MID SUSSEX
DISTRICT COUNCIL

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8 November 2021

Given Covid levels and the ongoing work to get the adult population double vaccinated, the Audit Committee will occur with appropriate Councillors participating via a remote video link, and public access via a live stream video through the Mid Sussex District Council's YouTube channel Mid Sussex District Council's YouTube channel.

Dear Councillor,

A meeting of **AUDIT COMMITTEE** will be held **VIA REMOTE VIDEO LINK** on **TUESDAY, 16TH NOVEMBER, 2021 at 5.00 pm** when your attendance is requested.

Yours sincerely,

KATHRYN HALL

Chief Executive

A G E N D A

		Pages
1.	Roll Call and Virtual Meeting Explanation.	
2.	To receive apologies for absence.	
3.	To receive Declarations of Interest from Members in respect of any matter on the Agenda.	
4.	To confirm the Minutes of the previous meeting held on 27 July 2021.	**3 - 8**
5.	To consider any items that the Chairman agrees to take as urgent business.	
6.	Review of Treasury Management Activity 1 April - 30 September 2021.	**9 - 28**
7.	External Audit Progress Report 2020 - 21.	**29 - 36**
8.	Internal Audit Update 2021-22.	**37 - 38**

9. Committee Work Programme. **39 - 40**

10. Questions pursuant to Council Procedure Rule 10.2 due notice of which has been given.

To: **Members of Audit Committee:** Councillors M Pulfer (Chair), R Cromie (Vice-Chair), A Boutrup, M Cornish, S Hicks, R Jackson and L Stockwell

Minutes of a meeting of Audit Committee held on Tuesday, 27th July, 2021 from 5.00 pm - 6.07 pm

Present: M Pulfer (Chair)

A Boutrup, S Hicks, L Stockwell, M Cornish, R Jackson

Absent: Councillor R Cromie

1. ROLL CALL AND VIRTUAL MEETING EXPLANATION.

The Chairman introduced the meeting and welcomed Cllr Jackson to the Audit Committee. Tom Clark, Head of Regulatory Services took a roll call of Members in attendance and explained the meeting is being held virtually in the interests of public health due to the high number of Covid cases in the Mid Sussex area.

2. TO RECEIVE APOLOGIES FOR ABSENCE.

Apologies were received from Councillor Cromie.

3. TO RECEIVE DECLARATIONS OF INTEREST FROM MEMBERS IN RESPECT OF ANY MATTER ON THE AGENDA.

None.

4. TO CONFIRM THE MINUTES OF THE MEETINGS HELD ON 2 MARCH 2021 AND 28 APRIL 2021.

The Minutes of the meeting of the Committee held on 2 March and 28 April 2021 were agreed as a correct record and electronically signed by the Chairman after a minor amendment. In the minutes of 2 March, page 6 the references to local authorities and lending to parish councils were removed as it was not relevant to that section.

5. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN AGREES TO TAKE AS URGENT BUSINESS.

None.

6. ANNUAL GOVERNANCE STATEMENT 2020/21.

Peter Stuart, Head of Corporate Resources introduced the report. He noted this was the first time the committee had been asked to look at the Annual Governance Statement as a separate document. If appropriate, the Constitutional Review Group may decide to change this committee to an audit and governance committee, the committee would then oversee risk management and governance of the council in addition to the usual reports. He highlighted the action plan for improvements on

governance of the authority and the public consultation on the Council's decision to close Clair Hall.

Members welcomed the Annual Governance Statement (AGS) and asked for clarification on the framework to discuss the AGS, noted it was prudent to look at strategic risk with regard to the pandemic, highlighted the request of the Chair of the Scrutiny Community for Communities, Customer Services and Service Delivery to receive a breakdown of the compliments and complaints received by the council, and asked who the lead officer would be for governance reports.

The Head of Corporate Resources advised the AGS is usually reviewed as part of the annual statements and the committee might review risk management in the future. The AGS is a document that should provide evidence that Council is well run. He noted that the Audit Committee is not a decision maker, but they can ask scrutiny committees to investigate matters in more details. He will provide a link to the CiFPA terms of reference for the committee members and noted there may be more work for the committee in the current year including strategic risk. Cabinet receive two reports each year, detailing the risks and how these risks have been managed. He anticipated the committee would also review reports twice a year with himself and the Business Unit Leader for Community Services, Policy and Performance taking the lead officer roles.

The Head of Regulatory Services confirmed that the Constitutional Working Group was likely to meet in Autumn after the initial phase of the governance work had been completed. The report provides a framework for the committee's activities in addition to the risk work, the final report of the working group has to be approved by full council.

The Chairman advised the recommendation should be amended to read "The Committee is asked to consider and receive the AGS for inclusion in the Statement of Accounts 2020/21.

As there were no further questions the Chairman took Members to the revised recommendation in the report which was agreed unanimously.
RESOLVED

The Committee received and noted the report.

7. INTERNAL AUDIT ANNUAL REPORT 2020/2021.

Peter Stuart, Head of Corporate Resources introduced the report. He highlighted that Gillian Edwards of Crawley Borough Council would normally present the report as part of an agreed shared service, but this arrangement has ended. He confirmed that she is content that all is in order and is happy with the governance arrangements. It was confirmed that the one high priority finding had been satisfactorily resolved.

A Member welcomed the report and queried why the change on the internal auditor.

The Head of Corporate Services advised that Chris Bower, Internal Auditor from Crawley Borough Council used to work fulltime on Mid Sussex audits, and he has since retired. Crawley decided to withdraw from the shared service contract and before using the shared service the Council used companies from the private sector.

As there were no further questions the Chairman took Members to the recommendation in the report which was agreed unanimously.

RESOLVED

The Committee received and noted the report.

8. REVIEW OF TREASURY MANAGEMENT ACTIVITY 2020/21.

Peter Stuart, Head of Corporate Resources introduced the report. He advised that all transactions were within the policies set by the Committee. Except for a brief period early in 2021 when the council received large sums from the Government, £26M at short notice, and were unable to place with other counter parties and keep within our prescribed limits.

Members discussed the use of money markets and domestic main-stream financial institutions, the types of interest rates available, the Council's strategy when placing funds owing to the current state of the money markets and what protection was available for the council's deposits.

The Head of Corporate Resources confirmed the treasury management advice was to diversify the cash with many financial institutions to spread the risk rather than using one institution. The money markets offered daily rates of interest rather than fixed rates for the term of the deposit. With the current state of the money markets the Council would have to take a higher risk on the funds placed to get a higher rate of interest, he assumed the council and committee would not accept more risk on cash deposits using lower rated institutions. He confirmed there is no statutory protection for funds placed on deposit but the council use AAA rated institutions and the like and the knowledge of professional advisors before placing funds. It is currently difficult to get a good rate when current investments mature as many organisations are trying to deposit cash funds and it is hard to find counterparties who need the funds.

RESOLVED

The Committee received and noted the report.

9. EXTERNAL AUDIT PLAN.

Kevin Suter, External Auditor EY introduced the report. He noted the report for the year ending 31 March 2021 was presented later than usual as deadlines were extended due to pandemic. The new planning cycle started later than normal, the new external audit plan incorporates a number of new areas, financial statements and value for money responsibilities and the year-end work will commence shortly.

Jack Dunkley, External Auditor EY highlighted the key risks which they must consider for the international standards on auditing ISO240. He highlighted the new risks that had been identified this year, risk of fraud in sales, fees and charges income grants due to the Government reimbursement scheme for loss of income where there is the potential for error, and accounting for Covid business grants. He also noted the valuations for investment properties and pension liability which are very subjective, and the revised ISO570 relating to going concerns. The value for money requirement which now has three separate criteria for which to provide commentary. He confirmed no significant risks had been identified.

Members welcomed the comprehensive report and queried if there were more risks by the completing the audit remotely, whether new areas identified would continue to an area of interest and the frequency for auditing investment properties.

Kevin Suter confirmed there was no greater risk in performing the audit remotely as their procedures had been adapted, the use of screen sharing rather than hard copy documents, if required site visits would be made. For the new risks identified, i.e. Covid grants will continue to be an area of work if the grants continue to be received and will depend on the national picture. Investment properties have to be valued annually and with the new auditing standards the Council can expect this to be an ongoing area of interest. He advised that he and Jack Dunkley do not audit the pension fund and only confirm the figures are correct. The audit is done by another colleague in EY for West Sussex County Council.

As there were no further questions the Chairman took Members to the recommendation in the report which was agreed unanimously.

RESOLVED

The Committee received and noted the report.

10. NEW INTERNAL AUDITOR PROVIDER: DRAFT CHARTER.

Peter Stuart, Head of Corporate Resources introduced the report. The contract had been made using a framework and Mazars came highly recommended. He introduced Graham Clarke, Managing Director and Juan Fosco, Assistant Manager. It would be a system-based audit which starts in the later part of the year and is driven by data.

The Managing Director advised he leads on internal audit services in local government and other organisations. The contract was procured through the London Borough of Croydon framework, Apex framework. They can provide a full service and have specialist teams for auditing IT and grants.

The Head of Corporate Resources advised Mazars will bring reports forward in normal way and there may be a difference in the style of reporting. The extent of reporting will be the same as that done by Crawley Borough Council.

Members welcomed Mazars. They queried whether the format of the internal audit would remain the same and noted that a change of internal auditor may provide opportunities for innovation.

The Managing Director advised there may be differences in relation to income changes, the terms of reference may differ and they may suggest changes if there are areas they believe need enhancing or need bringing to the committee's attention. The method of reporting to the committee will be the same. He noted the plan had been approved earlier in the year, they have highlighted some areas that require adjustment. He confirmed the committee will get an assurance that Mazars are looking at the key risks and will make recommendations where appropriate. They also produce an annual report of the key risks across the sector which is shared with all their clients, hold bi-annual Webinars which the committee members can watch. They will share best practice with the council.

The Chairman welcomed Mazars and noted that they are a substantial and long-standing company.

As there were no further questions the Chairman took Members to the recommendation in the report which was agreed unanimously.

RESOLVED

The Committee recommended the Draft Charter.

11. COMMITTEE WORK PROGRAMME 2021/22.

Tom Clark, Head of Regulatory Services, introduced the Committee's Work Programme which noted the business for the remainder of the year. He advised that there may be further items subject to council approving any additional work for the committee.

The Chairman noted that no Member wished to speak so moved to the recommendation to note the Work Programme which was approved unanimously.

RESOLVED

The Committee noted the Work Programme for 2021/22.

12. QUESTIONS PURSUANT TO COUNCIL PROCEDURE RULE 10.2 DUE NOTICE OF WHICH HAS BEEN GIVEN.

None.

The meeting finished at 6.07 pm

Chairman

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REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2021

REPORT OF:	Head of Corporate Resources
Contact Officer:	Peter Stuart Email: pamela.coppelman@adur-worthing.gov.uk Tel: 01903 221236
Wards Affected:	All
Key Decision	No
Report to:	Audit Committee
Date of Meeting:	16 November 2021

PURPOSE OF REPORT

1. The report attached as Appendix 1 sets out the Council's treasury management activity for the half year to 30 September 2021.

SUMMARY

2. Interest rates on investments have remained very low, resulting in income below the budget for the half year. The final repayment of £5m from borrowing for The Orchard shopping centre will be repaid in November. Due to the capital receipt from the sale of Hurst Farm, and the continued significant reliefs from the government relating to Covid-19, the Council has struggled to keep within the counterparty investment limits approved in the Treasury Management Strategy Statement and the Head of Corporate Resources is recommending some increases (see below).

RECOMMENDATIONS

3. **The Committee is asked to recommend the following to the full Council:**

   (i) that no new borrowing has been necessary in the 6 months to 30th September 2021 and the outstanding borrowing has reduced from £7.556m at 31 March 2021 to £7.341.

   (ii) the increase in investments from £57.035m at 31 March 2021 to £78.254m at 30 September 2021 (both figures exclude the £6m investment in the CCLA Local Authorities' Property Fund).

   (iii) due to the increase in funds available for investment, and the requirement to keep significant liquidity, the Head of Corporate Resources recommends increases in the Council's counterparty investment limits as follows, subject to compliance with the approved ratings:

   - from £4m to £5m for UK banks: HSBC, National Westminster, Barclays, Santander, Handelsbanken, Goldman Sachs International Bank and Close Brothers
   - from £4m to £7m for the Council's banker, currently Lloyds Bank.

   (iv) Add HSBC Environmental, Social and Governance Sterling Liquidity fund to the list of money market fund counterparties subject to confirmation of AAA rating. Further details are in section 10.6.

BACKGROUND

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2019.

5. The 2021-22 Treasury Management Mid-Year Report produced by the Group Accountant (Strategic Finance) is attached as Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

6. For those Members seeking a summary, the key points are that the shared service has adhered to all borrowing limits and counterparty lending limits approved in the Treasury Management Strategy Statement. Interest earned on investments is lower than forecast, due to the continuing low interest rates available on investments, whilst interest on borrowing is in line with the budget.

7. The Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

8. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce a mid year report. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

OTHER OPTIONS CONSIDERED

9. None – this report is statutorily required.

FINANCIAL IMPLICATIONS

10. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

RISK MANAGEMENT IMPLICATIONS

11. This report has no specific implications for the risk profile of the Authority.

EQUALITY AND CUSTOMER SERVICE IMPLICATIONS

12. None.

SUSTAINABILITY IMPLICATIONS

13. None.

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2021/22 to 2023/24 (Council 31 March 2021), and Review of Treasury Management Activity 2020/21 (Audit Committee 27 July 2021)

- Code of Practice on Treasury Management (CIPFA) and Treasury Management in the Public Services Guidance Notes (CIPFA)

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

- Department for Communities & Local Government Investment Guidance

- Statutory MRP guidance

- Link Asset Services report template (October 2021)

APPENDIX 1

1. SUMMARY

This report summarises the Council's treasury management for the half year to 30 September 2021. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. BACKGROUND

2.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is intended to provide the following: -

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

2.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising 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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined 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."

3. INTRODUCTION

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-Year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

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

- An economic update for the first part of the 2021/22 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- A review of any debt rescheduling undertaken during 2021/22;
- A review of compliance with Treasury and Prudential Limits for 2021/22.

4. ECONOMICS AND INTEREST RATES

*The following commentary has been supplied by **Link Group**, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

4.1 Economics update

4.1.1 UK. The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

4.1.2 Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

4.1.3 The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -Placing the focus on raising Bank Rate as "the active instrument in most circumstances".

1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

4.1.4 COVID-19 vaccines. These have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

4.1.5 Globally, our views on economies are as follows: -

EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.
German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition

government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

4.2 Interest rate forecasts

4.2.1 The Council's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View 29.9.21										
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

4.2.2 Significant Risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.

- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

4.2.3 The balance of risks to the UK economy

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

4.2.4 Forecasts for Bank Rate

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

4.2.5 Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

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

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that

there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

4.2.6 Gilt and treasury yields

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had already been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries.
4. And the Fed was still providing monetary stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of "substantial further progress towards the goal of reaching full employment". However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK. **As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

5. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

5.1 The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by this Council on 31 March 2021. The details in this report update the actual and forecast expenditure in light of the updated economic position and budgetary changes already approved.

5.2 Due to the capital receipt from Hurst Farm, the continued support from government for Covid 19 through the provision of funding and the consequent requirement to maintain significant liquidity for the onward payment of grants, the Council has struggled to manage within the current counterparty investment limits. In addition, the frequent need to transfer sums from the Council's bank, Lloyds, in order to stay within the counterparty limit, incurs greater charges than the interest that can be earned. Therefore the Head of Corporate Resources recommends an increase in the counterparty limits for some UK banks (HSBC, National Westminster Bank, Barclays Bank, Santander UK, Handelsbanken PLC and Close Brothers Ltd) from £4m to £5m and for Lloyds bank, in its position as the Council's main bank, from £4m to £7m. It will still be necessary for the banks to comply with the minimum credit ratings as set out in the TMSS and weight will also be given to diversifying the investments.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Council's capital expenditure plans

- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow
- Compliance with the limits in place for borrowing activity

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The increase is made up of a number of capital variations which are detailed in the Budget Management Reports to Cabinet on 26 July 2021 and 13 September 2021.

	2021/22 Original Estimate	Actual at 30 Sept 2021	2021/22 Revised Estimate
	£m	£m	£m
Total capital expenditure	5.195	6.369	12.948

6.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

	2021/22 Original Estimate	2021/22 Revised Estimate
	£m	£m
Total Capital Expenditure	5.195	12.948
Financed by:		
Capital receipts	2.980	3.174
Capital grants, S106 etc.	1.927	9.217
Reserves and revenue contributions	0.288	0.557
Total financing	5.195	12.948
Borrowing requirement	0.000	0.000

6.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The table also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

There is significant movement in the Capital Financing Requirement from the original estimate following the capital receipt for the sale of land at Hurst Farm on 31 March 2021. £19,722,000

has been utilised to show as financing for The Orchards Shopping Centre.

Prudential Indicator – the Operational Boundary for external debt

	2021/22 Original Estimate	Actual at 30 Sept 2021	2021/22 Revised Estimate
	£m	**£m**	**£m**
Prudential Indicator: Capital Financing Requirement			
CFR – non housing	26.382	7.195	6.661
Net movement in CFR	(0.534)	(0.000)	(0.534)
Prudential Indicator: The Operational Boundary for external debt			
	Op Boundary	**Actual**	**Op Boundary**
Borrowing	28.000	5.226	28.000
Other long term liabilities*	4.000	2.115	4.000
Total debt (year-end position)	32.000	7.341	32.000

*finance leases

6.4 Limits to Borrowing Activity: debt compared with the Capital Financing Requirement

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2021/22 Original Estimate	Actual at 30 Sept 2021	2021/22 Revised Estimate
	£m	**£m**	**£m**
Borrowing	0.152	5.226	0.152
Other long term liabilities*	1.970	2.115	1.970
Total debt	2.122	7.341	2.122
CFR (year-end position)	26.382	7.195	6.661

*finance leases

6.5 Limits to Borrowing Activity: debt compared with the Authorised Limit

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit

determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for external debt	2021/22 Original Indicator	Actual at 30 Sept 21	2021/22 Revised Indicator
	£m	£m	£m
Borrowing	30.000	5.226	30.000
Other long term liabilities	4.000	2.115	4.000
Total	34.000	7.341	34.000

7 BORROWING

7.1 The Council's capital financing requirement (CFR) for 2021/22 is £6.661m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 6.4 shows the Council currently has borrowings of £7.341m, but by the end of 2021/22 this will have fallen to £2.122m. This will be below the CFR, with the balance of the CFR funded from cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

The Council has not taken out any new borrowing in 2021/22. In addition, the effects of coronavirus on the capital programme objectives are being assessed. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

7.2 PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2021

Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September.
The 50 year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23rd September.

- The current PWLB rates are set as margins over gilt yields as follows: -.
    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

8 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

9 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2021, the Council has operated within the

treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.
All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

10 ANNUAL INVESTMENT STRATEGY

10.1 The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 31 March 2021. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using information supplied by Link, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in section 4.2.1, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020 until the MPC meeting on 24th September 2021 when 6 and 12 month rates rose in anticipation of Bank Rate going up in 2022. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

10.2 Creditworthiness

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

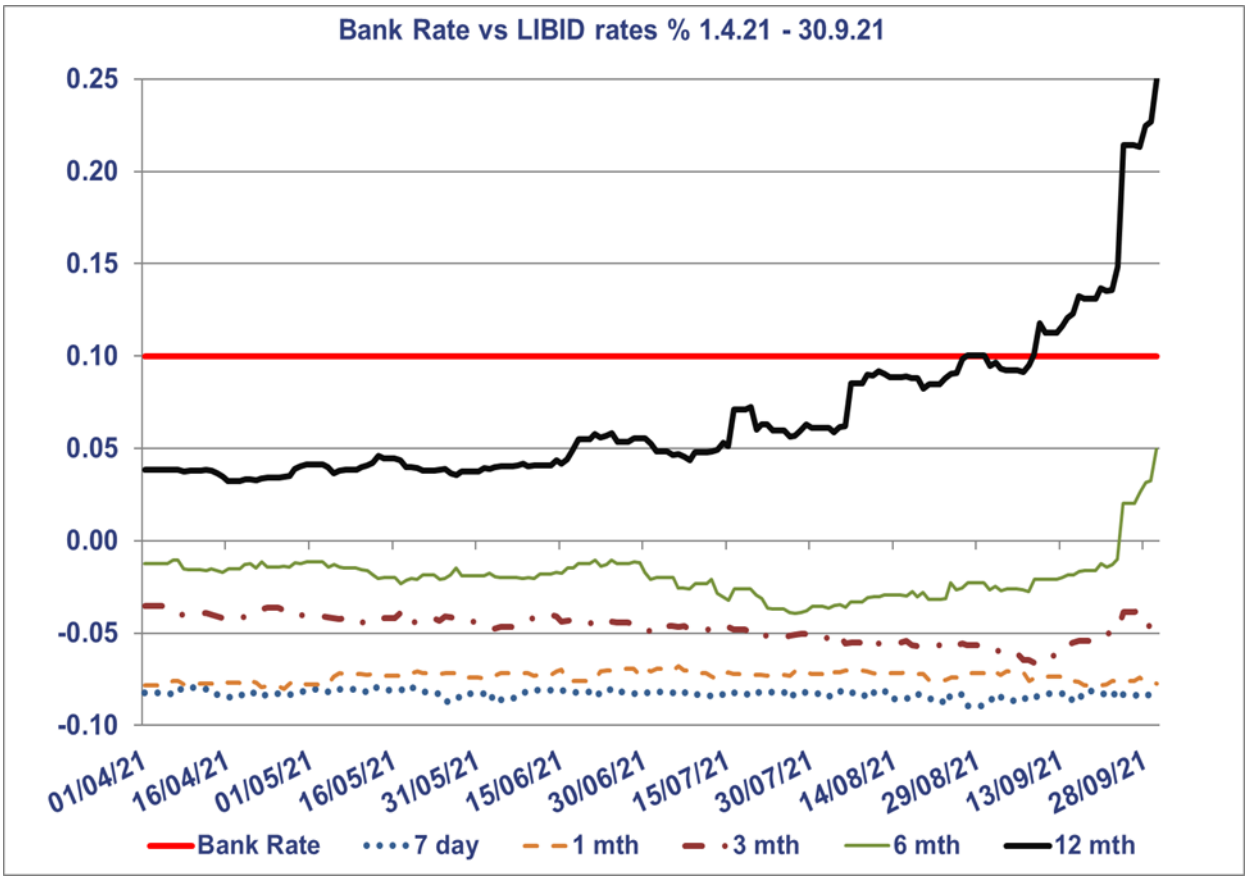
10.3 Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices
Although CDS prices, (these are market indicators of credit risk), for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. **However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.**

Investment balances
The average level of funds available for investment purposes during the 6 months, excluding the Council's £6m investment in the Local Authorities' Property Fund, was **£71.1m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment rates during period ended 30th September 2021



10.4 Investment performance year to date as at 30 September 2021

The Council earned £78,824 in investment income of which £9,637 was from market funds, call accounts and notice accounts. This total excludes interest from the Council's £6m investment in the Local Authorities' Property Fund. The Council's budgeted investment return for 2021/22 is £171,830, but the current forecast is £145,023, which is £26,807 lower than the estimate due to the continuing low interest rates available in the market.

10.5 Approved limits and Counterparties

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period to 30 September 2021. The Council's investment balances have increased this year due to the large capital receipt from the sale of Hurst Farm and the continued government Covid support. Consequently it has been difficult to manage the funds within the current counterparty limits. Therefore the Head of Corporate Resources recommends that the limits for UK banks are increased to £5m and the limit for the Council's bankers (currently Lloyds bank) is increased to £7m as set out in 5.2.

10.6 The inclusion of an additional Money Market Fund counterparty will extend the range of options available and introduces another fund that applies Environmental, Social and Governance criteria to its investments, to meet the Council's sustainability strategy objectives. Officers have been careful to avoid counterparties with direct connections to industries which would not comply with this aim, wherever possible, but in order to fulfil the investment security requirements and our counterparty limits, it is not always possible to avoid indirect connections. The Councils use Low Volatility Net Asset Value (LVNAV) money market funds to manage liquidity and these funds invest in a wide range of assets. HSBC is in the process of launching a new ESG (Environmental, Social and Governance) LVNAV money market fund that will be implementing a "Best in Class" strategy towards ESG investing. It is recommended

that, subject to confirmation of AAA rating for the fund, the HSBC ESG Sterling Liquidity Fund is added to the funds currently used by the Councils.

10.7 Investments at 30 September 2021

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Cambridge BS	05.07.21	05.07.23	£2,000,000	0.40%	n/a
Cambridge BS	09.07.21	05.07.23	£1,000,000	0.40%	n/a
CCLA MMF	n/a	n/a	£3,000,000	Var	AAA
Close Brothers Ltd	31.03.21	30.03.22	£2,000,000	0.45%	A-
Close Brothers Ltd	07.09.21	05.09.22	£2,000,000	0.45%	A-
Cornwall Council	20.04.21	20.10.21	£3,000,000	0.04%	n/a
Coventry Building Society	10.08.21	10.08.22	£1,000,000	0.08%	A-
Coventry Building Society	18.08.21	18.08.22	£1,000,000	0.08%	A-
Cumberland Building Society	12.02.21	07/02/22	£1,000,000	0.13%	Unrated
Black Rock	n/a	n/a	£10,000	Var	AAA
Federated MMF	n/a	n/a	£2,940,000	Var	AAA
Goldman Sachs Intern'l Bank	24.02.21	24.02.22	£1,000,000	0.32%	A+
Goldman Sachs Intern'l Bank	03.03.21	07.03.22	£1,000,000	0.34%	A+
Goldman Sachs Intern'l Bank	31.03.21	30.09.22	£1,000,000	0.38%	A+
Handelsbanken	n/a	n/a	£1,010,000	0.015%	AA-
Handelsbanken 35 day notice	14.07.20	n/a	£2,990,000	0.050%	AA-
Invesco MMF	n/a	n/a	£2,200,000	var	AAA
Leeds BS	07.04.21	05.04.22	£3,000,000	0.15%	A-
Lloyds Bank 95 day notice	22.07.20	n/a	£10,000	0.05%	A+
Lloyds Call account	10.05.21	n/a	£90,000	0.01%	A+
Monmouthshire Building Soc.	02.08.21	07.08.22	£3,000,000	0.35%	Unrated
National Counties B'ding Soc.	22.03.21	22.03.22	£2,000,000	0.34%	Unrated
National Counties B'ding Soc	05.05.21	05.05.22	£1,000,000	0.33%	Unrated
National Westminster Bank	29.06.21	29.06.22	£3,000,000	0.17%	A+
National Westminster Bank	30.06.21	30.06.22	£1,000,000	0.16%	A+
Newcastle Building Society	08.04.21	05.04.22	£3,000,000	0.17%	Unrated
Nationwide Building Society	17.06.21	17.12.21	£3,000,000	0.07%	A
Nationwide Building Society	30.06.21	30.06.22	£1,000,000	0.08%	A
Principality Building Society	30.04.21	05.05.22	£2,000,000	0.15%	BBB+
Principality Building Society	26.05.21	06.06.22	£1,000,000	0.16%	BBB+
Progressive BS	01.12.20	01.12.21	£2,000,000	0.40%	Unrated
Progressive BS	05.07.21	05.07.22	£1,000,000	0.20%	Unrated
Saffron Building Society	20.11.20	19.11.21	£3,000,000	0.40%	Unrated
Santander 95 day notice	10.11.20	n/a	£4,000,000	0.45%	A+
Standard Chartered Bank	31.03.21	31.03.22	£3,000,000	0.18%	A+
Surrey Heath BC	31.08.21	28.02.22	£2,000,000	0.04%	n/a
Thurrock BC	26.05.21	25.05.22	£3,000,000	0.16%	n/a
Warrington BC	10.06.21	09.06.22	£3,000,000	0.10%	n/a
West Bromwich B'ding Soc.	01.07.21	05.07.22	£1,000,000	0.16%	BB-
West Bromwich B'ding Soc.	05.07.21	05.07.22	£2,000,000	0.15%	BB-
Yorkshire BS	27.07.21	26.07.22	£3,000,000	0.10%	A-
TOTAL			**£78,250,000**		

11 OTHER

11.1 Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to Members' attention in treasury management update reports.

11.2 Sustainability and Ethical Policies of Counterparties

Following the concerns expressed by Members, the Shared Treasury Service in consultation with the Head of Corporate Resources gives due consideration to environmental, social and corporate governance issues. Some of the policies of the banks and building societies that the Council is currently using are linked below.

https://www.cambridgebs.co.uk/more/about-us/community-detail

https://www.ccla.co.uk/our-policies/climate-change-and-investment-policy

https://www.closebrothers.com/sustainability-and-environment

https://www.coventrybuildingsociety.co.uk/member/sustainability/environment-policy.html

https://www.cumberland.co.uk/about/corporate-governance

https://www.federatedinvestors.com/resources/resource-centers/responsible-investing-center.do?hint=class

https://www.goldmansachs.com/investor-relations/corporate-governance/sustainability-reporting/

https://www.handelsbanken.com/en/sustainability/climate-impact

https://www.invesco.com/corporate/about-us/esg/environmental-sustainability

https://www.leedsbuildingsociety.co.uk/knowledge-base/members/continuing-to-reduce-our-carbon-footprint/

https://www.lloydsbankinggroup.com/our-group/responsible-business/financing-a-green-future-together/reducing-our-own-environmental-footprint/

https://www.monbs.com/blog/valuer-project/

https://www.ncbs.co.uk/about-us/corporate-information

https://investors.natwestgroup.com/esg-disclosures

https://www.newcastle.co.uk/about-us/governance/corporate-governance/

https://www.nationwide.co.uk/about-us/responsible-business/

https://www.principality.co.uk/about-us/our-community/csr

https://theprogressive.com/your-society/our-responsibilities/progressive-and-the-environment

https://www.saffronbs.co.uk/about/community/green-hub/going-green-saffron

https://www.santandercb.co.uk/why-santander/sustainability

https://www.sc.com/en/sustainability/?gclid=Cj0KCQjw18WKBhCUARIsAFiW7Jw9h9XtzcULNMBFfdOMiAEC0Lkjnwv5QBGzPyHH7ftV08AuVuZm3hYaAmJmEALw_wcB&gclsrc=aw.ds

https://www.westbrom.co.uk/suppliers/supplier-code-of-conduct

https://www.ybs.co.uk/your-society/environment/index.html

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EXTERNAL AUDIT PROGRESS REPORT 2020 - 21

REPORT OF: Head of Corporate Resources
Contact Officer: Peter Stuart
Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected: All
Key Decision: No
Report to: Audit Committee
Date of Meeting 16 November 2021

Purpose of Report

1. The report introduces the auditors' 'Audit Progress Report' and provides some context for Members' consideration.

Recommendations

2. That the report be received.

Background

3. The External Audit is progressing well but is not yet finished; the Auditors have prepared a Progress Report for the Committee's consideration. This is attached as an Appendix.

4. Members will appreciate that this year, audits across the sector are running late and at an increased cost due to the pandemic still having an effect. It is reported that only 9% of audits had been completed by the end of September target date in spite of 80% of Councils' accounts being made available by the end of July.

5. The External Auditor will attend the virtual meeting to present his report and answer Member's questions.

Policy Context

6. Receiving the report enables the Council to fulfil its statutory obligations.

Other Options Considered

7. None.

Financial Implications

8. This report has no financial implications.

Risk Management Implications

9. None.

Equality and Customer Service Implications

10. This report has no such implications.

Other Material Implications

11. This report has no such implications.

Sustainability Implications

12. This report has no such implications.

Background Papers

None.

Mid Sussex District Council
Audit progress update

Year ended 31 March 2021

November 2021

Building a better working world

APPENDIX 1

Private and Confidential

16 November 2021

Mid Sussex District Council
Oaklands Road
Haywards Heath
West Sussex
RH16 1SS

Dear Committee Members

Audit progress update

We are pleased to attach our audit progress update report for the forthcoming meeting of the Audit Committee. This report summarises our current status in relation to the audit of Mid Sussex District Council 2020/21.

As detailed in the report we have completed a substantial amount of the audit, but await the final reports from our Pension and Property specialists. In addition to the specialist reports, we have also received an objection to the 20/21 accounts from a local elector. We are currently in the process of 'Considering and Deciding' on the matters raised in the objection, a process which can take a significant amount of time and resource.

This update is intended solely for the information and use of the Audit Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 16 November 2021.

Kevin Suter
Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Audit Progress Report

Status of the audit

We have completed a substantial amount of our audit of Mid Sussex District Council's financial statements for the year ended 31 March 2021. As noted in the section below from the work performed we have not identified any significant amendments which require your attention. However until work is complete, further amendments may arise. At the time of writing, the following remains outstanding:

- Objection – we received an Objection to 2020/21 accounts. Please see overleaf for further information;
- Property valuation – we instructed our valuation team (EY Real Estate) to review a sample of the Council property valuations. EY Real Estate (EYRE) are yet to conclude on the sample. From their initial review of the valuations EYRE have raised issues with the quality of data the valuations are based on, and some of the Valuers assumptions. As in previous year EYRE also experience difficulties in reviewing the calculation as the Valuer does not explicitly state all their assumptions. We will work with management to recommended appropriate controls for 2021/22 to help reduce the risk of these issues recurring ;
- Pension Fund specialist report – due to the changes in ISA 540, we are required to obtain assurance over the Actuary's model used to calculate the IAS19 liability. Following discussion with key stakeholders, including the FRC, NAO, and other audit firms, we are obtaining this assurance by recalculating the IAS 19 liability using a parallel model developed by our own specialists. We have provided the necessary information to our expects to allow them to perform the calculation and await their final report;
- Finalisation of quality review process – at the time of writing a small number of tasks remain in the process of being reviewed by the Manager and Associate Partner as part of our quality review process;
- Completion of subsequent events review;
- Review of the final statements; and
- Receipt of the signed management representation letter

Audit differences

There are no unadjusted audit differences arising from our audit at the time of writing this report.

There are also no material adjusted audit differences arising from our audit at the time of writing this report.

Value for money

As we reported in our Audit Plan in July, we have not identified a VFM risk during our planning phase of the audit. At the time of writing we have also not identified a VfM risk through the course of our year end procedures.

However, as the audit remains ongoing we will continue to update our assessment. We will also consider the outcome of the Objection as part of our VfM assessment.

Audit Progress Report

Objection

We received an objection to 2020/21 accounts during the inspection period.

In line with the NAO guidance, we follow a three step process when we receive an objection:

- Step 1 - is the objection eligible?
- Step 2 - shall the auditor, in their discretion, accept the objection for consideration?
- Step 3 - considering and deciding the objection

We have confirmed the objection is eligible, meeting the requirements set out in the Local Audit & Accountability Act 2014. We have accepted the majority of the points for consideration

Having accepted the Objection, we progress to Step 3 to consider and decide the objection. This has been started by writing to the Council to obtain it's formal response to those items accepted for consideration.

The objection process can take a significant amount of time and resource to complete. The maters raised in the objection have the potential to impact on the financial statements and our assessment of the Council's Value for Money arrangements. Therefore, we will not be able to conclude on the audit until we have completed the objection process.

Other reporting issues

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers.

Based on the last available update the DCT and guidance was not expected to be available until late 2021. Therefore the 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process.

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INTERNAL AUDIT UPDATE 2021- 22.

REPORT OF:	HEAD OF CORPORATE RESOURCES
Contact Officer:	Peter Stuart
	Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected:	None
Key Decision:	No
Report to:	Audit Committee
Date of Meeting:	16th November 2021

Purpose of Report

1. This report sets out the progress with the new Internal Audit Contract and provides a platform for a verbal update from the provider.

Recommendations

2. The Committee is recommended to:

(i) note the report.

Background

3. Mazars, as the new provider, have started to introduce themselves to the key contacts within the Council and are putting together their programme of work over the autumn and winter.

4. As Members know, this mainly comprises the fundamental systems audits such as the Financial Management System, Budgetary Control, Council Tax billing and recovery and so on.

5. We have also made available all the files and records from the last provider (Crawley Borough Council) to ensure continuity of service and the ability to follow up on recommendations and control improvements.

6. The next few months therefore comprises the peak of activity for Internal Audit, and the Mr Fosco, the Internal Audit Manager at Mazars will be attending the meeting to elucidate on the forthcoming programme of work.

Policy Context

7. The Internal Audit service allows the S151 Officer to have assurance that systems are working as they should and that the control environment is adequate.

Other Options Considered

8. None.

Financial Implications

9. This report has no financial implications.

Risk Management Implications

10. None.

Equality and Customer Service Implications

11. None.

Other Material Implications

12. None.

Sustainability Implications

13. None

Background Papers

- None

COMMITTEE WORK PROGRAMME 2021/22

REPORT OF: Tom Clark, Head of Regulatory Services
Contact Officer: Alison Hammond, Member Services Officer
Email: alison.hammond@midsussex.gov.uk Tel: 01444 477227
Wards Affected: *All*
Key Decision: No

Purpose of Report

1. For the Audit Committee to note its Work Programme for 2021/22

Summary

2. Members are asked to note the attached Work Programme. The Work Programme will be reviewed as the final piece of business at each meeting, enabling additional business to be agreed as required.

Recommendations

3. The Committee are recommended to note the Committee's Work Programme as set out at paragraph 5 of this report.

Background

4. It is usual for Committees to agree their Work Programme at the first meeting of a new Council year and review it at each subsequent meeting to allow for the scrutiny of emerging issues during the year.

The Work Programme

5. The Committee's Work Programme for 2021/22 is set out below:

Meeting date	Item
1 March 2022	External Audit Plan Treasury Management Strategy Statement Internal Audit Monitoring Report Annual Audit Grant certification

Policy Context

6. The Work Programme should ideally reflect the key priorities of the Council, as defined in the Corporate Plan and Budget.

Other Options Considered

7. None.

Financial Implications

8. None.

Risk Management Implications

9. None.

Equality and Customer Service Implications

10. None.

Other Material Implications

11. None.

Sustainability Implications

12. None

Background Papers

13. None