

Minutes of a Meeting of the Audit and Governance Committee held at the Hub, Mareham Road, Horncastle, Lincolnshire LN9 6PH on Wednesday, 1st February, 2023 at 10.15 am.

PRESENT

Councillor Will Grover (Chairman)
Councillor David Andrews (Vice-Chairman)

Councillors Colin Davie, Rosalind Jackson, Jill Makinson-Sanders, Terry Taylor and Graham Williams

Mr George Krawiec and Mr Walter Leschenko attended the Meeting as Independent Co-Optees.

OFFICERS IN ATTENDANCE:

Christine Marshall	- Deputy Chief Executive (Corporate Development) and S151 Officer
Samantha Knowles	- Assistant Director, Finance and Deputy S151 Officer
Sean Howsam	- Treasury and Investment Manager, PSPS Limited
Richard Steele	- Data Protection Officer
Lucy Pledge	- Head of Service – Corporate Audit and Risk Management, Assurance Lincolnshire
Matthew Waller	- Principal Auditor, Assurance Lincolnshire
Jon Machej	- External Auditors
Elaine Speed	- Senior Democratic Services Officer and Civic Officer
Lynda Eastwood	- Democratic Services Officer

39. APOLOGIES FOR ABSENCE:

Apologies for absence were received from Councillors Danny Brookes.

Councillor Adrian Benjamin attended the meeting remotely as an Observer.

40. DISCLOSURE OF INTERESTS (IF ANY):

At this point in the meeting, Members were invited to declare any relevant interests. None were received.

41. MINUTES:

The Open and Exempt Minutes of the Meeting held on 23 November 2022 were agreed as a correct record.

42. CHAIRMAN'S UPDATE:

The Chairman acknowledged the huge effort by senior officers and the Finance Team for delivering a balanced budget whilst having to deal with

global problems and it was highlighted that all authorities would be facing the same external pressures.

Members were advised that the Section 151 Officer had committed to provide a verbal update to all Committee Members when the budget process had concluded.

43. ACTION SHEET

The actions from the Meeting held on 23 November 2022 were confirmed as completed.

44. INTERNAL AUDIT REPORT: INVEST EAST LINDSEY:

Lucy Pledge, Head of Internal Audit, Assurance Lincolnshire was in attendance to provide Members with a verbal update on Invest East Lindsey.

Members were advised that the draft report was completed on 30 January 2023 and would be presented to management to consider the findings. Following which, the final report would be presented to Committee in March 2023.

The Head of Internal Audit advised Members that the delays encountered were not normal and the work on IEL had been problematic, the intention was to have the report completed earlier.

Members were invited to put their comments and questions forward.

A Member queried the cause of the slippage, for example management, staffing or external issues. The Head of Internal Audit responded that it was within Internal Audit and related to a long-term absence that affected the pace of delivery.

N.B. Lucy Pledge, Head of Internal Audit left the Meeting at 11.06am.

45. INTERNAL AUDIT PROGRESS REPORT - DECEMBER 2022:

The Audit Manager, Assurance Lincolnshire, presented to Members the Internal Audit Progress Report Quarter 2 which covered the period August 2022 to December 2022, pages 23 to 56 of the agenda refer.

The purpose of the report was to provide Members with details of the audit work completed during the period, to advise on progress with the 2022/23 plan and to raise any other matters that may be relevant to the Audit Committee role.

It was noted that in this period 9 reviews had been completed with 3 high assurance, 3 substantial assurance, 2 limited assurance, 0 low assurance and 1 consultancy, full details were contained within Appendix 4, pages 52

to 54 of the Agenda refer. Full details on the audits with Limited Assurance were detailed at pages 39 to 45 on the Agenda.

In terms of work in progress the following update was provided: -

Members noted that the report highlighted that 37% of the revised Audit Plan had been completed. Since the data was recorded on 31 December 2022, the actual work completed was 55% and it was confirmed that all remaining work had been scheduled and was in progress.

Members were further referred to Appendix 3, which detailed the summary of outstanding agreed actions for all audits at 30 November 2022, pages 47 to 51.

Members noted that there were currently 8 actions which were overdue, 2 of which were rated as high.

Members were further advised that one change had been recorded on the Internal Audit Plan 2022/23 'ELDC Fraud Risk Register' so that this was updated to ensure it reflected current issues and national trends.

The Internal Audit Manager was pleased to report that other significant work had been undertaken on combined assurance. The assurance mapping meetings had now been completed and the results were currently being collated and used to populate the draft report for management to complete. It was anticipated that this would be completed in March 2023.

In relation to a Member's query on the delays experienced in obtaining information to progress audits the Internal Audit Manager confirmed that remote working had caused a slight delay but assured Members that all work was contained within the work programme.

Members were invited to put their comments and questions forward.

In relation to the low assurance on Section 106 Agreements, the following comments were received:

- A Member commented that he was disappointed to see the low assurance awarded and considered that S106s should be linked to the enforcement and non-enforcement of planning conditions.
- A Member commented that a lack of effective controls for S106s had let down communities, particularly those that had major developments and had not received any S106 monies back into the community. It was queried why this had not been picked up by the Portfolio Holder and considered that a quarterly report should be presented to Planning Committee.
- A Member highlighted that there were too many conditions being removed from planning conditions to the benefit of the developer.

- In relation to the SELCP - Flood Management – High Assurance awarded a Member, and the Chairman of the Caravan Scrutiny Panel raised concerns of inaccurate data of how many people actually lived in caravans year-round and queried how robust the protocols were. The Internal Audit Manager responded that the audit looked at certain risks and advised that further work could be undertaken in this area to look at climate change and flood management.

In relation to the low assurance on Key Controls – Accounts Receivable – December 2022, the following comments were received:

- A Member queried what the Council issued credit notes for, particularly in relation to the £500k referred of the £997k credit notes raised between April and July 2022 relating to the management of a complex debt restructure agreement between ELDC and a customer.
- A Member referred to the credit note raised for £195k for the incorrect amount – this resulted in the customer debt being reduced by an additional £32k at the expense of the Council, page 44 of the Agenda refers and asked where this would have been identified in the process if this had not been reported to A & G Committee. In response, the Section 151 Officer assured Members that in terms of the process of credit notes, as a result of this an enhanced review of all credit note processes had been undertaken and regular meetings between budget holders and credit collection had been put in place so that they also managed any debts outstanding and made sure the corrections were valid and collected in accordance with agreements that may be in place.

Members were further advised that enhanced processes around budgetary management were also being looked at. The Assistant Director, Finance added that this had been brought to their attention before the report was published and Members were advised that further information could be provided on this outside of the meeting to avoid identifying the business concerned if required, to which Members asked that this be provided.

- A Member queried why Subscription (Recurring) Invoices were issued (in relation to an invoice valued in excess of £100k), page 44 of the Agenda refers. The Assistant Director, Finance advised that she would respond to this after the meeting.
- In relation to Debt Recovery a Member queried why recovery action was not always undertaken on a timely basis - the example reported was in relation to a debt that had been with service areas between 4 to 8 months for a debt recovery decision. The Section 151 Officer confirmed that this was the point of the process that had been put in place, to ensure managers were regularly working on recovery of debts.
- A Member considered that there may be an issue of how the Council dealt with businesses equitably with regards to recovering debts otherwise there could be a legal challenge on how the Council operated and that

there should be a policy on how debts were recovered and hoped that the revision of processes allowed this. The Section 151 Officer confirmed that they were looking at an equal process on recovery and that the large amount reported was a unique case.

- In relation to PSPS Finance, a Member highlighted that within the report it referred to complications arising as a result of the interactions with other services to obtain required data. It was queried whether this was a widespread problem and whether it was possible for this to be looked at. The Section 151 Officer confirmed that conversations were ongoing and resources were being discussed.

Following which it was,

RESOLVED:

That the Internal Audit Progress Report be noted.

On behalf of the Committee, the Chairman expressed his best wishes to Lucy Pledge, Head of Internal Audit for her retirement from Assurance Lincolnshire and wished her the very best for the future.

46. ANNUAL BUDGET REPORT, MEDIUM TERM FINANCIAL STRATEGY, FINANCIAL STRATEGIES & COUNCIL TAX:

The Section 151 Officer presented Members with the Annual Budget Report, Medium Term Financial Strategy, Financial Strategies & Council Tax 2023/24, pages 1 to 78 of the Supplementary Agenda refer.

Councillor Richard Fry, Portfolio Holder for Finance provided Members with a preamble to the report.

The report set out the draft budget at Appendix A, including the areas of pressure that would be considered as part of this year's budget setting process, the details of the Council's Provisional Funding Settlement and the proposed level of Council Tax for 2023/24.

The Treasury Management Policy and Draft Strategy Statement for the 2023/24 financial year was also included at Appendix B to the report.

The Section 151 Officer apologised for the lateness of the report and advised Members that she was happy to offer a further briefing when the budget setting process was complete.

Following which the Section 151 Officer delivered a presentation to Members, a copy of which is attached at Appendix A to the Minutes

Members were invited to put their comments and questions forward.

- With regards to the IDB issues, a Member queried whether a Section 31 grant award was a one-off payment. The Section 151 Officer responded it

could be and that financial support would be helpful, however although not straightforward, the Council wanted a permanent resolution to this situation.

- In response to a query relating to the increase in employees' salaries and pension contributions, the Section 151 Officer advised that 5% had been built in for 2022/23 and also for 2023/24 compares to previous years where increases had been more modest. The Council had also been successful in being awarded grant funding to cover the cost of temporary posts, for example the Green Homes Grant Team and Homelessness Team.

In response to a query as to why the Council was making a £2m contribution to Reserves whilst in difficult financial times, page 31 of the Agenda refers, the Assistant Director, Finance explained in detail of the elements that made this money up. The Section 151 Officer added that the challenge with the figures was that a lot of the payments were one-offs, so if they were left in it would just move the problem forward for the following year.

- A Member referred to the commentary and the targets set versus the numbers achieved for Kingfisher Caravan Park (KCP) and suggested that it would be useful if the Q2 Outturn report came to Committee. With regards to the disappointing figures, it was highlighted that caravan sites owned by the private sector were performing well so was very concerned with the management of the KCP site. It was further highlighted that failure to meet targets reduced the budget and a query was raised on what the revised target was going to be. The Section 151 Officer advised Members that she would ask the budget holder to provide a response to all Members of the Committee.
- A Member commented that there was not a table for Reserves contained within the pack and highlighted that it was key to see this to see how it could or could not be used in the budget process.

Further to this, it was considered that the Council should consider invest to save schemes to deliver fuel savings, for example by investment on car parks that did not have solar panels installed. In response, the Section 151 Officer advised Members that the Council was looking at de-carbonisation and the energy situation where the Council could bring its own initiatives forward to support power needs. With regards to the reserve schedules, these would be presented when completed and was happy to discuss these on request.

- A Member referred to the list of projects for savings relating to commercialisation of services, page 37 of the Supplementary Agenda refers and asked whether this referred to outsourcing. The Section 151 Officer informed Members that this covered a myriad of issues including looking at how you could run a particular service commercially. This could work really well, for example the enviro-crime contract had been involved with an enforcement agency to assist and improve the performance,

therefore looking at in the context of each individual services. All Assistant Directors were currently reviewing services and looking for opportunities that might exist.

- In response to a query on what the way forward would be for the IDBs if discussions with government was unsuccessful. The Section 151 officer commented that we must get a solution to this structural issue.
- A Member added that climate change would be a big challenge for the future and highlighted that the Council needed to be cautious for future planning as a couple of floods would have a massive impact on the budgets. The flooding in Wainfleet was provided as an example, whereby the additional cost of electricity to the IDB was £0.75m.
- A Member referred to tackling climate change through the Green Homes Grant Scheme and queried what checks and balances had been put in place to ensure that residents were protected against unscrupulous people who may wish to take advantage of residents. The Section 151 Officer advised Members that she would seek a response from the service involved and feedback to Members.

The Chairman welcomed Sean Howsam, Interim Treasury and Investment Manager to the Meeting.

Members were delivered a presentation on the Treasury Management Strategy 2023/24, a copy of which is attached at Appendix B to the Minutes.

Members were invited to put their comments and questions forward.

- In response to a query raised on an earlier comment that the Capital Programme was being reviewed, the Section 151 Officer confirmed that Members would receive an update on prudential indicators to ensure an up-to-date position.
- A Member asked what the Council's total loan was to Invest East Lindsey, what had been paid to date and whether this was on forecast and if not, details on the variances. The Interim Treasury and Investment Manager advised Members that he would provide this information after the meeting.
- Reference was made to Environmental, Social and Governance (ESG) factors and it was highlighted that this should be included as soon as possible. It was further queried whether the Council retained a list for organisations with decent ESG scores and credit ratings, and if not when this would happen.

The Interim Treasury and Investment Manager responded that it was important to ensure that banks and building societies met the investment criteria and that investments were spread as much across areas of different sovereigns. Members were assured that regular training was

undertaken by officers throughout the year to ensure they were fully up to date on processes, for example where the global economy was at and any changes in legislation.

With regards to ESG factors, work was underway with the external treasury advisors. It was highlighted that this was in its infancy, therefore would seek a response to the current status with this. With regards to a query why a country might not be used at any time, the Section 151 Officer advised Members that consideration would be given to the wider factors involved and potential areas of conflict that would affect where the Council placed its investments.

A Member wished to pass his thanks on to the Interim Treasury and Investment Manager for outlining a very prudent and cautious approach to the Council's treasury management.

Following which it was,

RESOLVED:

That the Budget Report (Appendix A), Treasury Management Policy (Appendix B1) and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2023/24 (Appendix B2) together with comments and suggestions be forwarded for consideration by Executive Board on 15 February 2023 and Council on 1 March 2023.

N.B. Councillor Richard Fry, Portfolio Holder for Finance and Sean Howsam, Interim Treasury and Investment Manager left the Meeting at 12.14pm.

N.B. The Meeting adjourned for a short break at 12.14pm and reconvened at 12.22pm.

47. AUDIT PLANNING UPDATE AND PROGRESS REPORT:

John Machej was in attendance on behalf of Mazars LLP, External Auditors, to present the Audit Planning Update and Progress Report – January 2023, pages 57 to 72 of the Agenda refer. The report provided the Audit and Governance Committee with an update on progress made by Mazars LLP in delivering its responsibilities as East Lindsey District Council's (ELDC) external auditors.

Key points were highlighted to Members as follows:

- Mazars had completed work on the financial statements, however there had been no movement on the issue of the Audit Certificate as Mazars was still waiting for the Councils' group accounts for 2021/22.
- Mazars had accepted an objection on ELDC's Statement of Accounts for 2021/22 in relation to the representation and handling of the income

reportedly from the Business Improvement District (BID) Levy, page 61 of the Agenda refers. Members noted that the work was ongoing and the outcome would be reported in due course.

Members were invited to put their comments and questions forward.

- In response to the update on the BID levy, a Member highlighted that this was now no longer in existence, however, was interested in the process of the monies that were within the accounts. In response to this, and a further query relating to payments made after the BID had closed the Section 151 Officer advised Members that she would provide a detailed response on this as it was a complex area and was currently being dealt with by the Council's solicitors.
- A Member commented that she was astonished what was going on with government at the moment and why the whole of its accounts was so behind. It was proposed and seconded that on behalf of the Committee a complaint be made as it was such a serious issue and was affecting everyone's audits. Mr Machej advised that the appropriate channel to raise issues around procedure would be to contact the Controller and Auditor General at the National Audit Office (NAO) rather than central government. Following a discussion, it was agreed that the Section 151 Officer would draft a letter to the NAO.

Following which it was,

RESOLVED:

- That the Audit Planning Update and Progress Report – January 2023 be noted.
- That the Section 151 Officer draft a letter to the NAO addressing the Audit and Governance Committee's concerns relating to the government accounts.

48. RISK MANAGEMENT REPORT:

The Group Manager - Insights and Transformation Manager presented Members with the Risk Management Report, pages 73 to 82 of the Agenda refer.

The purpose of the report was to provide Members with an overview of Risk Management within the authority. The Strategic Risk Register had been reviewed at the quarterly risk clinic and by Senior Leadership Team (SLT) and the report provided Members with the Quarter 2 position statement as at 30 September 2022. Members were informed that a draft Risk Management Framework for the Partnership was currently in development and would be presented to Committee on 15 March 2023 for discussion and review, Paragraph 1.3 of the Agenda refers.

Members were advised that there had been no changes to the scoring on the risk register from the last meeting and the risks with Assistants Directors across the Partnership were currently being reviewed. It was highlighted to Members that currently the highest risks to the Council remained as Council Income and Economic Recovery.

Members were invited to put their comments and questions forward.

- A Member highlighted that recently a letter had been sent to government relating to a local government review and based upon the experience of the Council becoming part of a Partnership queried whether a risk needed adding if the Partnership was to move to a unitary authority. The Insights and Transformation Manager advised Members that she would pick this up with the Assistant Director for a review.
- A Member considered that due to the cost-of-living crisis, there may be additional cost pressures that would remain and ultimately fed down into disposable income which would impact on people visiting the coast, impacting the Council's income levels and queried whether it would be possible to have a more granular investigation in these areas.
- A Member referred to Risk CORP002 – Uncertainty of future Lincshire flood defence scheme and considered that this was a serious risk to the Council, the economy and lives, therefore should be rated as a high risk. A brief discussion following which Members agreed that ultimately it all depended on timescales and every year that passed increased the risk. It was further highlighted that this was a high risk on the national risk register and should be on the local register. The Insights and Transformation Manager advised Members that this had already been raised with the Assistant Director, Planning and Strategic Infrastructure and would seek a response for Committee.
- Further to the risk with flooding, a Member queried whether there should also be a risk for climate change.
- A Member commented that in terms of the process, there was a risk appetite table at the end of the register, however, could not see where this had been applied. Clarity was also requested for confirmation as to who the risks were attributed to and why there was no detail for when the risks were introduced, target dates for mitigation and what the scoring was. It was further considered that it would be useful to have heat maps to see where the risk lived and asked if this would be taken into consideration as part of the risk management framework.

It was further highlighted that there were some risks that were no longer valid, for example CORP0011 'Delivery of office relocation project' and items that should be added, for example resulting impacts on fuel costs from the war in Ukraine. The Insights and Transformation Manager advised Members that the risk appetite was set pre-Covid and wasn't currently live. As part of the risk management framework, Members and officers would sit together to set the risk appetite moving forward.

Following which, Members were assured that the report presented in March would be up to date and confirmed that the risk management framework to be presented to the next meeting would be in draft form for Members to feed back into.

- A concern was raised whether the high turnover of staff was a risk that needed to be addressed as this could affect council services.

Following which it was,

RESOLVED

That the Risk Management Report be noted.

49. ANNUAL UPDATE INFORMATION GOVERNANCE:

Richard Steele, Data Protection Officer (ELDC and Boston Borough Council) presented Members with the Information Governance Annual Update, pages 83 to 96 of the Agenda refer.

The report provided Members of the Audit and Governance Committee with an overview of activity in relation to information governance, including data protection for the Authority and highlighted any changes or risks for the forthcoming year.

Key information was highlighted to Members at Paragraphs 1, 2 and 3, pages 83 to 87 of the agenda refer. Members were further referred to Appendix A which outlined Freedom of Information Act (FOIA) and Environmental Information Regulations (EIR) trends and analysis.

Members were invited to put their comments and questions forward.

- Further to a Member asking for further information through an internal process, rather than submitting a FOI, the Section 151 Officer advised Members that she would speak to the Deputy Data Protection Officer as it would be useful to get some guidance out to Members with regards to their rights in relation to this.
- A query was raised whether there was any analysis made of the subjects of FOI requests and whether there was a trend or a particular need to investigate an area more fully. The Data Protection Officer advised Members that as part of his role he fed back to the Communications Team and the various departments and managers where there were trends in terms of the subjects or otherwise, and also reported up to the relevant Assistant Directors. The Section 151 Officer added that there was a significant number of FOI requests constantly coming from businesses where they were trying to ascertain who the Council had contracts with currently, when those contracts expired, etc so they could see bid for business in the future.
- A Member was pleased to see the level of transparency on the FOIs.
- A Member highlighted the increase in risk with employees working from home, and also the digital bill referred and asked it this could be elaborated on. The Data Protection Officer acknowledged that there were additional risks around data protection, for example taking printed material home, however officers had been provided with additional guidance and risks had been mitigated to some degree. In relation to the digital bill, until this came into force it was difficult to speculate on the content.
- In response to a query relating to data being held in different databases across the organisation and the challenges with this, the Data Protection

Manager advised Members that there was work underway to ensure the minimisation of risk.

Following which it was,

RESOLVED:

That the Information Governance Annual Update be noted.

50. COMMITTEE WORK PROGRAMME 2022/23:

Members were presented with the Audit & Governance Committee Work Programme 2022/23.

Following which it was,

RESOLVED:

That the Work Programme 2022/23 be noted.

51. DATE OF NEXT MEETING:

The date of the next Meeting was confirmed as Wednesday 15 March 2023.

The meeting closed at 1.04 pm.

Questions referred from Audit and Governance Committee – 23 November 2022

- ***A Member referred to the traveller site purchase and raised a concern that a recent assessment undertaken by external consultants concluded that there was no need for a traveller site and queried why there was £690k allocated in the budget for this.***

Response from Mike Gildersleeves/Andrew Sweeney as follows -

This is part of the Capital Programme following previous commitments to site delivery, the sites remain allocated in the Local Plan, and thus whilst the emerging evidence indicates there is no longer a need for the site allocations this has not been formally Examined. Thus the Local Plan allocations remain presently as they are, and as such, it is prudent for the Council to continue to allocate this funding to honour its previous commitments. Delivery of the sites has however proved difficult owing to the viability of the sites, and the aspirations of site owners. Officers will also continue to seek external funding for the sites, however, a recent bid to Government was not successful.

- ***A Member highlighted the original land purchase for the Horncastle Hub and the original budget of £2.088m which was now £4.006m, and asked for clarification on the figures.***

Awaiting a response.

- ***A Member referred to the Towns Fund projects where there appeared to be considerable jumps from the original to the revised budget and queried whether this was due to the increase in construction costs. A concern was raised that if the projects were considerably delayed, considering the current rate of inflation there was going to be a financial gap to plug.***

Response from Adrian Sibley as follows -

The budget now includes all of the Towns Funds projects whereas it did not before. There are no significant delays in the completion dates being reported at this stage and the only variations in the costs are as per the report that went to Full Council on the 15th December 2022.

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2023-24 Draft Budget

Spending Review for 2023/24

- Provisional Settlement received 19th December
- Revenue Support Grant (£1,310k) - increase of £346k
- Rural Services Delivery Grant (£697k) - no change
- Services grant (£239k) reduced by £185k
- Lower Tier Funding Grant now rolled into New Funding Guarantee
- Funding Guarantee 3% (£980k)
- Business Rates Retention & Fair funding review postponed 2 years
- Future funding arrangements uncertain
- Additional year of NHB (£378k) for 2023/24
- Internal Drainage Board representations made in consultation

Revenue Budget & MTFP

Key points/assumptions:

- Currently no reliance on NHB proposed to be transferred to reserves (£378k)
- Estimated 1.28% (584 - last year 726) annual growth in tax base (from to 45,793 to 46,377) - £92k
- £4.95 (3.16%) annual increase in Band D charge (£156.69 to £161.64) – £229k
- Business Rates yield assumptions still being finalised due to significant changes following the settlement.
- Business Rates - Changes to the yield need to be reviewed.

Budget Pressures and Risks

- Significant Service pressures being included in net budget are:
 - Internal Drainage Boards (still being finalised) up to £1.1m
 - Pay and Pensions
 - Utilities (being reviewed)
 - Fuel (being reviewed)
 - Contract costs
 - Homelessness
 - Kingfisher Park
 - Invest East Lindsey
 - Contract costs

Improvements built in and Further opportunities

Included in the budget:

- Asset disposals have been completed
- New Hub
- SELCP savings
- Investment Income (being reviewed)
- Business Rates

Further Opportunities:

- Internal Drainage Board conversation
- Asset Development opportunities
- Driving economic growth to create business rate yield
- Reserves – commercialisation, invest to save, smoothing peaks

Outstanding Areas

- Business rate funding review – NNDR1 deadline 31st January
- Towns Fund realignment of projects
- Treasury Management Strategy in line with Capital Programme
- Reserves review - to be set at prudent levels
- Further Review of budgets
- Investment Income
- Utilities
- Fuel
- Income levels

Timetable

- 11 January 2023 – Executive Board - delegation
- 24 January 2023 – Scrutiny
- w/c 23 January 2023 - Public consultation starts
- 1 February 2023 Audit and Governance
- 10 February 2023 - Public consultation ends
- 15 February 2023 – Executive Board
- 23 February 2023 – Reserved Member's Day
- 1 March 2023 – Full Council

Questions



Draft Treasury Management Strategy Statement 2023/24

Including the Minimum Revenue Provision Policy Statement and Annual
Investment Strategy

(Subject to amendment during the budget setting process)

Introduction

- The Council is required to operate a balanced budget
- The treasury management operation ensures that cash flows are adequately planned, with cash being available when it is needed.
- Surplus money is invested in low risk counterparties approved by the Council
- Planning for the funding of Capital Expenditure and borrowing if required
- *“The management of the local authority’s borrowing, investments and cash flows, including 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.”*

Reporting Requirements

- The CIPFA 2021 Prudential and Treasury Management Codes require the following reports to be produced:
 - Capital Strategy (part of budget setting report)
 - Prudential and treasury indicators and treasury strategy (this report)
 - Includes capital plans, MRP policy, treasury management strategy and annual investment strategy
 - Mid year report and Quarterly update reports
 - Annual treasury report after the financial year end
- Council has delegated scrutiny of all treasury reports to the Audit and Governance Committee

Treasury Management Strategy for 2023/24

- The strategy for 2023/24 covers two main areas:
 - Capital issues
 - the capital expenditure plans and the associated prudential indicators;
 - the minimum revenue provision (MRP) policy
 - Treasury management issues
 - the current treasury position
 - treasury indicators which limit the treasury risk and activities of the Council
 - prospects for interest rates
 - the borrowing strategy
 - policy on borrowing in advance of need
 - debt rescheduling
 - the investment strategy
 - creditworthiness policy; and
 - the policy on use of external service providers

Training

- The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management.
- Training for members will be arranged as required and the training needs of treasury management officers are periodically reviewed.
- Training requirements will be reviewed following the May elections
- PSPSL uses Link Group as its external treasury management advisors for the Council. Regular training sessions and seminars are available to Officers throughout the year

CAPITAL PRUDENTIAL INDICATORS 2022/23 TO 2027/28

- Capital Expenditure and Financing

- This prudential indicator is a summary of the Council’s capital expenditure plans previously agreed and those forming part of this budget cycle. Members approve capital expenditure forecasts as part of the annual Budget report.
- The table below summarises the capital expenditure plans which are fully financed.

Capital Expenditure £'000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non Towns Fund Projects	19,765	2,407	2,112	2,112	2,112	2,112
Towns Fund Projects	52,368	13,440	2,000	204	-	-
Total	72,133	15,847	4,112	2,316	2,112	2,112
Financing	(72,133)	(15,397)	(3,662)	(1,866)	(1,662)	(1,662)
Net financing need for the year	-	450	450	450	450	450

- The borrowing requirement can be achieved by external borrowing or internal borrowing (using the Council’s cash balances)

- The Councils borrowing need (the Capital Financing Requirement)
 - The second prudential indicator is the Council’s Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.
 - As part of the formal governance process, the Council approves the CFR projections as follows:

£000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
CFR – General Fund	-	450	855	1,215	1,530	1,800
CFR - Non-treasury investments	25,499	23,999	23,999	23,999	23,999	23,999
Total CFR	25,499	24,449	24,854	25,214	25,529	25,799
Movement in CFR	-	(1,050)	405	360	315	270
Net financing need for the year above)	-	450	450	450	450	450
Less MRP/VRP and other financing movements	-	(1,500)	(45)	(90)	(135)	(180)
Movement in CFR	-	(1,050)	405	360	315	270

Minimum revenue provision (MRP) policy statement

- No change from previous year
- MRP policy must be approved annually by Council.
- The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
- Asset life method (straight line) – MRP will be based on the estimated life of the assets.
- Assets held for investment purposes – Council will determine the amount of MRP/VRP based on the combined value of its holdings at the end of each financial year.
- Loans issued to Invest East Lindsey Ltd - The Council will earmark the proceeds from the repayment of the loans to reduce the CFR where required and therefore will apply a nominal MRP charge of £1 on such loans.

Borrowing (1)

- Current treasury portfolio position

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31/03/22	31/03/22	31/12/22	31/12/22
Treasury Investments	£0	%	£000	%
Banks	35,047	46%	25,999	27%
Building Societies - Rated	0	0%	0	0%
Local Authorities	0	0%	0	0%
DMADF (H.M.Treasury)	6,000	8%	7,300	8%
Money Market Funds	7,500	10%	7,500	8%
Certificates of Deposit	0	0%	30,000	32%
Total Managed In House	48,547	64%	70,799	74%
Bond Funds	0	0%	0	0%
Property Funds	27,452	36%	24,335	26%
Total Managed Externally	27,452	36%	24,335	26%
Total Treasury Investments	75,999	100%	95,134	100%
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	20,000	100%	20,000	100%
LOBOs	0	0%	0	0%
Total External Borrowing	20,000	100%	20,000	100%
Net Treasury Investments / (Borrowing)	55,999	0	75,134	0

Borrowing (2)

- The Council's forward projections for borrowing are summarised below.

£'000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt at 1 April	20,000	20,000	20,000	20,000	20,000	20,000
Expected change in Debt	0	0	0	0	0	0
Actual gross debt at 31 March	20,000	20,000	20,000	20,000	20,000	20,000
The Capital Financing Requirement	25,499	24,449	24,854	25,214	25,529	25,799
(Under) /over borrowing	(5,499)	(4,449)	(4,854)	(5,214)	(5,529)	(5,799)

Borrowing (3)

- Treasury Indicators: limits to borrowing activity
 - The operational boundary (no change)

Operational boundary (£'000)	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	35,000	35,000	35,000	35,000	35,000	35,000
Other long term liabilities	3,000	3,000	3,000	3,000	3,000	3,000
Total	38,000	38,000	38,000	38,000	38,000	38,000

- The authorised limit (no change)

Authorised Limit (£'000)	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Borrowing	39,000	39,000	39,000	39,000	39,000	39,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
Total	44,000	44,000	44,000	44,000	44,000	44,000

Borrowing (4)

- Prospects for interest rates
 - Link Group help the Council formulate a view on interest rates. Their forecasts are as follows:

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

- Borrowing strategy – The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR), has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure.

Annual Investment Strategy

- No changes from previous year
- Priorities – Security, Liquidity and Yield in that order
- This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:
 - Minimum acceptable credit criteria
 - Credit default swap prices
 - Other information sources – financial press, share price etc
 - Types of investment instruments that can be used (specified and non specified investments)
 - Lending limits - £5m per financial institution or group
 - Limits of investments >365 days
 - All investments denominated in sterling

- Sovereign Limits - £10m maximum per Sovereign (no limit for UK)

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

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

- The S151 Officer will use discretion when considering where to place investments. Currently banks from Finland, Qatar and Abu Dhabi (UAE) are not being used.

- By assessing these factors when making investments it reduces the likelihood of the Council requiring funds back early. Where time deposits are entered into, funds can be returned back early but this is likely to come at a cost to the Council subject to the prevailing interest rate at the time.

- Interest return expectations

- The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

• 2022/23 (remainder)	4.00%
• 2023/24	4.40%
• 2024/25	3.30%
• 2025/26	2.60%
• 2026/27	2.50%
• Years 6+	2.80%

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

Prudential Indicators

- Capital expenditure

Capital expenditure £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total	72,133	15,847	4,112	2,316	2,112	2,112

- Ratio of financing costs to net revenue stream

%	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total	(5.46%)	(1.87%)	(5.28%)	(3.25%)	(2.71%)	(3.27%)

TMP1 - Credit and Counterparty Risk Management

- Appendix 5.3 provides details of the financial instruments that are authorised for use by the Council split between specified and non specified investments
 - Specified investments – up to a maximum of 1 year in duration and not complex.
 - Non- Specified investments – any investments that do not meet the above criteria

Summary

- The strategy is currently draft and subject to change as we progress through the budget setting process
- Slides have provided details of the key areas of the report
- Councils priority in relation to investments remain as Security, Liquidity and Yield, in that order.
- Recommendation is “That the Audit and Governance Committee scrutinise the Treasury Management Policy (Appendix B1) and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2023/24 (Appendix B2) and make any comments and suggestions for consideration by Executive Board on 15 February 2023 and Council on 1 March 2023 when they consider these documents as part of the budget report.”