.3. In respect of every decision made the organisation will:

a) Above all be clear about the nature and extent of the risks to which the organisation may become exposed;

b) Ensure that decisions are in accordance with the approved Treasury Management Strategy;

c) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorisations to proceed have been obtained;

d) Be content that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests, and to deliver good housekeeping;

e) Ensure that third parties are judged satisfactory in the context of the organisation's creditworthiness policies, and that limits have not been exceeded;

f) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.4. In respect of borrowing and other funding decisions, the organisation will:

a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund;

b) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;

c) Consider the alternative interest rate bases available, the most appropriate periods to fund, and repayment profiles to use;

d) Consider the on-going revenue liabilities created, and the implications for the Council's future plans and budgets.

3.1.5. In respect of investment decisions, the organisation will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;

b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

4. TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1. APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

a) Borrowing;

b) Lending;

c) Debt repayment and rescheduling;

d) Consideration, approval and use of new financial instruments and treasury management techniques;

e) Managing the underlying risk associated with the Council's capital financing and surplus funds activities;

f) Managing cash flow;

g) Banking activities.

4.2. APPROVED INSTRUMENTS FOR INVESTMENTS

All investments will be made following the Approved Credit and Counterparty Criteria List.

Investments can be made through one of the following:

a) The Council's bankers;

b) The SunGard Portal or other online portals;

c) Direct with banks and financial institutions;

d) One of the Council's approved brokers shown in TMP 11.

All cash investments should be arranged by telephone call or e-mail to the above organisations and the borrower concerned will confirm each transaction. An authorised CHAPS payment form is then input into the Bank's electronic system by the Cashiers section and confirmation given that the transaction has been completed.

Derivative instruments. If the Council intends to use these instruments for the management of risk, these will be limited to those set out in its Annual Treasury Management Strategy, and the council will seek proper advice and consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

4.3. APPROVED BORROWING TECHNIQUES

a) Market loans including LOBOs

b) PWLB

c) Local authorities

4.4. APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	*	*
EIB	*	*
Market (long-term)	*	*
Market (temporary)	*	*
Market (LOBOs)	*	*
Stock issues	*	*
Local temporary	*	*
Local Bonds	*	
Overdraft		*
Negotiable Bonds	*	*
Internal (capital receipts & revenue balances)	*	*
Commercial Paper		
Medium Term Notes	*	
Leasing (not operating leases)	*	*

Other Methods of Financing

Government and EC Capital Grants

Lottery monies

PFI/PPP

Operating leases

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Section 151 Officer has delegated powers in accordance with Financial Regulations, and the Scheme of Delegation to Officers Policy; and, the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

5. TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1. LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/POLICY BOARD LEVELS

a) Full Council will receive and approve reports on treasury management policies, practices and activities, the annual treasury management strategy and annual report on debt rescheduling.

b) The Section 151 Officer will be responsible for amendments to the organisation's adopted clauses, treasury management strategy statement and treasury management practices. A formal report will be put to Cabinet to approve any formal amendments.

c) The Section 151 Officer will approve the segregation of responsibilities.

d) The Section 151 Officer will receive and review external audit reports and make recommendations to the Audit Committee.

e) Approving the selection of external service providers and agreeing terms of appointment will be decided by the Section 151 Officer in accordance with Financial Regulations.

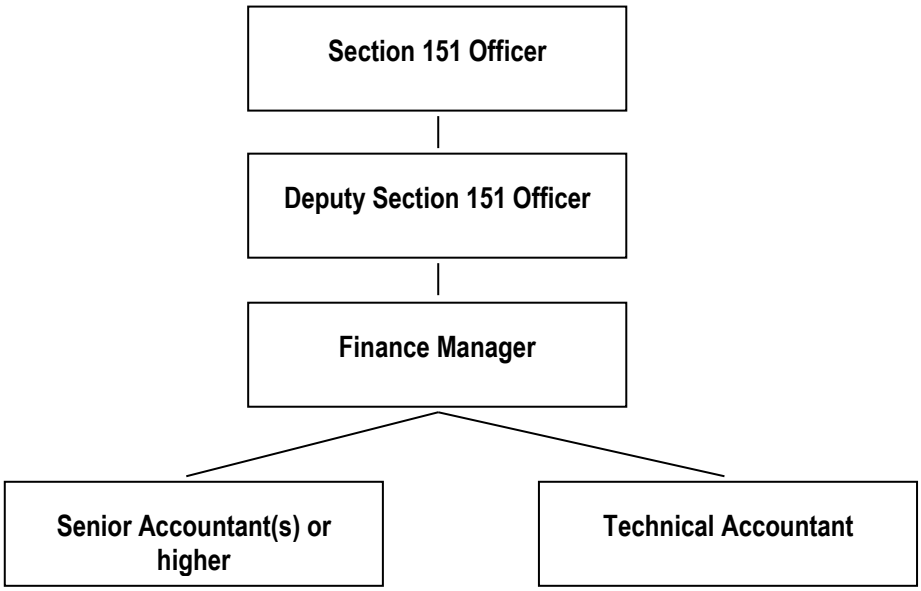
5.2. PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

a) The Section 151 Officer will authorise all new long-term borrowing.

b) Transactions relating to pre-existing agreements are delegated to the senior accountant responsible for treasury management.

c) Short-term borrowing and investment are authorised by the Section 151 Officer, Deputy Section 151 Officer, or, in their absence, a Finance Manager.

5.3. TREASURY MANAGEMENT ORGANISATION CHART



5.4. STATEMENT OF DUTIES/RESPONSIBILITIES FOR EACH TREASURY POST

5.4.1. Portfolio Holder for Corporate Services

a) The Portfolio Holder for Corporate Services has primary political responsibility for Treasury Management strategy and will be regularly briefed on Treasury Management performance and proposed policy changes by the Section 151 Officer.

b) The Portfolio Holder for Corporate Services has the right to recommend to the Section 151 Officer that a particular transaction should go to the Risk Appraisal Panel.

c) The Portfolio Holder for Corporate Services may attend Audit Committee.

5.4.2. Section 151 Officer

The Section 151 Officer will:

a) Recommend clauses, treasury management strategy / practices for approval reviewing the same on a regular basis, and monitoring compliance;

b) Prepare treasury management strategy reports as required;

c) Prepare budgets and budget variations in accordance with Financial Regulations and guidance;

d) Review the performance of the treasury management function and promote best value reviews;

e) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

f) Ensure the adequacy of internal audit, and liaison with external audit;

g) Appoint external service providers in accordance with the Council's Financial Regulations.

h) Ensure preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.

i) Ensure the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.

j) Ensure 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.

k) Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.

l) Ensure 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.

m) Ensure 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.

n) Provide members with a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees, as appropriate.

o) Ensure that members are adequately informed and understand the risk exposure taken on by an authority.

p) Ensure that the authority has adequate expertise, either in house or externally provided, to carry out the above.

q) Produce Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

   (i) Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

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

   (iii) 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;

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

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

r) Have delegated power through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

s) May delegate his power to borrow and invest to members of his staff; the Deputy Section 151 Officer and Finance Managers. All transactions must be authorised by a named officer above.

t) Ensure that the Strategy is adhered to, and if not will bring the matter to the attention of elected Members as soon as is possible.

u) Prior to entering into any capital financing, lending or investment transaction, be responsible to ensure that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

v) Be responsible to ensure that the Council complies with the requirements of The Non-Investment Products Code for principals and broking firms in the wholesale markets.

5.4.3. Senior Accountants responsible for treasury management

The responsibilities of this post will be:

a) Monitoring performance and market conditions on a day-to-day basis;

b) Recommend investments and borrowing transactions;

c) Execution of transactions;

d) Adherence to agreed policies and practices on a day-to-day basis;

e) Maintaining relationships with third parties and external service providers;

f) Identifying and recommending opportunities for improved practices.

5.4.4. Technical Accountant

a) Review and recommend investments and borrowing transactions;

b) Maintaining relationships with third parties and external service providers;

c) Identifying and recommending opportunities for improved practices;

d) Produce the annual Treasury Management Strategy, Capital Strategy, Outturn and Mid-year review reports.

5.4.5. Finance Manager

The responsibilities of this post will be:

a) Line management of the Technical Accountant and Senior Accountant(s) responsible for treasury management;

b) Review and recommend investments and borrowing transactions;

c) Authorise CHAPS payments;

d) Adherence to agreed policies and practices on a day-to-day basis;

e) Maintaining relationships with third parties and external service providers;

f) Monitoring performance on a day-to-day basis;

g) Identifying and recommending opportunities for improved practices;

h) Reviewing the annual Treasury Management Strategy, Capital Strategy, Outturn and Mid year review reports

5.4.6. Chief Legal Officer (in the role of monitoring officer)

The responsibilities of this post will be:

a) to ensure compliance by the Section 151 Officer with the Treasury Management Strategy statement and treasury management practices and that these practices comply with the law;

b) to be satisfied that any proposal to vary treasury strategy or practice complies with law or any code of practice;

c) to provide advice to the Section 151 Officer when advice is sought.

5.4.7. Internal Audit

The responsibilities of Internal Audit will be:

a) to review compliance with approved policy and procedures;

b) to review division of duties and operational practice;

c) to assess value for money from treasury activities;

d) to undertake probity audit of treasury function.

5.5. ABSENCE COVER ARRANGEMENTS

In the absence of the Senior Accountant(s) responsible for treasury management, another accountant in the Corporate Finance section with treasury management training / experience will perform the daily cash flow tasks.

5.6. DEALING LIMITS

Persons authorised to deal are identified at 5.4. above and dealing limits are as the Scheme of Delegation for Officers.

5.7. LIST OF APPROVED BROKERS

A list of approved brokers is maintained and is shown in TMP11.

5.8. POLICY ON BROKERS' SERVICES

It is the Council's policy to divide business between brokers.

5.9. POLICY ON TAPING OF CONVERSATIONS

It is not Council policy to tape brokers' conversations.

5.10. DIRECT DEALING PRACTICES

The Council deals direct if appropriate contacts are established, and if it is advantageous to the Council.

5.11. SETTLEMENT TRANSMISSION PROCEDURES

For each transaction a CHAPS form is completed and signed by an agreed bank signatory. The transfer is then processed by Cashiers, through the Barclays on-line banking system. This is to be completed by 3.30 pm on the same day.

5.12. DOCUMENTATION REQUIREMENTS

For each deal undertaken details of dealer, amount, period, counterparty, interest rate, dealing date, payment date, broker, and credit ratings should be recorded. This should be reviewed and authorised in writing or e-mail by either the Section 151 Officer, the Deputy Section 151 Officer or a Finance Manager.

6. TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1. ANNUAL REPORTING REQUIREMENTS BEFORE THE START OF THE YEAR

a) The Treasury Management Strategy statement and practices sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Council for approval before the commencement of each financial year.

b) The Council must approve the Prudential Indicators.

c) The Council must approve the Minimum Revenue Provision Policy.

6.2. REPORTING REQUIREMENTS DURING THE YEAR

a) A mid year review of the strategy statement

b) Any variations to the agreed Treasury Management policies and practices will be reported to the Council at the earliest practicable meeting

6.3. ANNUAL REPORTING REQUIREMENT AFTER THE YEAR END

An annual report will be presented to the Council at the earliest practicable meeting after the end of the financial year, but in any case, by the end of September. This report will include the following:

a) Transactions executed and their revenue effects;

b) Report on risk implications of decisions taken and transactions executed;

c) Monitoring of compliance with approved policy, practices and statutory/regulatory requirements;

d) Performance report;

e) Report on compliance with CIPFA Code recommendations.

7. TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1. STATUTORY/REGULATORY REQUIREMENTS

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in England and Wales that is recognised by statute as representing proper accounting practices.

7.2. ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in England and Wales. The Council adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services' (the 'CIPFA Code and Guide'), together with those of its specific recommendations that are relevant to this organisation's treasury management activities.

7.3. SAMPLE BUDGETS / ACCOUNTS

The Senior Accountant(s) responsible for treasury management will prepare an annual budget for the treasury management function, which will bring together all the costs involved in running the function, together with associated income.

7.4. LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

a) Reconciliation of loans, investments, interest, premiums and discounts to financial ledger.

b) Confirmation of loans and investments balances.

c) Maturity analysis of loans outstanding.

d) Annual Treasury Report.

e) Calculation of Revenue Interest.

f) Analysis of accrued interest.

8. TMP8 CASH AND CASH FLOW MANAGEMENT

8.1. ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates.

8.2. LISTING OF SOURCES OF INFORMATION

Estimated cash flow details are compiled using:

a) Schedule of Payment of Revenue Support Grant and National Non-domestic rates; CLG income;

b) Schedule of Payment of the Dedicated Schools grant from Department for Children, Schools and Families (DCSF);

c) Revenues payments dates and amounts;

d) Notifications from the Business Support section of any significant grants expected during the year;

e) Schedule of payroll payment dates supplied by the Employee services section with an estimated amount based on the previous years payments;

f) Loan repayments spreadsheet;

g) An estimated figure for creditor payments, based on previous patterns of expenditure. More accurate figures can be obtained two days before payment based on the Creditor BACs figure.

8.3. BANK STATEMENT PROCEDURES

Payments by CHAPs, Direct Debits, standing orders and imprest accounts are now input by Accounts Payable directly to e-business rather than by journal which gives greater transparency and segregation of duties.

8.4. PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments.

8.5. ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

a) The Accounts Receivable section provides monthly statistics of outstanding debtors to Directors who take appropriate action regarding the outstanding debt

b) The Accounts Payable section provides monthly statistics of invoice performance to Directors who take appropriate action.

8.6. PROCEDURES FOR BANKING OF FUNDS

All money received by an officer on behalf of the Council will without unreasonable delay be paid into the Council's bank accounts. No deductions may be made from such money save to the extent that the Section 151 Officer may specifically authorise.

9. TMP9 MONEY LAUNDERING

9.1. PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

The Council does not usually accept loans from individuals. All material loans are obtained from the PWLB, other local authorities or from authorised institutions under the Banking Act 1987: the Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website on www.fca.gov.uk.

9.2. METHODOLOGIES FOR IDENTIFYING SOURCES OF DEPOSITS

In the course of its Treasury activities, the Council will only lend money to, or invest with, those counterparties that are on its approved lending list.

10. TMP10 TRAINING AND QUALIFICATIONS

10.1. STAFF QUALIFICATIONS

The daily treasury management function will be performed by a qualified accountant or a senior accountant (unqualified) holding a Certificate in International Treasury Management Public Finance, under the supervision of a qualified accountant.

10.2. STAFF TRAINING

New staff will receive in-house on the job training before they commence their duties. Existing staff will attend treasury management seminars, at least annually, to keep up to date with changes in regulations and current practices. Additional staff training needs will be identified as part of the training needs analysis undertaken during Staff Appraisals.

10.3. THE SECTION 151 OFFICER

The Section 151 Officer is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

10.4. MEMBER TRAINING

All members should have an appropriate level of training within a year of taking office. Members of the Audit Committee received training in October 2018, and it will be periodically updated or provided where membership changes. This will be carried out in-house in conjunction with the Council's treasury management advisors.

11. TMP11 USE OF EXTERNAL SERVICE PROVIDERS

11.1. DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

11.1.1. Banking services

i) Name of supplier of service is Barclays Bank plc. The branch address is:

38 Bridge Street

Morpeth

Northumberland

NE61 1NL

ii) Initial contract commenced 1 June 2015.

iii) The initial contract was for 5 years which has been extended until 31 May 2021.

iv) Cost of service is variable depending on schedule of tariffs and volumes

11.1.2. Money-broking and Custodian services

Name of supplier of service:

i) Sterling International Brokers Ltd

10 Chiswell Street

London, EC1Y 4UQ

ii) ICAP Europe Ltd

2 Broadgate,

London, EC2M 7UR

iii) Tullet Prebon (UK) Limited

155 Bishopsgate,

London, EC2N 3DA

iv) Tradition (UK) Ltd

Beaufort House,

15 St Botolph Street,

London, EC3A 7QX

v) King and Shaxson Ltd

Candlewick

120 Cannon Street

London, EC4N 6AS

vi) Barclays Bank PLC

Barclays Stockbrokers,

Tay House,

300 Bath Street,

Glasgow, G2 4LH.

vii) Link Asset Services

65 Gresham Street

London, EC2V 7NQ

viii) BGC Brokers L.P.

One Churchill Place

London, E14 5RD

ix) Imperial Treasury Services Ltd

5 Port Hill

Hertford, SG14 1PJ

x) Munix Ltd

9 Ainslie Place

Edinburgh, EH3 6AS

xi) RP Martin Ltd

1 Snowden St,

London, EC2A 2DQ

11.1.3. Consultants'/advisers' services

Treasury Consultancy Services

i) Name of supplier of service is

Link Asset Services

65 Gresham Street

London

EC2V 7NQ

Website: www.linkassetservices.com

The initial contract was for 3 years which has been extended until July 2020.

11.1.4. External Fund Managers

None at present.

Other professional services may be employed on short term contracts as and when required.

11.2. PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

Tenders are normally awarded on a five-yearly basis. The process for advertising and awarding contracts will be in line with the Financial Regulations See TMP2.

12. TMP12 CORPORATE GOVERNANCE

12.1. LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

Annual Statement of Accounts

Annual Budget

Treasury Management Policy

Treasury Management Strategy

Annual Treasury Report

CAPITAL PRUDENTIAL INDICATORS 2021-22 to 2023-24

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

The Local Government Act 2003 requires all local authorities to have regard to the Prudential Code for Capital Finance. The Code states that a soundly formulated capital programme must be driven by the desire to provide high quality, value for money public services. As a consequence, the Code recognises that in making its decisions to make capital investment, the Council must have regard to:

- affordability (e.g. implications for Council Tax);
- prudence and sustainability (e.g. implications for external borrowing);
- option appraisal;
- asset management planning;
- strategic planning for the Council;
- achievability of the forward plan.

The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. To demonstrate local authorities have fulfilled these objectives, the Code sets out the indicators that must be used and the factors that must be taken into account.

Under the Prudential Code for Capital Finance in Local Authorities, local authorities determine their own level of capital expenditure.

Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans.

Capital Expenditure	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Adult Services	1.520	4.140	4.320	4.000
Children's Social Care	0.361	0.900	0.900	0.000
Economy and Regeneration	11.206	68.968	108.023	65.747
Finance	19.684	37.264	20.832	16.036
Fire and Rescue Service	0.717	2.142	1.801	0.000
Housing - GF	0.561	0.489	0.400	0.000
Housing - HRA	8.602	32.479	27.334	19.792
IT	5.018	8.727	1.400	0.750
Leisure Services	10.224	25.370	10.847	0.000
Neighbourhood Services	8.461	10.339	4.891	5.452
Property Services	5.439	12.930	13.347	5.536
Renewable Energy	1.359	2.174	1.257	0.000
Schools	51.789	24.566	38.761	47.484
Technical Services / Local Services	48.092	60.061	34.950	23.229
Total Capital Expenditure	**173.033**	**290.549**	**269.063**	**188.026**

The table below summarises how the above capital expenditure is being financed.

Capital Funding	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Capital Receipts	6.482	3.980	2.877	2.707
External Grants	65.855	109.226	133.595	73.289
GF Borrowing	93.672	150.964	109.178	94.590
GF Contributions	0.904	0.755	0.755	0.755
HRA Borrowing	0.000	0.000	12.824	3.750
HRA Contributions	6.120	25.624	9.833	12.935
Total Capital Funding	**173.033**	**290.549**	**269.063**	**188.026**

Capital Financing Requirement - the Council's borrowing need

The Capital Financing Requirement (CFR) is the Council's underlying need to borrow for a capital purpose.

All the capital assets the Council has ever bought will have been in part paid for by capital receipts, grants and revenue contributions. The remaining part which has not yet been paid for through revenue or capital resources is described as the CFR. In this respect it could be viewed like a mortgage. You have paid for the house (assets), have some equity in it (capital receipts etc.), but have not yet paid off the mortgage (CFR).

The CFR increases each year by capital spend, and decreases by both capital financing (capital receipts, grants etc.) and an annual revenue charge called the Minimum Revenue Provision (MRP).

The CFR shown below, which includes other long term liabilities such as PFI and leasing arrangements, is increasing by £257.239 million over the next three years and is shown below.

The Council is asked to approve the following CFR projections.

Capital Financing Requirement (CFR)	**2019-20 Actual £m**	**2020-21 Estimate £m**	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**
General Fund CFR	895.457	948.313	1,064.445	1,138.645	1,188.978
HRA CFR	104.821	104.821	104.821	117.645	121.395
Overall CFR	**1,000.278**	**1,053.134**	**1,169.266**	**1,256.290**	**1,310.373**
Movement in Year		52.856	116.132	87.024	54.083

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.

Ratio of financing costs to net revenue stream	**2019-20 Actual %**	**2020-21 Estimate %**	**2021-22 Estimate %**	**2022-23 Estimate %**	**2023-24 Estimate %**
General Fund	7.8	8.3	10.5	10.9	12.4
HRA	12.8	11.1	10.6	10.7	10.8

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

Authorised Limit for External Debt

This is an important indicator, as it is part of the Local Government Act 2003 requirements.

The Authorised Limit is the maximum amount the Council could afford to borrow in the short term but would not be sustainable in the long term. It should be set at the expected borrowing position, plus any expectations for borrowing in advance of need, plus some headroom to cope with the unexpected.

It is set as an assessment of how much the Council may need to borrow above expectations if an unforeseen incidence happened. This could be the delay in a large capital receipt, the failure of the Council Tax system etc., something that upsets the cash flow but will be corrected over time.

So the Authorised Limit, if set properly, is an alarm mechanism that, if breached, means there is a problem with the Council's finances.

The Council is asked to approve the following Authorised Limit:

Authorised Limit	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**
Borrowing	1,251.294	1,523.750	1,491.806
Other long term liabilities	79.239	74.709	75.667
Total	**1,330.533**	**1,598.459**	**1,567.473**

Operational Boundary for External Debt

Whilst the Authorised Limit is an overall cap on borrowing, the Operational Boundary is where the Council would expect its borrowings to be. It is only a guide and may be breached or undershot without significant concern, as borrowings will be driven by economic and market considerations as well as interest rates.

The Council is asked to approve the following Operational Boundary:

Operational Boundary	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**
Borrowing	1,042.745	1,269.792	1,243.172
Other long term liabilities	66.032	62.257	63.055
Total	**1,108.777**	**1,332.049**	**1,306.227**

Treasury Management Limits on Activity

There are two debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- 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.
- Limit on Investments for longer than 365 days.

Maturity Structure of Borrowing

Setting limits for the maturity structure of debt ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of maturing debt is not ending at a time when interest rates for refinancing the debt may be high.

Maturity Structure of fixed rate borrowing during 2021-22	Upper Limit %	Lower Limit %
Under 12 months	25	0
1 year - 2 years	40	0
2 years within 5 years	60	0
5 years within 10 years	80	0
10 years and above	100	0

Maturity Structure of variable rate borrowing during 2021-22	Upper Limit %	Lower Limit %
Under 12 months	35	0
1 year - 2 years	40	0
2 years within 5 years	60	0
5 years within 10 years	80	0
10 years and above	100	0

Investments for periods longer than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator:

Maximum principal sums invested which can be held for over 365 days	**2021-22 £m**	**2022-23 £m**	**2023-24 £m**
Principal sums invested > 365 days	120	120	120

Supplementary Indicator - Internal Borrowing

The following indicator identifies the estimated level of internal borrowing, i.e. the extent to which internal / investment balances are being used in lieu of borrowing externally (to fund the CFR, or overall need to borrow).

Internal Borrowing	**2021-22 %**	**2022-23 %**	**2023-24 %**
Estimated % of CFR (exc. PFI) funded from internal borrowing – Average for Year	16.6	14.0	13.1

Please note, the above indicator is not specifying a limit. It simply identifies, for information purposes, the assumed internal borrowing position that has been used in calculating the revenue budget implications for the Council's treasury management activity.

The indicator identifies the interest rate risk exposure on this element of the borrowing need / requirement; i.e. beyond that attributable to actual external borrowing. The higher the percentage, the greater the potential risk.

The following table identifies the notional additional cost should the above internal borrowing need to be externalised – i.e. replaced with actual external loans:

Internal Borrowing – Notional Replacement Cost	**2021-22 £m**	**2022-23 £m**	**2023-24 £m**
Notional cost of externalising internal borrowing	4.373	3.830	3.970

Note the above (notional) cost is based on the estimated average external borrowing rate for each year. Again, the above indicator is not specifying a limit. It is simply for information purposes.

Northumberland
County Council

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT 2021-22

Background

Local authorities are required each year to set aside some of their revenues as provision for debt repayment. Previous regulations prescribed how much provision to make using a formula which was linked to prudential indicators. The system was simplified under the 2008 Regulations and authorities are now only required to make "prudent provision", based on guidance issued by the Department for Communities and Local Government.

The broad aim of prudent provision is to ensure debt is repaid over a period that is either reasonably equal with that over which the capital expenditure provides benefit; or, in the case of borrowing supported by Government Revenue Support Grant reasonably equal with the period implicit in the determination of that grant.

The Government's guidance offers four options for the calculation of the provision:

- Option One - Regulatory method: MRP charges are based on the same formula used in the previous regulations. This method should only be adopted for capital expenditure incurred before 1 April 2008. However, it may also be applied for any new capital expenditure that is deemed to be 'supported' as part of the Revenue Support Grant (RSG) settlement on the grounds that the MRP charge would be offset by the support included with the RSG.
- Option Two – Capital Financing Requirement (CFR) Method: A simplified version of option one which removes an adjustment in the original formula, known as Adjustment A, that ensured consistency with previous Capital Regulations. For most authorities this method would probably result in a higher level of provision than option one.
- Option Three – Asset Life Method: The MRP charge is aligned to the estimated life of the asset for which the borrowing is undertaken. This method is suggested for new borrowing for which no Government support is being given (i.e. unsupported borrowing), but can also be used for supported borrowing as well.
- Option Four – Depreciation Method: MRP is matched to the provision for depreciation. The result should be similar to option three.

The guidance suggests that from 2009-10 onwards MRP charges relating to non-government supported borrowing must be calculated using either method three or four.

The legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

Confirmation of Existing Policy

A continuation of the existing practise is proposed for 2021-22. The Council is therefore recommended to approve the following arrangements:

- For historic capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, MRP will be charged on a straight line basis over 50 years, as adopted in 2019-20.
- For all capital expenditure incurred after 1 April 2008 financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance.
- With regard to the Option 3 element, a fixed average asset life will be assumed and applied to the global in year unsupported borrowing / spend; rather than breaking this calculation down to spend on individual assets and their respective lives. The assumed life will be based on the historic weighted average life of all assets included in the Option 3 calculation for 2009-10 to 2014-15.
- For capital expenditure in respect of Long Term Capital Debtors, where principal is repaid over the term of the loan (such as the loans to Northumbria Healthcare NHS Foundation Trust), no MRP provision is made; but, the liability will be met by setting aside the associated receipt of the repayments. MRP will however be calculated for those Long Term Capital Debtors where principal is repaid on maturity and the loan term is greater than 5 years (such as the loans to Advance Northumberland).
- In order to allow increased flexibility to cope with future austerity, whenever resources are available and allow; additional voluntary set aside may also be made. Conversely, any advance provision from previous years may if needed be utilised to reduce the current year's MRP requirement (i.e. that which would otherwise be set aside). The level of each year's voluntary set aside, or reversal, will be delegated to the Section 151 Officer (or the Deputy Section 151 Officer), based on what is considered prudent and affordable for both existing resources and future forecasts.
- There is no requirement to provide minimum revenue provision in relation to the Housing Revenue Account.

Northumberland
County Council

CAPITAL STRATEGY 2021-22 TO 2023-24

1. BACKGROUND

1.1. Purpose and Aims of the Capital Strategy

The Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management Code of Practice and the Prudential Code requires authorities to have in place a capital strategy that sets out the long term context in which capital expenditure and investment decisions are made. The capital strategy should form a part of the authority's integrated revenue, capital and balance sheet planning.

The Council itself is also keen to ensure that its capital assets, and the resources tied up in them, are efficiently and effectively used. Accordingly, this capital strategy statement sets out the corporate aims and principles that underpin the production of the authority's capital programme.

Northumberland County Council's capital strategy will be reviewed on an annual basis to reflect the changing needs and priorities of the Council.

The Capital Strategy should be read in conjunction with the Capital Programme, Treasury Management Strategy Statement and Prudential Indicators detail in the Medium Term Financial Plan 2021-24 and Budget 2021-22.

The Council's capital strategy aims to support delivery of the Council's priorities insofar as they can be achieved within available resources. Some of this can be achieved by the Council on its own but much can be delivered by working with others including neighbouring authorities in the North of Tyne Combined Authority, partner authorities in the Borderlands initiative, stakeholders in Northumberland's mixed economy of education providers, North East Local Enterprise Partnership (NELEP), Northumbria Healthcare NHS Foundation Trust, the Council's wholly-owned economic development company Advance Northumberland, Active Northumberland and local communities.

Key priorities for application of capital expenditure are:

- Delivering policy ambitions;
- Exercising financial prudence, maintaining the level of capital investment and outstanding debt that are sustainable within the Council's revenue expenditure programme;
- Investing in schemes which will reduce the Council's revenue costs; and,

- Being alert to opportunities to lever external resources in delivering corporate priorities.

The Council's policy priorities are detailed in the Corporate Plan and include issues where capital investment will be required.

The Council is under no illusion that improving education performance represents its single biggest challenge and is committed to equipping all school leavers with the right skills, and, provide to them; and the wider workforce, the opportunity to grow and develop those skills. This will require leadership at all levels and throughout Northumberland's mixed economy of education providers.

The Council recognises that there is a need to increase the supply of both affordable and specialist supported housing, including extra care for older people. Northumberland's aspirations for an improved economy and its infrastructure go hand in hand, and the capital strategy aims to support the reopening of the Northumberland to Newcastle rail line in conjunction with partners in the North of Tyne Combined Authority to open up a new economic corridor unlocking commercial investment along its length. Northumberland is also continuing to press for further improvements to the A1 and A69 as well as investment in the Enterprise Zones in the county. The Council is exploring how it can best maintain the vibrancy of town centres and is keen to support progressive insertion of a full-fibre network and delivery of superfast broadband to all properties to ensure access to high-speed and reliable digital connectivity.

The Council is committed to investing in Northumberland's leisure and cultural assets and is willing to work with partners and communities in developing shared services and shared premises to support the retention of local meeting places such as community centres, village halls, post offices and public houses.

The County Council fully acknowledges that it has a significant role to play in maximising its contribution to the reduction of greenhouse gas emissions - both in reducing its own carbon footprint and in promoting and facilitating wider behaviour change through its local leadership.

It has committed to working with the Government to achieve carbon neutrality for the county of Northumberland by 2030.

In doing so, the Council's plans to accelerate and expand its programme of investment and behaviour change, with the target of having reduced its carbon footprint by 50% from the 2010 baseline by 2025.

The realisation of this target will require the Council to be at the forefront of testing and introducing new technologies and approaches.

1.2. The key objective of Northumberland's Capital Strategy

The key objective of the Capital Strategy is to deliver a capital programme that:

- Ensures the Council's capital assets are used to support the delivery of services according to the priorities within the Corporate Plan and the Council's vision;
- Is affordable, financially prudent and sustainable, and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the authority; and,
- Ensures the most cost effective use is made of existing assets and new capital investment.

The resources employed to deliver the capital strategy are allocated through the budget process that sets the three year rolling capital programme as part of the Medium Term Financial Planning and annual budget setting processes.

1.3. The Council's Corporate Objectives and Priorities

The capital budgets within the capital strategy should support the key priorities laid out in the Council's Corporate Plan. Each capital proposal is required to clearly demonstrate that the project links to the Council's five overarching priorities.

- **[Living] Feel safe, healthy, and cared for:** We are committed to ensuring that all of you feel safe, valued, and part of your community.
- **[Enjoying] Love where you live:** We are committed to ensuring that all of you live in distinctive vibrant places, which you value and in which you feel proud.
- **[Connecting] Have access to the things you need:** We are committed to ensuring that all of you can easily get to work, to learning, and to the various facilities and services you want to use.
- **[Learning] Achieve and realise your potential:** We are committed to ensuring that all of you, regardless of your age, have the right qualifications and skills to secure a good job that pays well and provides the prospect of a rewarding career.
- **[Thriving] Attract more and better jobs:** We are committed to ensuring that our businesses are booming by doing everything in our power to create the right conditions for economic growth. We want to be recognised as a county that is open for business.

2. APPROACH TO INVESTMENT PRIORITISATION

2.1. The Capital Programme

The capital programme for 2021-22 to 2023-24 is being updated as part of the 2021-22 budget setting process and is due to be considered at full Council on 24 February 2021.

Identification and prioritisation of Capital Investment needs

The basis of the Capital Programme is driven by the budget and service planning process. The size of the Capital Programme is determined by:

- The need to incur capital expenditure;
- Capital resources available; and,
- The revenue implications flowing from the capital expenditure.

As part of the budget planning process, services will be required to submit capital proposals which are considered by Members for investment decisions. The capital investment appraisal process will focus on:

- policy and strategic fit;
- value for money, cost/benefit context;
- affordability and resources;
- options appraisal;
- risk assessment; and,
- capability and capacity within the Council to manage and deliver a project.

Capital investment proposals will be presented for approval on the standard Capital Project Bid Appraisal form that includes the following sections:

- description of the project;
- project outcomes and outputs;
- key dates and milestones;
- costs of the scheme and funding sources;
- revenue implications;
- risks associated with the project; and,
- information on the project's fit with the Council's strategic priorities; and, implications of not proceeding.

2.2. Capital Projects Evaluation and Priority Scoring Matrix (PSM)

The Council has limited resources to meet the capital investment requirements of delivering quality services and contributing to its community leadership responsibilities. Elected Members ultimately determine the projects to be included within the capital programme but to assist the decision making process the Council has introduced a priority-scoring matrix. This identifies a number of weighted criteria against which potential capital projects are evaluated and compared:

- The contribution the project makes to achieving the Council's strategic priorities and organisational objectives. (max 40 points)

- The impact of the project on the Council's revenue budgets either as additional running costs or as a means of reducing costs. (max 25 points)
- The project's ability to assist in the implementation of a wider programme of investment, such as the proportion of externally generated funding attracted by the project. (max 10 points)
- The status of the project in terms of its contribution to meeting specific statutory obligations or Government initiatives. (max 5 points)
- The projects ability to meet the requirements of the Council's Asset Management Plan. (max 15 points)
- The project's contribution to addressing Non-Statutory Health and Safety recommendations from the Health and Safety Officer and Fire Officer. (max 5 points)
- The degree of risk associated with the project; the potential for overspending, slippage, funding not materialising, etc. (max 5 points)
- The level of internal resources required by the project. (max 20 points)

2.3. Assessment of proposals and timetable

The Council's policy is to agree the rolling capital programme on an annual basis at the February Council budget setting meeting.

Capital proposals will be submitted to the Corporate Finance Team, in the autumn of each year, as part of the budget setting process. The bids will be assessed and evaluated by a panel of officers from the Council's Capital Strategy Group (CSG), based on information set out in the capital appraisal form and scoring matrix as described above, before being submitted to Executive Team and then members for consideration and approval.

The timetable for capital proposals to be considered for inclusion within the approved capital programme is outlined below:

Date	Action
July – August	Services develop initial capital bids within Departmental Management Teams.
August - September	Bids submitted to Corporate Finance for review and assessment of available resources.
September - November	Officer Capital Strategy Group review, score and prioritise proposals using the Priority Scoring Matrix (PSM).
November	Executive Team considers the proposals and agrees a draft capital programme.

Date	Action
December	Corporate Finance finalise the draft capital programme and identify all revenue implications.
January - February	Cabinet considers and recommends the final capital programme to Council.
February	Council approves the capital programme.

2.4. Invest to save capital proposals

Service Departments are encouraged to consider innovation in service provision that can drive efficiency and deliver cashable savings. These are often referred to as invest to save projects. Invest to save bids will be considered on the same basis as other capital proposals, and need to demonstrate what savings and benefits will be achieved as a result of the proposed initiative. However, because the benefits of these schemes should outweigh the costs, there is a greater likelihood of these projects being prioritised and included in the capital programme.

2.5. Loans to External Bodies or Organisations

The Council's capital programme also includes provision to provide loan facilities to external bodies or organisations for activities that are aligned to, and support, Council service objectives and / or corporate priorities. Examples may include, supporting economic growth and improving the health and wellbeing of local communities.

There are statutory regulations which govern the accounting treatment of loans provided towards expenditure which would, if incurred by the Authority itself, be classified as capital expenditure.

Loans for these purposes will be subject to a financial appraisal and a series of due diligence checks, and will only be provided if the Council is fully satisfied of the borrower's ability to meet their obligations. Wherever possible, the Council will aim to mitigate its risks and exposure to default by seeking appropriate additional security from the borrower. This may often be in the form of a legal charge over the borrower's property / assets.

The rate of interest charged on these facilities will be dependent on the nature and structure of the individual loan and the assessed risks to the Council. However, loans would usually only be provided on the basis that there is no net cost to the Council. Individual business cases presented to Cabinet will highlight the relevant risks and propose an appropriate rate of interest for the loan facility.

In addition all loans will need to be State Aid compliant.

All loan applications are considered on a case by case basis and subject to a report to the Council's Risk Appraisal Panel, Corporate Services and Economic Growth Overview and Scrutiny Committee; and where a capital budget for this purpose has been approved, Cabinet will ultimately make the final decision. In instances where

there is no prior budget approval the business case will be considered through the same route but the final loan decision will be taken by Full Council.

The only exception to this is in respect of loans provided to Advance Northumberland, the Council's wholly owned economic development company, which is part of the Council's group structure. Approval of these facilities will be delegated to the Council's Loans Review Board which will comprise of the Cabinet Member for Corporate Services, the Section 151 Officer, the Deputy Section 151 Officer and the Treasury Management Finance Manager; subject to the budget provision set out in the Medium Term Capital Plan.

The Medium Term Capital Programme includes a provision of £59.126 million over the three years for loans to third parties.

2.6. Approvals outside of the normal budget setting process.

Any additional capital requirements within the year, and outside of the above budget process, must in the first instance be submitted to the Council's Executive Management Team for consideration. If supported by the Executive Management Team, a report must be taken through the Council's democratic process and on to County Council for approval and inclusion in that year's programme.

3. FUNDING SOURCES AND INVESTMENT DECISIONS

The main sources of capital funding are summarised below:

3.1. Borrowing

The Council seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received, and ensuring that any surplus assets are sold.

The Local Government Act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements, provided they have regard to the Prudential Code for Capital Finance in Local Authorities developed by CIPFA.

The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and, sustainable. To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out a series of indicators – known as the Prudential Indicators - the Council must consider as a part of its budget setting process.

3.2. Capital Receipts

A capital receipt is an amount of money exceeding £10,000, which is generated from the sale of an asset. Capital receipts are an important funding source for the capital programme.

The Council has a substantial property estate, mainly for operational service requirements and administrative buildings. This estate is managed through the Asset

Management Plan which identifies property requirements and, where appropriate, properties which are surplus to requirements and which may be disposed of.

Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or offset future debt or transitional costs.

The actual realisation, timing and value of asset sales are important, as any in-year shortfalls need to be met from increased borrowing. As a result, progress on asset disposal is closely monitored by Property Services.

The Council's policy is to treat all capital receipts as a corporate resource, enabling investment to be directed towards those schemes or projects with the highest corporate priority. This means that individual services are not reliant on their ability to generate capital receipts. The only exception to this is the Housing Revenue Account (HRA), where the Council's current policy is to ring-fence HRA derived proceeds for re-investment in HRA projects.

3.3. Revenue Funding

Capital expenditure may be funded directly from revenue. For example, funds are sometimes earmarked from individual schools' revenue budgets to supplement the capital resources allocated to school improvement and expansion projects.

However, pressures on the Council's revenue budget and Council Tax levels limit the extent to which this may, generally, be exercised as a source of capital funding.

3.4. Grant Funding and External Contributions

Grants are allocated in relation to specific programmes or projects and the Council will endeavour to maximise grant allocations, developing appropriate projects and programmes which reflect government and partnership led initiatives but address priority needs in the County.

The majority of "planned" capital expenditure for maintenance of transport infrastructure, school buildings and provision of Disabled Facilities are provided by appropriate grants.

Contributions will also continue to be sought from developers towards the provision of public or private assets or facilities. This will include agreements with developers to mitigate the impact of their development on communities (known as Section 106 agreements) as well as contributions towards Highways Infrastructure requirements associated with developments (known as Section 38 and 278 agreements).

The Council will continue to work with the other organisations to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. It will also continue to work with other public agencies to consider projects that are to the mutual benefit of all parties.

3.5. Consideration of Capital proposals attracting specific funding

Schemes attracting partial external funding will be assessed in the same way as those schemes which require 100% of funding from borrowing and will only be included within the capital programme if they meet the Council's needs, objectives and priorities. Schemes attracting 100% external funding would normally be included automatically within the capital programme; subject to confirmation of the external funding, confirmation that the projects fit with Council priorities and consideration of any associated revenue implications. A capital bid appraisal form still needs to be completed for these proposals.

4. REVENUE IMPLICATIONS - LINKS TO THE MEDIUM TERM FINANCIAL PLAN (MTFP), TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS

The impact of the revenue implications is a significant factor in determining approval of projects. All capital investment decisions consider the revenue implications both in terms of servicing the finance and the running costs of the new assets.

The use and financing of capital resources has been fully taken into account in the production of the Council's Annual Budget and Medium Term Financial Plan, and are reflected in both the Treasury Management Strategy Statement for 2021-22 and Prudential Indicators for 2021-22 to 2023-24.

5. MONITORING OF THE CAPITAL PROGRAMME DELIVERY

Officers monitor progress of the Capital Programme on a monthly basis with reports being submitted to Cabinet on a quarterly basis.

All processes and procedures relating to the monitoring of the capital programme are set out in the Council's Financial Regulations. The following are key controls:

- All capital expenditure must be carried out in accordance with contract procedure rules and financial regulations;
- The expenditure must comply with the statutory definition of "capital purposes" as interpreted in guidance issued by the Section 151 Officer;
- Once the scheme has been included in the capital programme following the budget setting process, a further report providing more detail and seeking specific approval must be submitted to Capital Strategy Group unless delegated approval applies; and,
- Officers must ensure that the budget for each capital project is under the control of a nominated project manager.

6. STEWARDSHIP OF ASSETS

The Council's Asset Management Plan sets out the condition of its assets and the arrangements for managing these effectively.

7. OVERVIEW OF THE CAPITAL PROGRAMME

Capital Expenditure	**2020-21 Estimate £m**	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**
Adult Services	1.520	4.140	4.320	4.000
Children's Social Care	0.361	0.900	0.900	0.000
Economy and Regeneration	11.206	68.968	108.023	65.747
Finance	19.684	37.264	20.832	16.036
Fire and Rescue Service	0.717	2.142	1.801	0.000
Housing - GF	0.561	0.489	0.400	0.000
Housing - HRA	8.602	32.479	27.334	19.792
IT	5.018	8.727	1.400	0.750
Leisure Services	10.224	25.370	10.847	0.000
Neighbourhood Services	8.461	10.339	4.891	5.452
Property Services	5.439	12.930	13.347	5.536
Renewable Energy	1.359	2.174	1.257	0.000
Schools	51.789	24.566	38.761	47.484
Technical Services / Local Services	48.092	60.061	34.950	23.229
Total Capital Expenditure	**173.033**	**290.549**	**269.063**	**188.026**

The table below summarises how the above capital expenditure is being financed by capital or revenue resources.

Capital Funding	**2020-21 Estimate £m**	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**
Capital Receipts	6.482	3.980	2.877	2.707
External Grants	65.855	109.226	133.596	73.289
GF Borrowing	93.672	150.964	109.178	94.590
GF Contributions	0.904	0.755	0.755	0.755
HRA Borrowing	0.000	0.000	12.824	3.750
HRA Contributions	6.120	25.624	9.833	12.935
Total Capital Funding	**173.033**	**290.549**	**269.063**	**188.026**

Northumberland
County Council

AUDIT COMMITTEE

27 January 2021

Northumberland County Council – Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2020

Report of Chris Hand, Executive Director of Finance

Cabinet Member: Councillor Nicholas Oliver – Cabinet Secretary and Portfolio Holder for Corporate Services

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1. Purpose of the Report

Northumberland County Council is required to assess whether it should be considered as a 'going concern' organisation, and whether the Council's annual accounts should be prepared on that basis. This report considers the Council's status as a going concern and recommends that Members approve this.

2. Recommendations

It is recommended that Members of the Audit Committee approve that:

- the Council is considered to be a going concern and that the accounts are prepared on that basis.

3. Key Issues

When preparing the annual statement of accounts, the Council complies with the Code of Practice on Local Authority Account 2019-20 (the Code), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the accounts be prepared on a going concern basis.

This means that the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future.

The assumption that a local authority's services will continue to operate for the foreseeable future is made because local authorities carry out functions essential to the local community and are themselves revenue raising bodies (with limits on their revenue raising powers arising only at the discretion of central government).

This report details the management consideration of Going Concern as at 31 March 2020, and beyond. The reasons for recommending that the Council be considered

as a going concern and that it is appropriate for the statement of accounts to be prepared on that basis are summarised below:

- The Code confirms that on the basis that local authorities 'cannot be created or dissolved without statutory prescription, it would not be appropriate for their financial statements to be provided on anything other than a going concern basis'.
- The financial position of the Council remains strong. The Council was able to set a balanced budget for 2020-21 and has a strong record of delivering within budget and achieving savings.
- As at 31 March 2020, the Council held general reserves of £56.928 million and reserves earmarked for specific future purposes, including those held for schools, of £122.814 million.
- The Council has a history of stable finance and ready access to financial resource in the future.
- There are no significant financial, operating, or other risks that would jeopardise the Council's continuing operation.
- The Covid-19 pandemic and subsequent national restrictions has had a significant impact on the operation of the Council and given rise to significant and exceptional costs, as well as loss of income. However, the Government have provided significant and ongoing financial support to local authorities and the Council has continued to provide services to its residents throughout the pandemic.

Based on the assessment undertaken, the Executive Director of Finance and Section 151 Officer's view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of known risks, and therefore the Council is a going concern and the Statement of Accounts should be and have been prepared on that basis.

4. Background

The general principles adopted in compiling the Statement of Accounts are in accordance with the Code of Practice on Local Authority Accounting 2019-20 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland, and Northern Ireland.

The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue to be in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to significantly curtail the scale of the operation.

An inability to apply the going concern concept can have a fundamental impact on the financial statements. In reality, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operation ceases to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current, and future performance.

Financial Position 2019-20

The Council has a strong record of delivering within budget and achieving savings.

In February 2019 the Council set its 2019-20 budget and identified savings of £12.798 million and the use of £1.928 million from the Strategic Management Reserve to support the budget.

The Council carries out frequent management accounts reporting to enable effective budget monitoring, to ensure that budget holders regularly assess delivery against budget and allow time for considered actions. Revenue monitoring has been reported on a quarterly basis to the Cabinet and the final revenue outturn position, subject to audit, was an underspend of £1.495 million after accounting for transfers to earmarked reserves and provisions of £0.878 million. This in turn increased the general fund reserve from £55.433 million to £56.928 million as at 31 March 2020.

Capital monitoring has been reported quarterly to the Cabinet and the final capital outturn position was an underspend of £10.307 million when compared to the revised budget of £149.853 million.

The Housing Revenue Account (HRA) outturn is an overspend of £0.548 million (after allowing for the transfer of £2.000 million to an earmarked reserve), which has been transferred from the HRA reserve, resulting in a reduction in the reserve balance to £28.264 million. The earmarked HRA reserve for supporting the delivery of the housing development plan is £4.000 million at 31 March 2020.

The HRA 30-year Business Plan specifically assesses the future sustainability of the HRA and is reviewed at least twice a year as part of the budget setting and final accounts processes. It is currently estimated that the HRA business plan is sustainable.

The financial position of the Council remains healthy. Net assets at 31 March 2020 amounted to £257.445 million (£276.487 million on a Group basis). This is a decrease of £96.607 million during 2019-20, which is mainly due to an increase in the estimated pension liability for employees of £90.270 million. This is calculated by the Pension Fund Actuary, and statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. In addition, there was an increase in long-term borrowing of £72.184 million, as maturing existing

loans were replaced and new loans taken out to support the capital programme. This was offset by an increase in short term investments of £72.067 million, mainly as a result of additional and accelerated Government grant funding, to address the Covid-19 pandemic, and income from borrowing earlier than anticipated to take advantage of attractive interest rates.

Medium-Term Financial Plan 2020-21 to 2021-22

The Council approved its budget for 2020-21 and Medium-Term Financial Plan (MTFP) 2021-22, in February 2020.

The Council has continued to effectively manage its resources during a period of increasing cost pressures and funding uncertainty. The future funding outlook for the public sector and local government is extremely uncertain and the impact of Covid-19 and the recovery from it will undoubtedly impact on the Council and its communities for a number of years.

The financial landscape for the Council is likely to remain challenging for the foreseeable future. The delay to the Comprehensive Spending Review means that there will be little certainty over the Council's longer-term funding outlook, and this will need to be carefully managed as the Council considers the recovery actions it needs to take and commit to. In addition, the Fair Funding Review and move to 75% Business Rate Retention have been delayed again with an earliest implementation date of 2022-23. The outcome of these reviews will determine the quantum of funding available to local government and the share available to the Council.

The Covid-19 outbreak has had a significant financial impact on the Council in 2020-21 and the recovery will take place over a number of years. The Council began to experience the impact of the outbreak in March 2020, following the national lockdown announced by the Government on 17 March 2020. A number of front-line services and facilities were impacted by the restrictions and the Council needed to mobilise to support residents, suppliers, and businesses during the pandemic. There has been an increase in claims for Local Council Tax Support and a reduction in business rate income due to rate reliefs and business closures.

Consequently, the Council has suffered reductions in income in 2020-21 and this is likely to continue in future years. The Council's spending has also significantly increased to cope with the outbreak.

The Government has provided local authorities with Covid-19 financial support measures, providing additional funding for cost pressures and compensation for lost income. However, the duration of this financial support and the extent to which cost pressures and reductions in income will be reimbursed remains unclear. The wider and long-term economic impact of the pandemic on the Council's tax base is also unknown. This represents a financial risk to the Council that will form part of future medium-term financial planning.

The Council continues to face a range of significant budget pressures including general inflation, cost pressures in the care sector, increases in the number of adults

and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases, the national living wage and pension contributions.

The MTFP sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFP describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

The Council's MTFP has focussed on protecting front line services as far as possible, prioritising efficiencies from back office functions and maximising income. To support transformation work, the Council has invested in resources for Innovation and Improvement, to work across a number of workstreams, including Digital, Service Reviews, Place Based Shaping, Workforce, and Business Development and income generation.

The Council has a strong track record of savings delivery, with £12.798 million delivered during 2019-20 and additional savings of £9.800 million approved for 2020-21.

In general, the Council has been relatively accurate in forecasting the level of savings required, which has allowed the development of strong plans and enabled the Council to robustly manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the Council in a strong position to meet the ongoing financial challenges across this MTFP and beyond. However, savings proposals are becoming more complex and difficult to deliver and this may require increased utilisation of reserves to offset any delays and smoothing of reductions.

After taking into account base budget pressures, additional investment and savings, the Council's net budget requirement for 2020-21 is £314.648 million.

The financing of the net budget requirement is detailed in the following table.

Financing Of the 2020-21 Budget

Funding Stream	Amount £m
Council Tax	200.886
Retained Business Rates	78.837
Revenue Support Grant	10.451
Other Corporate Grants	28.850
Strategic Management Reserve	2.160
General Fund Reserve	-6.536
Total	**314.648**

The Council has been able to set a balanced budget for 2020-21 and has a clear plan in place to invest in capital infrastructure and to deliver local services over the life of the MTFP, and beyond. Based upon this, it is evident that the Council is a going concern.

5. Reserves

Reserves are held as a:

- Working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing
- Contingency to cushion the impact of any unexpected events or emergencies
- Means of building up funds, earmarked reserves to meet known or predicted future liabilities.

As at 31 March 2020, the Council held general reserves of £56.928 million and reserves earmarked for specific future purposes, including those held for schools, of £122.814 million.

Details of individual reserves are contained within Appendix A.

Based on the level of reserves held, the Council has demonstrated robust financial management that underpins its status as going concern.

6. Conclusion

Based on the assessment undertaken, the Executive Director of Finance and Section 151 Officer's view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of known risks, and therefore the Council is a going concern and the Statement of Accounts should be and have been prepared on that basis.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The Statement of Accounts summarises the financial performance of the Council for the 2019-20 financial year.
Human Resources:	None.
Legal:	None.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Wards:	All.

Background Papers:

Northumberland County Council Statement of Accounts 2019-20

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

	Name
Deputy Monitoring Officer/Legal	Helen Lancaster
Executive Director of Finance & S151 Officer	Chris Hand
Chief Executive	Daljit Lally
Portfolio Holder(s)	Nick Oliver

Alison Elsdon
Service Director: Finance
Telephone: 01670 622168
Alison.Elsdon@northumberland.gov.uk

Description	Balance at 1 April 2019 £000	(Increase)/ decrease £000	Balance at 31 March 2020 £000
General Reserves / Balances			
General Fund Reserve	-55,433	-1,495	-56,928
Total General Reserve	**-55,433**	**-1,495**	**-56,928**
Ring Fenced Reserves / Balances			
HRA	-28,812	548	-28,264
Earmarked Reserves – HRA	-2,894	-552	-3,446
HRA Capital Investment	-2,000	-2,000	-4,000
Total Ring Fenced Reserve / Balances	**-33,706**	**-2,004**	**-35,710**
Specific Reserves / Balances			
Capital Receipts - GF	-65	12	-53
Capital Receipts - HRA	-1,541	-1,508	-3,049
Capital Grants Unapplied	-27,874	-2,921	-30,795
Total Specific Reserves / Balances	**-29,480**	**-4,417**	**-33,897**
Earmarked Reserves			
Balances held by schools	-4,810	2,399	-2,411
Community Led Housing	-1,099	128	-971
Council Transformation Fund	-8,177	690	-7,487
COVID-19 Grant	-	-10,025	-10,025
Dedicated Schools Grant	-	625	625
Economy & Regeneration Investment Reserve	-	-435	-435
Estates Rationalisation	-11,519	1,353	-10,166
EU Exit Funding	-	-315	-315
Haltwhistle Repairs Reserve	-	-13	-13
Insurance	-8,263	-706	-8,969
Invest to Save	-10,784	277	-10,507
Legal Challenge	-1,000	263	-737
Local Authority Mortgage Scheme	-424	-	-424
NCC Economic Regeneration	-83	-	-83
Northumberland Line	-3,460	-6,742	-10,202
Northumberland Sport	-355	355	-
Planning Delivery Grant	-453	8	-445
Problematic Empty Properties	-	-50	-50
Regeneration Additional Capacity	-660	138	-522
Regeneration Development Reserve	-2,550	184	-2,366
Revenue Grants	-8,221	-226	-8,447
Rural Growth Network	-57	-18	-75
School Libraries	-25	-22	-47
Section 106	-5,814	-2,132	-7,946
Severe Weather	-2,500	-	-2,500
Social Fund	-900	98	-802
Sports Development	-141	-139	-280
Strategic Management	-46,753	11,654	-35,099
Violence Reduction Reserve	-	-30	-30

Description	Balance at 1 April 2019 £000	(Increase)/ decrease £000	Balance at 31 March 2020 £000
Winter Services	-2,000	-	-2,000
ADC Parks & Open Spaces	-42	11	-31
ADC Section 106	-58	4	-54
Total Earmarked Reserves	**-120,148**	**-2,666**	**-122,814**
Total Usable Reserves	**-238,767**	**-10,582**	**-249,349**

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Northumberland
County Council

AUDIT COMMITTEE

DATE: 27 JANUARY 2021

PREPARATION OF THE STRATEGIC AUDIT PLAN – 2021/22

Report of the Acting Chief Internal Auditor

Purpose of report

The purpose of this report is to outline the approach to preparing the 2021/22 Strategic Audit Plan, for consideration and endorsement by the Audit Committee. The report also ensures the Audit Committee, as a key stakeholder of Internal Audit's work, is engaged at an early stage in the planning process.

Recommendations

It is recommended that Audit Committee consider and endorse the approach to preparation of the 2021/22 Strategic Audit Plan.

Audit Committee are also invited to highlight any areas for consideration by the Chief Internal Auditor, for inclusion in the 2021/22 Strategic Audit Plan.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan 2018-21.

Key issues

The approach to preparing the next Strategic Audit Plan (2021/22) has been designed to ensure that all legislative responsibilities and professional standards are fully complied with and that a plan of work is agreed for the coming year which will help ensure that internal auditing can fulfil its prescribed definition as "*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.*" [1]

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[1] Public Sector Internal Audit Standards, CIPFA/IIA, 2017

Background

1 Internal Auditing *"is an independent, objective assurance and consulting activity designed to add value and* improve *an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"* [1]. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

2 The Internal Audit team has a key role in helping the Authority to achieve its objectives. We are an independent resource available to assist the organisation to explore areas of potential efficiency, and matters of probity and internal control. We seek to use our business intelligence and knowledge of the Authority to make sensible, informed recommendations for improvement, and thus contribute to the effective running of the organisation.

3 Internal Audit provides assurance to the organisation that controls, established to manage risks to the achievement of the Council's objectives are operating effectively. This has a positive impact on the risk environment, informing management whether the action they are taking to control and manage risks are working as they should.

4 Preparation of a Strategic Audit Plan ensures that Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Authority. This is key to Internal Audit achieving its objectives as an independent assurance function for the Authority and to provide an independent and objective opinion on the adequacy and effectiveness of the framework of governance, risk management and control.

5 This report outlines the approach to preparing the next Strategic Audit Plan (2021/22), for consideration and endorsement by the Audit Committee. This approach has been designed to ensure that all legislative responsibilities and professional standards are fully complied with, and that a plan of work is agreed for the coming year which will meet the Authority's key assurance requirements, stakeholder aspirations and help ensure internal auditing fulfils its prescribed definition of "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations."

6 The Authority's Finance and Contract Rules recognise that Internal Audit must be independent in its planning and operation and have an unrestricted range of coverage of the Authority's operations. This requirement is now also codified in legislation (the Accounts and Audit Regulations 2015).

7 The Public Sector Internal Audit Standards (PSIAS) introduced in 2013 and revised in 2017, and the specific Local Government Application Note on the

Standards (revised in February 2019), build upon the good practice set out in previous professional regulations, including audit planning requirements, and have the force of law. The PSIAS set out the professional standards which Internal Audit must apply when planning the use of its resources. It states that:

(a) The Chief Internal Auditor (Chief Audit Executive) must establish risk-based plans to determine the priorities of internal audit activity, consistent with the organisation's goals;
(b) The plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and Audit Committee (the 'board') must be considered in this process. The Chief Internal Auditor must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions;
(c) The Chief Internal Auditor should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan;
(d) The Chief Internal Auditor must communicate plans and resource requirements, including significant interim changes, to senior management and Audit Committee for review and approval. The Chief Internal Auditor must also communicate the impact of any resource limitations; and
(e) The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

8 The Strategic Audit Plan is scheduled to be presented to the Audit Committee in March 2021. When considering the Strategic Audit Plan in March, the Committee will wish to be assured that the requirements of the Council's Finance and Contract Rules and PSIAS have been met. The approach to ensure this is the case is set out below.

9 Preparation of the Strategic Audit Plan is now underway and involves:

(a) Developing Internal Audit's intelligence base on the breadth of the Authority's functions from published plans, strategies, reports, available risk information and knowledge gained from previous audit work;
(b) Enhancing Internal Audit's intelligence base from risk information and knowledge regarding similar functions delivered by our partner organisation within the shared Internal Audit and Risk Management service, North Tyneside Council;
(c) Consulting with the Chief Executive, Executive Directors, relevant Service Directors and Heads of Service, and the Cabinet Member for Corporate Services upon this preparatory work, and their aspirations for Internal Audit work and coverage in the coming year. This consultation allows us to identify the areas where stakeholders consider Internal Audit can provide the greatest assistance and benefit;

(d) Utilising the Authority's risk management framework, combined with an assessment of audit risks, to prioritise audit coverage and ensure the Strategic Audit Plan includes all key areas of audit assurance, with resources targeted at those areas of highest priority;
(e) Developing the outcomes which each Internal Audit assignment in the Strategic Audit Plan will deliver, and the objectives which each audit will meet; and
(f) Ensuring that each proposed audit assignment will help assess and support a priority or priorities as set out in the Council's Corporate Plan.

10 Throughout preparation of the Strategic Audit Plan, whilst respecting requirements for ethical walls, consideration is given towards optimising the leverage of shared learning between the two partner authorities within the shared Internal Audit and Risk Management service. Principally this includes:

- An evaluation of the overall Internal Audit intelligence base;
- A comparison of new and emerging risks facing the authorities and their services and the aspirations of consultees for Internal Audit work and coverage for the forthcoming year; and
- Developing the objectives of audit assignments that incorporate opportunities for shared learning where beneficial and appropriate.

11 Once this process is finalised, the Strategic Audit Plan presented to the Audit Committee for approval in March 2021 will set out Internal Audit's planned 2021/22 coverage. This will include detail on all key areas of Internal Audit provision, and the objectives which each assignment will deliver.

Implications

Policy	Effective internal audit is an essential part of the County Council's Corporate Governance arrangements. Internal Audit examines the Council's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The Strategic Audit Plan sets out the planned areas in which this coverage will be focussed, based on an assessment of risk.
Finance and value for money	The audit of the Council's activities, as set out in the Strategic Audit Plan, promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste, and inefficiencies.

Legal	The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources.
Procurement	None
Human Resources	A robust Strategic Audit Plan provides clarity for officers within the Internal Audit service on the key outcomes which each audit assignment is intended to deliver. It is supported by an operational resourcing plan, ensuring that work can be properly planned and allocated.
Property	None
Equalities (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	None
Risk Assessment	The Strategic Audit Plan is prepared using a risk-based approach, thus ensuring that coverage is focused on those areas of Council activity with high levels of risk to the achievement of key objectives.
Crime & Disorder	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.
Customer Considerations	The Strategic Audit Plan is prepared following consultation with customers of our Service including the Audit Committee, Chief Executive, Executive Directors, relevant Service Directors and Heads of Service and the Cabinet Member for Corporate Services.
Carbon reduction	None
Wards	All

Consultation

The Strategic Audit Plan 2021/22 will be prepared following consultation with the following:

- Audit Committee;
- Chief Executive;
- Executive Directors;
- Appropriate Service Directors and Heads of Service; and
- The Cabinet Member for Corporate Services.

Background papers:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance and Accountancy / Institute of Internal Auditors, April 2017;
(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019;
(c) The Accounts and Audit Regulations 2015, April 2015;
(d) NCC Constitution, November 2017; and
(e) NCC Finance and Contract Rules, December 2011.

Report sign off.

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

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