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Addenbrooke House Ironmasters Way Telford TF3 4NT

AUDIT COMMITTEE

Date	**Tuesday, 20 July 2021**	Time	**6.00 pm**
Venue	**Telford Room, Addenbrooke House, Ironmasters Way, Telford TF3 4NT**		

Enquiries Regarding this Agenda		
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Committee Membership:	Councillors N A M England (Chair), V J Holt, J E Lavery, A Lawrence, K S Sahota, C F Smith (Vice-Chair) and W L Tomlinson

AGENDA

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AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Thursday, 27 May 2021 at 6.00 pm in Meeting Point House, Southwater Square, Telford, TF3 4HS

Present: Councillors N A M England (Chair), V J Holt, A Lawrence, K S Sahota, C F Smith (Vice-Chair) and W L Tomlinson

In Attendance: D Rowley and G Patterson (Grant Thornton, External Auditors), K Clarke (Director: Finance and Human Resources), P Harris (Finance Manager), A Lowe (Associate Director: Policy & Governance), R Montgomery (Audit and Governance Team Leader), T Drummond (Principal Auditor) and J Clarke (Democracy Officer).

Apologies:

None.

AU69 Declarations of Interest

None.

AU70 Minutes of the Previous Meeting

RESOLVED – that the minutes of the meeting held on the 28 January 2021 be confirmed and signed by the Chair.

AU71 Review of the Audit Committee Terms of Reference

The Associate Director: Policy and Governance presented the annual review of the Committee's Terms of Reference. The Terms of Reference remained the same as last year but it was suggested that they were reviewed to extend the scope to enable the Audit Committee to look at other areas of governance not covered by the work of other Committees. The recommendation was for the Terms of Reference to be approved subject to amendments which would circulated to Committee for approval and be reported to members at a later stage.

During the debate some Members asked if the Audit Committee remit included the appointments made by the Leader and whether the Audit Committee should meet privately with the External Auditor.

Grant Thornton confirmed that it was good practice for the External Auditors to meet privately once a year with Members under the CIPFA guidance.

The Associate Director: Policy & Governance reminded members that officers supported them meeting with the External Auditors privately in order to gain good assurance and to speak open and frankly. Such meetings had taken place previously.

The Chair confirmed that this would be put on the Committee's work programme.

Upon being put to the vote it was unanimously:

RESOLVED – that

a) the Terms of Reference be reviewed by Officers and any amendments circulated to the Committee for approval; and

b) the Terms of Reference by adopted by Council at the July 2021 meeting.

AU72 Informing the Audit Risk Assessment (External Audit Interim Report 2020/21)

D Rowley presented the Informing the Audit Risk Assessment of the External Auditors and gave a brief overview of the key points. There had been effective two way communication during the audit and Management had responded to question around the key areas of control, the calculations and the key accounting estimates. There was a renewed focus on accounting and the ISA 540 standard and this would be important through the year. They would continue to monitor the events, issues and impact of Covid 19 together with financial pressures, government grants and the impact of the uncertainty of the market generally. The value of fixed assets, pension liability and financial statements would also be considered. The External Auditors reported that no material fraud had been identified. The focus of their work had been principally on the possibility of fraudulent financial reporting or material misstatement of accounts. There were robust controls within the environment which was echoed through the interim and previous work that had been undertaken with the Council. Work would be undertaken to review the administration of the grants that the Council had received i.e. covid grants and the potential applications that had come forward. With regard to the impact of laws and regulations the Council had processes in place and regulation ensured compliance and there had been no instances of non-compliance or suspected non-compliance which was a positive outcome and there was nothing coming forward to contradict this going forward. Related parties arrangements were in line with what the External Auditors would expect to see. The key accounting estimates and relevance to External Audit were highly subjective and changes in assumption or underlying input of calculations could lead to material misstatement in relation to PPE valuation, pension valuations and provisions within the accounts. A summary and breakdown of the calculation of the estimates could be found at Appendix A to the report.

During the debate some Members asked what was used to provide an insight and overview of what was happening nationally. Some Members stated that the Council's accounts were produced fairly speedily and accurately and it would be useful to know comparatively how the Council were performing. It was also asked if there had been any fundamental changes with regard to the accounting standards. Other Members asked for a comparison/benchmark during the pandemic with regard to the Council Tax holiday, was it popular and how other Councils undertook this and if this came under the remit of External Audit.

The External Auditor informed Members that benchmarking was difficult due to the local information, when the audits were completed and the capacity of the auditors. The Councils audit had been well run and gave an overview of what is happening generally under the public interest report. Discussions were ongoing with regard to timelines in response to the audit market. Currently the regulatory market ended in September and going forward this was achievable as the Council were in line with the date of the 1st August. Benchmarking during the pandemic was not included in the report and depended on what Councils could do for their local areas and their cash flow. This could be picked up as part of the accounts under value for money. External Audit could look at the processes and ascertain whether the schemes had worked as they were expected.

AU73 <u>External Audit Fee Letter and Plan for 2021/22</u>

The External Auditors presented the Audit Plan for 2021/22 as there would be no Audit Fee Letter this year. The Plan picked upon past papers that had come before Committee, what were the risks and how the External Auditors could help Members to understand the estimates as well as the context of the audit, the draft Accounts and the Councils strong financial performance against the backdrop of the pandemic. Also reported were the changes in relation to grants, the value for money (vfm) approach together with an overview of the Council's finance in order to identify any significant weaknesses. Whilst External Audit had focussed holistically on governance and financial stability, work would be undertaken on governance arrangements, financial stability, partnership working, efficiency and performance and this was a much broader context. Also reported was the impact of the covid 19 pandemic in relation to home working, the emphasis on matter and valuation of property. The valuation of the markets had moved following the concerns that last year the markets were uncertain. A summary of the plan gave details with regard to NuPlace Group Accounts and the Group Audit and consolidated accounts, management override controls and the consolidation process across the Council as a whole, Governance, Valuation of land and buildings, net Pension Fund liability and the significant risks and fraud recognition. Although the plan was similar to that of the last financial year, materiality measure had moved and the benchmark would differ. Going forward there would be two areas of focus for vfm which would be financial sustainability and governance arrangements together with the group audit on investment properties and work around estimates. Other matters highlighted were the rebuttal around expenditure and the going concern, the change to public sector audits around service provision and financial sustainability. Related parties were making progress and any recommendations would be picked up at end of year. The audit timetable would run May to July and would be brought back to Committee in September which would contain information in relation to the vfm, and the Annual Audit Report would replace the Audit Letter after September. There was a significant fee variation proposed driven by the increased requirements on auditors due to the raising of the bar for the quality of the audits in relation to pensions and PPE, the changes with regard to vfm and increasing work around estimates. It was suggested that a 60% fee increase was made across the country in line with the PSAA scale fee and this had been accepted by the Finance Team subject to a review by the PSAA. Non-Audit services such a certification of claims and returns, teachers' pensions and housing benefits subsidiary may need to be added to the Committee's Terms of Reference for approval.

During the debate some Members raised queries regarding the extra work on vfm and the significant fee increase and if this was the same for all councils. Other Members asked if the increase was linked to inflation and that this large increase may be questioned by the public.

The External Auditors confirmed to Members that here had been a change to the Codes of Audit Practice and more information was needed for the public to understand what work was being undertaken and to analyse any cause for concern. There had been a more holistic view during the year and the Council had achieved good CQC scores for Adult Social Care but that the External Auditors had to attend more meetings, undertake additional benchmarking and drive performance metrics. There had also been increased engagement at a senior level and at a greater depth which takes more time and incurred additional costs. This increase was consistent across all of their client base. Auditors were regulated and since the original contract had been let the regulatory regime had been changed to a scoring system and incurred additional work to satisfy regulators and demonstrate good accounting standards including estimates and assumptions and going forward looking closely at loans, credit losses and the changes around vfm.

The Director: Finance and Human Resources informed Members that although this was a fairly significant increase discussions had taken place and due to the increase of work around the quality of audits and the Redland Review the fee was still less than it had been in previous years and it was hoped some additional funding would come forward to offset the fee.

AU74 **<u>External Audit Progress Report and Update</u>**

Grant Thornton gave an update on the External Audit which had been delayed due to the disruption of the covid 19 pandemic. The Accounts would now be signed in November instead of July but this was slightly truncated across the sector. Planning had started in October and the Audit began in January/February with the plan to deliver the Audit in the summer. Due to early testing and planning the first draft of the Accounts may be ready in May/June. No significant findings had been made and no commentary from the outcome of sample testing and there had been an effective collaboration with the Finance Team with high quality working papers and they were confident that they could deliver a good audit over the summer.

AU75 **Draft Statement of Accounts**

The Finance Manager presented the draft Statement of Accounts which complied with the accounting regulations and the CIPFA Code of Practice and asked Members for delegated authority for the Chief Finance Officer to approve the Statement of Accounts. The document was lengthy and complex and it was acknowledged that Members may have not had time to digest the whole document and that the Statement of Accounts would be presented to the Committee in September and Members could raise any questions prior to this time. The Audit would start mid-June with adverts being place in the Shropshire Star and on the Council's website in accordance with the Audit Regulations 2021 and 2021/22. The publication of the accounts would be at the end of September which was earlier than required.

During the debate some Members gave praise for the accounts being prepared ahead of time but asked if a summary of the key points could be included. It was also asked at what point would concerns be raised by the External Auditors with regard to deficits and with regard to the change of benefits regarding the re-measurement liabilities. Other Members raised whether there would be further changes to contribution rates and if so could a longer recovery period be arranged.

The Finance Manager informed Members that a summary version of accounts was now a requirement following the Redland Review. The accounts contained a breakdown of the pension liability which fluctuated according to the markets but useable reserves had not reduced. Assumptions were the way the assets and liabilities were valued and due to inflation liability had increased and the rate of discount decreased and this incurred an increased cost.

The External Auditors explained that it was based on what was affordable to the Council going forward and with regard to pension liability the contribution rates were set every three years. If a council could not meet the liability this would raise concern and the level of usable reserves could not cover any anomaly. It was all dependent of how a council was run and auditors would look at the arrangements and risks in order to ensure there were appropriate arrangements and that a council was fully aware and could manage any risks. With regard to pensions and recovery period the Auditors would work with the employer and employees to secure a longer recovery period.

AU76 **The Annual Governance Statement 2021/22**

The Audit & Governance Lead Manager presented the Annual Governance Statement which was prepared to accompany the Statement of Accounts and would be signed by the Leader, the Chief Executive Officer and the Chair of Audit as set out in the CIPFA framework for good governance. The main area of the statement to note was the level of assurance from the governance arrangement for 20/21 which gave a reasonable level of assurance that the Councils governance arrangements were fit for purpose. The basis for the opinion changed in 20/21 mainly due to the pandemic which resulted in a diluted level of internal audit work due to the team supporting the community efforts to tackle the pandemic. There had been positive comments from the External Auditors, peer reviews undertaken and the customer survey. Attached to the report was the local code of good governance including the framework on how governance arrangements were set out and the statement for approval.

Upon being put to the vote it was, unanimously:

RESOLVED – that

a) **the annual Governance Statement for 2020/21 be approved;**

b) **The Local Code of Good Governance be approved; and**

c) **The information report be noted.**

AU77 **2020/21 Internal Audit Annual Update Report including the Audit Committee Annual Report and 2021/22 Internal Audit Plan**

The Principal Auditor presented the 20/21 Internal Audit Annual Report and the 2021/22 Internal Audit Plan. Planned resources for 2020/21 were set at 878 days which included 47 days for specialist ICT audit provision provided by the Staffordshire framework contract. The Team achieved 38% of the planned work with some items being rescheduled until 2021/22 due to the Covid pandemic. There were no issues regarding gradings with green increasing during 2021 compared to 2019/20. Yellow gradings decreased and amber and red remaining comparable. Customer feedback had been sought electronically and performance remained extremely high with all areas excelling or being very good, which was an improvement. Despite diluted audit coverage due to the pandemic, Internal Audit had performed well and the Section 151 Officer had given reasonable assurance to the Council on the operation of the Council’s internal controls, governance and risk management processes for all areas reviewed in 2020/21. The work of the Committee during 2021 was referred to in Appendix 2 of the report and comprehensive agendas came to Committee to provide assurance on audit and governance and risk management arrangements. Internal Audit had a statutory obligation under legislation to provide assurance on corporate governance and the effective management of risk. Resources were limited but to ensure reasonable assurance an audit plan had been developed, influenced by previous work and areas identified by management teams, External Audit requirements strategic and ICT risk registers, external assessments and local, regional and national networking intelligence. During 2021/22 resources had been planned for 824 days and included 47 days specialist ICT work, although due to the ever changing nature of audit it would be reviewed in September in order to inform the Committee of any changes to the plan.

During the debate some Members commented that the resource of audit needed to remain stable and the amount of hours not reduced.

The Audit & Governance Lead Manager assured Members that resources were adequate and where there were fluctuations they were highlighted to the Chair to take his opinion as to whether they would have a detrimental impact of the level of resource.

Upon being put to the vote it was, unanimously:

RESOLVED – that

a) **the Annual Audit Report for 2020/21 be noted;**

b) **the operations of the Audit Committee for 2020/21 be noted; and**

c) **the Internal Audit Plan 2021/22 be approved.**

AU78 Update Report on the work of Internal Audit

The Principal Auditor reported on the progress made against the 2021 internal audit plan and recent work undertaken between 5 January and 3 March 2021. Due to the covid 19 pandemic and the challenges that this presented to the Council, it was agreed that 16 corporate audits were deferred to 2021/22. Of the 68 scheduled audits on the Plan, 16 had been completed and 10 were in progress. There had been 29% yellow reports issued and 71% green reports and the report gave details of previously issued reports and changes to gradings after a follow up. With regard to Section 17 payments, the second follow up remained amber and continued to be a work in progress following a new SDM taking over and changes to the use of purchase cards and the use of case payments. Alternative arrangements were in place due to covid, together with an audit trail system and the sign off for anything over £25 being placed with the SDM. Monthly meetings to check progress was continuing and this would be reviewed again and reported back to the next Committee meeting. All other reports showed improvement.

During the debate some Members asked with regard to primary schools the effect of some audits had greater significance – could this be reported on

The Audit & Governance Lead Manager advised that this could be looked into and reports show low recommendations and advisory points to determine the level of seriousness.

The Principal Auditor confirmed that the plan did show gradings of low, medium or high.

The Legal Advisor commented that previous reports were rated high, medium and low and that this could going forward include an indication of the category in order that Members could see at a glance what consideration had been given.

Upon being put to the vote it was, unanimously:

<u>RESOLVED</u> – that the work of the Internal Audit undertaken between 5 January 2021 to 31 March 2021 and unplanned work to date be noted.

AU79 <u>Information Governance & Caldicott Guardian Annual Report 2020/2021</u>

The Audit & Governance Lead Manager presented the Information Governance (IG) & Caldicott Guardian Annual Report and gave an overview of the work undertaken during 20/21. Highlights of the report included slightly less Freedom of Information (FOI) requests received in 20/21, 1030 compared to 1181 in the previous year. The response rate within the statutory deadline for responding to FOI requests was comparable to the previous year with 87% of requests responded within the appropriate deadline. There had been a dramatic increase in the number of subject access requests (whereby people contact the Local Authority for information that is kept about themselves or their children), this had increased by 49% on the previous year. There were no indications of why there was an increase in numbers but it was reassuring to note that no actions had been taken against the Authority by the ICO. One data breach had been reported to the ICO where the threshold had been met for reporting. On discussion with the ICO, they were satisfied that this data breach was a human error and no further action was taken as a result as they were satisfied with how the breach had been managed and contained. A short summary of work undertaken by the Caldicott Guardian, the Director of Adult Social Care, was contained within the report. Progress on the IGS work programme for 20/21 was reported and the suggested work programme for 2021/22 were contained within Appendix 1 and Appendix 2 to the report.

<u>RESOLVED</u> – that

a) **the Information Governance & Caldicott Guardian Annual Report 2020/21 be noted; and**

b) **the IG Work Programme for 2021/22 be agreed.**

AU80 <u>2020/21 Anti-Fraud & Corruption Annual Report and updated policy 2021/22</u>

The Audit & Governance Lead Manager presented the Corporate Anti-Fraud & Corruption 2020/21 Annual Report and Anti-Fraud & Corruption Policy. The policy had been reviewed by the Investigation Team and was brought before Committee annually for adoption. During 20/21 the team helped to save £296,000 in relation to fraud which was very favourable compared with £176,000 in the previous year. It was difficult to identify determining factors and fraud would always be there although in some years there may be more and some years less. Members were asked to note the work that had been undertaken and agree the Anti-Fraud and Corruption Policy 2021/22.

During the debate some Members asked if the Council worked alongside the DWP with exchange of information if required. It was also stated that it would be useful if all agencies worked together with regard to alleged fraud on Covid grants. Other Members asked how much it had cost to retrieve the £296,000 and if amnesties would take place on grants.

The Audit and Governance Lead Manager confirmed that historically fraud work had been separated from the Council and undertaken by DWP. However the DWP were looking to undertake joint working more formally again with the Council. Discussions could take place with regard to sharing costs to bring about savings. There were very positive comments received from the Police, nominated members of staff acted quickly and dynamically when tacking both serious and petty crime and it was an invaluable service. Included in the table on costs the budget for the Investigation Team was just over £93,000 to recover £296,000 which gave a broad idea of the costs involved. Internal Auditors and the Investigation Team were involved in the grants process and covid related business grants were on the audit work programme. Prosecutions were publicised both internally and externally if there were cases of particular note,

Upon being put to the vote it was, unanimously:

<u>RESOLVED</u> – that

a) the Annual Report on Corporate Anti-Fraud and Corruption activity be noted; and

b) the updated Anti-Fraud & Corruption Policy be adopted by Council.

AU81 <u>Outline of Audit Committee Business for 2021/22</u>

Members noted the outline of business for 2021/22.

It was also noted that a private session for Members with the External Auditors would take place prior to the September meeting together with a training session on the Accounts.

The meeting ended at 7.36 pm

Chairman: --

Date: Tuesday, 20 July 2021

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE – 20 JULY 2021

TREASURY MANAGEMENT - 2020/21 ANNUAL REPORT AND 2021/22 UPDATE

REPORT OF THE DIRECTOR: FINANCE & HR (CHIEF FINANCIAL OFFICER)

PART A) – SUMMARY REPORT

1. **SUMMARY OF MAIN PROPOSALS**

This report updates members on the outcome of Treasury Management activities for 2020/21 and details the position for 2021/22 to 31st May 2021

1.1 **2020/21 Treasury Outturn**

The treasury portfolio ended the year with net indebtedness of £260.4m (excluding NuPlace Share capital) which was an increase of £14.7m over the year. The coronavirus pandemic dominated 2020/21. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut the Bank Rate to 0.1% in March 2020 and the UK government provided a range of fiscal stimulus measures throughout 2020/21. The Bank of England held the Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the Bank of England noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year.

The borrowing strategy for 2020/21 was to borrow temporarily to take advantage of low interest rates where possible and review opportunities for new longer term borrowing as appropriate. Maintaining high levels of very cheap temporary borrowing has contributed to surplus treasury management returns of more than £26m since 2015/16 which has reduced the impact of Government cuts and therefore helped to protect frontline services.

Borrowing (excluding PFI) was £4.9m higher at 31 March 2021 compared to 31 March 2020. Short term borrowing was used during the year at favourable interest rates generating a significant benefit for the Council's budget.

The investment strategy for 2020/21 was to gain maximum benefit with security of capital being the key consideration. The average return on investments for the year was in line with the bench mark of 0.0%. Temporary investments (excluding NuPlace share capital) reduced by £9.8m between 31 March 2020 and 31st March 2021.

The Council faced extreme financial pressure in 2020/21 as a result of the coronavirus pandemic. These pressures include increased costs, particularly relating to the provision of Social Care and safeguarding the most vulnerable in our community and income shortfalls relating to closed facilities and services and Council Tax and Non Domestic Rates which are key funding streams. As a result, more focus was placed on monitoring cash flow to ensure that sufficient funds were available to meet financial obligations. The provision of emergency government funding assisted and short-term funding, through temporary loans, was available to cover cash flow requirements.

Overall, treasury delivered a net over-achievement of £5.692m against budget during 2020/21, including a dividend payment of £0.156m from NuPlace. The majority of the saving relates to the benefit of low interest rates on the levels of temporary borrowing we held during the year and the active approach of maintaining short-term funding rather than locking into longer-term funding options at higher interest rates.

1.2 **2021/22 Update**

The strategy for 2021/22 remains consistent with that outlined in the 2021/22 Treasury Strategy, which was agreed for approval at Full Council on 4th March 2021 and by this committee on 28th January 2021. The Strategy is also in-line with that of the previous year.

Investment opportunities will be reviewed as they arise and we will seek to gain maximum benefit within the agreed risk parameters. The Council does not currently hold any long term investments, which reduces counter-party risk and also reduces net interest costs as longer-term borrowing costs tend to be greater than we are able to earn on new investments.

Arlingclose, the Council's treasury advisors, are providing regular investment and borrowing updates during this unprecedented period, including updated counterparty advice, which is being followed.

New borrowing will be required during the year, in line with the approved capital programme. Consideration will be given to the maturity profile of current debt, interest rates and refinancing risks as well as the source, which is expected to be a mix of temporary loans and long term loans obtained from the Public Works Loans Board.

Total borrowing (excluding PFI) at the 31st March 2021 was £281.1m and has reduced to £256.9m as at 31st May 2021. Investments (excluding NuPlace share capital) were £32.4m at 31st May 2021.

2. **RECOMMENDATIONS**

Audit Committee Members are asked to:-

2.1 note the contents of the report

2.2 note the performance against Prudential Indicators.

3.

SUMMARY IMPACT ASSESSMENT	
COMMUNITY IMPACT	Do these proposals contribute to specific priority plan objectives? Yes/~~No~~ Efficient Community Focussed Council Will the proposals impact on specific groups of people? ~~Yes~~/No
TARGET COMPLETION / DELIVERY DATE	Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.
FINANCIAL/VALUE FOR MONEY IMPACT	Yes/~~No~~ Where appropriate these are detailed in the body of the report**.**
LEGAL ISSUES	Yes/~~No~~ The Director: Finance & HR (Section 151 Officer), has responsibility for the administration of the financial affairs of the Council. In providing this report the Section 151 Officer is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Officers, Functions of the Chief Financial Officer, para. 8 which states "The Chief Financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee**.**" AL 13/7/2021
OTHER IMPACTS, RISKS AND OPPORTUNITIES	Yes/~~No~~ The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.
IMPACT ON SPECIFIC WARDS	~~Yes~~/No

4. **<u>PREVIOUS MINUTES</u>**

Council - 4th March 2021
Audit Committee – 28th January 2021
Audit Committee – 14th July 2020
Council – 5th March 2020

PART B) – ADDITIONAL INFORMATION

5. BACKGROUND

5.1 Treasury Management in local government is regulated by the CIPFA Treasury Management in Public Services: Code of Practice (the Code). This Council has adopted the Code and fully complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement, which states the policies and objectives of its treasury management activities. The Authority's treasury management strategy for 2020/21 was approved at Full Council on 5th March 2020 and the Strategy for 2021/22 at Full Council on 4th March 2021

5.2 A requirement of the Council's Treasury Management Practices is the reporting to the Council of both the expected treasury activity for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report). A mid-year update is also presented to Audit Committee during January each year.

5.3 The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

6. 2020/21

6.1 The annual report is covered in paragraphs 6-15 and deals with: -

- 2020/21 Portfolio position;
- the current economic climate;
- the borrowing strategy for 2020/21;
- the borrowing outturn for 2020/21;
- investments strategy for 2020/21;
- investments outturn for 2020/21;
- Shropshire Council debt;
- overall outturn position;
- leasing; and
- compliance with treasury limits

7. 2020/21 PORTFOLIO POSITION

7.1 The Council's treasury management position at the beginning and the end of the year was as follows: -

	31 March 2021		31 March 2020	
	Principal £m	**Rate %**	**Principal £m**	**Rate %**
Borrowing	281.085	2.52	276.185	2.46
Investments (excluding NuPlace share capital)	20.652	0.00	30.455	0.57
Net Indebtedness (ex NuPlace)	**(260.433)**		**(245.730)**	
Investment in NuPlace	16.300		13.300	
Net Indebtedness	**(244.133)**		**(232.430)**	

There was continued use of temporary loans through 2020/21. Temporary borrowing at 31st March 2021 was £79.2m (including £7.1m PWLB due to mature in 2021/22). £7.6m of PWLB loans were repaid in 2020/21. No new PWLB loans were raised during the year. The capital programme was funded from a combination of borrowing, capital receipts, grants and other external contributions. The use of borrowing to fund the capital programme would normally result in a larger increase to net indebtedness during the year, however the government upfront funding received in support of the Coronavirus pandemic has allowed the Council to manage it's cash flow effectively.

Prudential borrowing increased in 2020/21 as a result of planned capital expenditure, funded from borrowing, approved as part of the capital programme.

Investments at 31st March 2021 included £16.3m share capital in NuPlace.

The Adopted Treasury Strategy was to:-

- Monitor borrowing opportunities determined by the prevailing markets.
- Only investing short term in line with cashflow requirements.
- Reduce the volatility of investment returns while maintaining adequate flexibility in arrangements.
- To achieve optimum return on investments commensurate with proper levels of security and liquidity.

8. COUNCILS RESPONSE TO ECONOMIC CLIMATE

8.1 **Economic background:** The coronavirus pandemic dominated 2020/21, leading to some form of lockdown globally during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England (BoE) cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The BoE held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however at the end of March 2021 they remained lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

9. <u>BORROWING 2020/21</u>

9.1 Original Economic Projections

When the budget was set for 2020/21 it was anticipated that the Base Rate would remain at 0.75% for the foreseeable future. Substantial risks to the forecast remained, primarily from government's policy around Brexit and the transitionary period.

9.2 Outturn 2020/21

In response to the COVID-19 pandemic, the Bank of England moved in March 2020 to cut rates from 0.75%, which had held policy rates steady through most of 2019/20, to 0.25% and then swiftly thereafter bringing them down further to the record low of 0.1%. The rate remained at 0.1% for the entire financial year. The UK government has introduced a number of measures throughout 2020/21 to help businesses and households impacted by a series of ever-tightening social restrictions, and lockdowns which have impacted the entirety of the UK.

A HM Treasury consultation on lowering PWLB rates concluded in July 2020, new PWLB lending terms were issued in November 2020. These terms confirmed a reduction of 1% in all Standard Rate and Certainty Rate PWLB loans but with a condition of accessing PWLB being that local authorities will be asked to confirm that they have no intention to buy investment assets primarily for yield in the current or the following two financial years.

Borrowing and Investment Rates in 2020/21

The overnight investment rate has ranged between -0.10% and 0.06%.

Treasury Borrowing

The borrowing strategy for the current year was to borrow temporarily to take advantage of low interest rates where possible and review opportunities for new longer term borrowing as appropriate.

During the year no new PWLB loans were raised, and we had maturities totalling £7.6m.

PWLB Repayments
No loans were repaid early or rescheduled during the year.
An analysis of the maturity structure of our debt is shown below. The maturing in less than 1 year includes £7.1m of PWLB loans.

Lenders Option Borrowers Option Redemption
The Authority has £25m of Lenders Option Borrowers Option loans, as at 31st March 2021, where the lender has the option to propose an increase in the interest rate as at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year and current expectations are that calls in the foreseeable future are unlikely.

Analysis of Debt Maturity as at 31st March

	2021 £000	%	**2020 £000**	%
Maturing in less than 1 year	79,177	28.2	67,149	24.3
Maturing in 1-2 years	7,155	2.5	7,128	2.6
Maturing in 2-5 years	21,634	7.7	21,549	7.8
Maturing in 5-10 years	27,402	9.7	29,751	10.8
Maturing in more than 10 years*	145,717	51.9	150,608	54.5
	281,085	100.0	**276,185**	100.0

* this includes £25m LOBO (Lenders Option Borrowers Option) loans that are potentially callable at certain points before the maturity date.

Debt Performance
As highlighted in section 7 the average interest rate for borrowing has risen over the course of the year from 2.46% to 2.52%.

10. INVESTMENTS 2020/21

10.1 Strategy

The authority currently manages the majority of its investments in-house and invests within the institutions complying with its counterparty limits and credit rating requirements. All investments are short term allowing the Council to manage cash flows in order to minimise counterparty risk and to minimise overall treasury management costs. Investments include £4.980m in Money Market Funds (MMFs) which provide greater diversification of credit risk and achieve a slightly higher return than our call accounts.

Investment Strategy - The agreed short term investment strategy for 2020/21 was to achieve optimum return on investments commensurate with proper levels of security and liquidity.

The Council has continued to maintain short duration investments during 2020/21. The ability to maintain relatively low level of investments has been impacted by the government's response to the Coronavirus Pandemic with large grant allocations being received often with little or no notification. This has increase the level of investments compared to previous years, which automatically increase investment risk exposure. However, the Council has closely followed investment guidance issued by our Treasury Advisors in relation to credit ratings, financial standing and duration and take advice on investment strategies and options.

10.2 **Outturn 2020/21**

Detailed below are the results of the investment strategy undertaken by the Council, based on the average investment during the year.

	Average Investment	Rate of Return (gross of fees)	Rate of Return (net of fees)	Benchmark Return *
Investments	£29.861m	0.00	0.00	0.00

*DMO Overnight rate

No institutions in which investments were made showed any difficulty in repaying investments and interest in full during the year.

11. SHROPSHIRE COUNCIL DEBT

11.1 The Council makes an annual contribution (£1.232m in 2020/21) towards Shropshire Council costs on pre disaggregation debt (i.e. pre unitary inception) - interest paid averaged 5.1% last year. The rate of interest paid on this is managed by Shropshire and is considerably higher than the rate payable by Telford & Wrekin Council on its borrowing.

12. OVERALL OUTTURN FOR 2020/21

12.1 Overall a net benefit of £5.692m was made against budget for the year. The sound overall position has resulted from a mix of cash flow benefits plus pro-active treasury management activities. The budget reflected the position when the budget was set, the underspend has been achieved through active management of borrowing and the low interest rates prevailing for the year.

13. LEASING

13.1 Each year the Council arranges operating leases for assets such as vehicles, computers and equipment. This helps spread the cost over a number of years in line with the anticipated life of the equipment.

Three leasing drawdowns were completed for 2020/21, all in January 2021. These consisted of –

- two finance leases from JCB totalling £0.569m which funded the acquisition of buses for Fleet Services, gym equipment, ice rink equipment, agriculture equipment for the Town Park and Horsehay golf course and a mini bus, and
- one operating lease from RCB totalling £0.031m which funded the purchase of an adapted mini bus

14. COMPLIANCE WITH TREASURY LIMITS

14.1 During the financial year the Council operated within both the Treasury Limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement.

15. OTHER

15.1 **CIPFA consultations**: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

15.2 **IFRS 16**: The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

16. 2021/22 UPDATE

The remainder of this report deals with the current financial year based largely on information to 31 May 2021.

16.1 **Strategy**
The strategy for 2021/22 was approved by Full Council 4th March 2021. The strategy is to continue to keep investments as short term, where possible, to reduce the need to borrow thus reducing investment exposure and maximising overall returns to the revenue account. We will

review investment opportunities if they arise and also review borrowing opportunities as we progress through the year and look to take advantage of advantageous interest rates where appropriate. 2021/22 and 2022/23 will see the Council continue to invest in significant regeneration projects including highways and building homes and commercial property for rent as part of the approved Housing Investment Programme. In order to comply with MiFID II the Council will maintain a minimum investment balance of £10m.

16.2 **Interest Rates**

Base rate has remained at 0.1% since the beginning of the financial year. It is anticipated that the Bank Rate will remain at its current level of 0.10% level. The risk of movement in the short term is low. However, the damage from the pandemic will have long lasting effects and there is a risk of further virus mutations due to the uneven global rollout of vaccines and the potential future vaccine shortages as the global demand for vaccines increases both of which could negatively affect this assumptions.

16.3 **Prudential Regime**

This Council agreed its required indicators at Council on 4th March 2021.

The Council has operated within the Treasury Limits and Prudential Indicators set, with the exception of the counterparty limit being exceeded on one day which was due to a failure by the Council bankers and prevented 2 payments being made from our account on 9th June 2021. Although the bank's contingency plan was actioned by officers, these were also affected by the failure. This issue was outside the Council's control and therefore unavoidable; however it did result in the balance in the Council's account being higher than the £15m counterparty limit on one day. This was separately reported to the Chair and Vice Chair of the Audit Committee at the time.

The Council set itself an Operational Limit for external debt of £490m for 2021/22 and an Authorised limit of £514m. Our total borrowing outstanding as at 31st May 2021 (including PFI) is £307.3m which is within both limits.

16.4 **Borrowing**

We have taken no new PWLB loans so for during in 2021/22. In total we have £7.1m of PWLB Loans maturing during the year. Due to the residual pressures from COVID-19 including income shortfalls in relation to restricted opening at facilities in the early part of the year and potential impacts on business rates collection, which is a key funding stream for the Council a high level of focus will remain in place on monitoring cash flow to ensure sufficient funds are available to meet financial obligations, although we do not currently foresee any issues.

16.5 **Investments**

The strategy for the year is to gain maximum benefit at minimum risk whilst achieving as a minimum, the overnight deposit rate. For the period to 31st May 2021 some £1,720m worth of investments have been made with the Debt Management Office (DMO). Rates have ranged from 0.01% to 0.02%.

Potentially the Council can place up to £15.0m with any Counterparty, with the exception of Treasury's DMO facility which is Government backed and therefore considered to be very secure so no limit is placed on investments with the DMO. At the end of May the greatest exposure with a single counterparty was £24.7m (76.2% of the portfolio) with the DMO. A detailed breakdown of the investment portfolio is shown in Appendix 2.

The Council holds investments in money market funds which gives increased diversification of counter-party risk and slightly higher yield whilst retaining a high degree of liquidity. These investment are held in one diversified fund.

As at 31st May 2021 internal investments stood at £32.4m including Money Market Funds of £4.98m.

16.6 **Projected Performance 2021/22**

Senior Finance Officers are closely monitoring the Treasury position, particularly in light of the continuing COVID-19 financial pressures. Updates will be provided in future financial monitoring reports taken to Cabinet.

17. BACKGROUND PAPERS

17.1 CIPFA Code of Practice for Treasury Management in Local Authorities; Fund Manager Valuations; Temporary Borrowing records; PWLB records; Investment records.

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PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2019/20 Actual Outturn	2020/21 Original Estimate	2020/21 Actual Outturn
(1). EXTRACT FROM BUDGET SETTING REPORT	**£m**	**£m**	**£m**
Capital Expenditure			
TOTAL	41.8	83.9	57.7
Ratio of financing costs to net revenue stream			
General fund	5.3%	7.44%	4.35%
Net borrowing requirement			
brought forward 1 April	266.9	298.9	276.2
carried forward 31 March	276.2	328.5	281.1
in year borrowing requirement	+9.3	+29.6	+4.9
Capital Financing Requirement as at 31 March			
TOTAL	460.1	496.7	480.7
Annual change in Cap. Financing Requirement			
TOTAL	+15.1	+27.5	+20.6

PRUDENTIAL INDICATOR	2019/20 final	2020/21 original	2020/21 final
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£m**	**£m**	**£m**
Authorised limit for external debt -			
Borrowing	440	450	450
other long term liabilities	64	64	64
TOTAL	**504**	**514**	**514**
Operational boundary for external debt -			
Borrowing	420	430	430
other long term liabilities	60	60	60
TOTAL	**480**	**490**	**490**
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	100	100	100
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments:-	30%	30%	30%
Upper limit for total principal sums invested for over 364 days			
(per maturity date)	95%	95%	95%

Maturity structure of fixed rate borrowing during 2020/21	lower limit	upper limit
under 12 months	0%	70%
12 months and within 24 months	0%	30%
24 months and within 5 years	0%	50%
5 years and within 10 years	0%	75%
10 years and above	25%	100%

Summary of Investments at 31 May 2021

	Sovereign Credit Rating	Individual credit Rating	Total £m	%
Call Accounts				
Lloyds	UK AA	F1 A+ support 5	2.672	8.2
Debt Management Office (DMO)	Government		24.700	76.3
Other Investments				
Money Market Funds	N/A	AAA	4.980	15.4
Total			**32.352**	**100.0**

Call Accounts Non UK holding £0.0m (Limit £15m)
Please note - part of the Money Market Funds are invested in non UK sovereigns, at 31st May 2021 this amounted to 91.4% of the funds.