CORPORATE GOVERNANCE GROUP
AGENDA

Thursday, 16th January 2020 at 7.15pm

Council Chamber, Braintree District Council, Causeway House, Bocking End, Braintree, CM7 9HB

THIS MEETING IS OPEN TO THE PUBLIC
(Please note this meeting will be audio recorded)
www.braintree.gov.uk

Members of the Corporate Governance Group are requested to attend this meeting to transact the business set out in the Agenda.

Membership:-

Councillor P Euesden
Councillor D Hume
Councillor H Johnson (Vice Chairman)
Councillor D Mann
Councillor Miss V Santomauro
Councillor R van Dulken (Chairman)
Councillor D Wallace
Councillor T Walsh
Councillor Mrs L Walters

Members unable to attend the meeting are requested to forward their apologies for absence to the Governance and Members Team on 01376 552525 or email governance@braintree.gov.uk by 3pm on the day of the meeting.

A WRIGHT
Chief Executive

INFORMATION FOR MEMBERS - DECLARATIONS OF INTERESTS

Declarations of Disclosable Pecuniary Interest, Other Pecuniary Interest or Non-Pecuniary Interest

Any member with a Disclosable Pecuniary Interest, other Pecuniary Interest or Non-Pecuniary Interest must declare the nature of their interest in accordance with the Code of Conduct. Members must not participate in any discussion of the matter in which they have declared a Disclosable Pecuniary Interest or other Pecuniary Interest or participate in any vote, or further vote, taken on the matter at the meeting. In addition, the Member must withdraw from the chamber where the meeting considering the business is being held unless the Member has received a dispensation from the Monitoring Officer.

Question Time
The Agenda allows for a period of up to 30 minutes when members of the public can speak. Members of the public wishing to speak are requested to register by contacting the Governance and Members Team on 01376 552525 or email governance@braintree.gov.uk by midday on the working day before the day of the Committee meeting. For example, if the Committee Meeting is due to be held on a Tuesday, the registration deadline is midday on Monday, (where there is a bank holiday Monday you will need to register by midday on the previous Friday).

The Council reserves the right to decline any requests to register to speak if they are received after this time. Members of the public can remain to observe the public session of the meeting.

Please note that there is public Wi-Fi in the Council Chamber, users are required to register in order to access this. There is limited availability of printed agendas.

Health and Safety
Any persons attending meetings in the Council offices are requested to take a few moments to familiarise themselves with the nearest available fire exit, indicated by the fire evacuation signs. In the event of an alarm you must evacuate the building immediately and follow all instructions provided by officers. You will be assisted to the nearest designated assembly point until it is safe to return to the building.

Mobile Phones
Please ensure that your mobile phone is switched to silent during the meeting in order to prevent disturbances.

Webcast and Audio Recording
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Documents
Agendas, reports and minutes for all the Council's public meetings can be accessed via www.braintree.gov.uk

We welcome comments from members of the public to make our services as efficient and effective as possible. If you have any suggestions regarding the meeting you have attended, you can send these via governance@braintree.gov.uk

PUBLIC SESSION **Page**

1 Apologies for Absence

2 Minutes of the Previous Meeting
To approve as a correct record the minutes of the meeting of the Corporate Governance Group held on 24th October 2019 (copy previously circulated).

3 Public Question Time
(See paragraph above)

4 Declarations of Interest
To declare the existence and nature of any Disclosable Pecuniary Interest, other Pecuniary Interest or Non-Pecuniary Interest relating to items on the agenda having regard to the Code of Conduct for Members and having taken appropriate advice where necessary before the meeting.

Monitoring and Finance

5 Key Financial Indicators - 30th November 2019 **4 - 11**

Audit and Governance

6 Internal Audit Update, Including Progress Against Audit Plan 2019/2020 **12 - 22**

7 Certification of Claims and Returns Annual Report 2018-19 **23 - 37**

8 Fraud Update **38 - 43**

9 Draft Treasury Management Strategy Statement 2020/21 **44 - 65**

10 Urgent Business - Public Session

To consider any matter which, in the opinion of the Chairman, should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.

CORPORATE GOVERNANCE GROUP
16th January 2020

Key Financial Indicators – 30th November 2019	Agenda No: 5

Portfolio	**Finance and Performance Management**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services** **Delivering better outcomes for residents and businesses and reducing costs to taxpayers**
Report presented by:	**Trevor Wilson, Head of Finance**
Report prepared by:	**Trevor Wilson, Head of Finance**

Background Papers:	**Public Report**
None.	**Key Decision: No**

Executive Summary:

The attached schedule (Appendix A) of key financial indicators provides details of performance recorded for the financial year to 30th November 2019.

Commentary:

a) The net General Fund revenue budget for the year is £14.539million. The net expenditure incurred in the year to 30th November was £9.75million. This represents a positive variance of £470,000 compared to the profiled budget of £10.22million. This variance results primarily from additional income of £0.349million; with the main source being planning fees, and an underspend on salaries, see b) below. Accountants are currently working with service managers on the third quarter (end of December) information to predict the outturn position for the year. The outcome of this will be included in the Quarterly Performance report which will be received by the Cabinet on 9th March 2020.

b) The total budget for Salaries for the year is £17.871million. Expenditure on salaries for the year to the end of November was £11.55million. This compares to a profiled budget of £11.712million. The positive variance of £162,000 is after allowing for £133,330 of the Efficiency Factor (£200,000 for the year).

c) The budget for the year for rental income received from commercial and industrial properties is £2.867million, which consists of 218 leases, and is net of an allowance for voids of £53,380. The actual income received to the end of November is £2.421million against a profiled budget of £2.384million. Five properties were unoccupied as at 30th November, however, one was to be occupied on 1st December, and of the other four properties: prospective tenants for three are currently subject to due diligence checks prior to agreeing lease

commencement dates and the final property at 1 Everitt Way, Sible Hedingham, is due to be occupied from 1st February 2020.

d) Expenditure on capital projects, to the end of November, was £3.515million against the updated Capital Programme of £11.62million, which includes estimated expenditure on: Horizon 120 of £3.226million; Manor Street Development of £1.298million; and I-Construct of £1.36million. The main schemes on which expenditure has been incurred are: Purchase of land at Chapel Hill to provide access to development site (£793k), Manor Street Development (£552k), Horizon 120 (£629k), Disabled Facility Grants (£558k) and I-Construct (£146k).

e) The total Council Tax collectable debit for the year is £94.05million. The collection rate as at the end of November is 77.15% (£72.56million collected), which compares to a rate of 77.64% for the same period last year.

f) The total Business Rates (National Non-Domestic Rates) collectable debit for the year is £43.55million. The collection rate as at the end of November is 75.52% (£32.89million collected), which compares to a rate of 75.56% for the same period last year.

g) A total of 1,047 write-offs of Council Tax, with a value of £85,142 have been authorised in the year to 30th November: 165 in respect of the current year and 882 in respect of previous financial years.

h) A total of 64 write-offs of Business Rates, with a net value of £131,381, have been authorised in the year to 30th November: 30 in respect of the current year and 34 in respect of previous financial years.

i) The amount of sundry debts owed to the Council, i.e. monies other than for Council Tax and NNDR, was £3.092million, of which £1.659million was in respect of Housing Benefit overpayments. The target for 2019/20 is to reduce the debt outstanding, excluding Housing Benefit overpayments and invoices raised in March in respect of 2020/21, to £600,000 or less as at 31st March 2020. The total, excluding housing benefit overpayments and £244,000 of invoices raised during November, is £1.158million.

j) The rate of return achieved on investment of the Council's balances and funds in the year to-date is 0.80%. This return was achieved on an average amount invested of £46.56million and relates solely to monies placed with banks, building societies, other local authorities, the Debt Management Office and in Money Market Funds.

k) Dividend received/declared in the year to 30th November is £550,530. The market values of these pooled funds show an unrealised net increase in the principal sum of £1.82million as at 30th November 2019. The total invested in pooled funds; equity, property and multi-asset funds, was £19million at the end of November, however, the Strategic Investment Group agreed that a further sum of £1million should be invested in the Kames Diversified Fund before the financial year-end; the actual date is subject to agreement and advice from Arlingclose (Treasury management advisors). These investments are placed in the knowledge that their capital values will be subject to volatility but overall their trend has been positive over the medium term (i.e. over a minimum of 3 years).

l) Detail of the Council's investments of surplus monies, totalling £61.51million, as at 30th November 2019, is provided at Appendix B.

Recommended Decision:

Members are asked to accept the report of the Key Financial Indicators as at 30th November 2019.

Purpose of Decision:

To provide evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues that may arise.

Any Corporate implications in relation to the following should be explained in detail.

Financial:	The net General Fund revenue budget for the year is £14.539million. The net expenditure incurred in the year to 30th November was £9.75million. This represents a positive variance of £470,000 against the profiled budget for the period. Capital expenditure was £3.515million at the end of November. Collection rates for both business rates and council tax are on course to achieve the targets for the year-end.
Legal:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	Regular consideration of a suite of Financial Health Indicators is recommended good practice.
Officer Contact:	Trevor Wilson
Designation:	Head of Finance
Ext. No:	2801
E-mail:	Trevor.wilson@braintree.gov.uk

Key Financial Indicators at 30th November 2019

APPENDIX A

	Full Year Budget 2019/20	Actual 30 Nov 2019	Profile to 30 Nov 2019	Variance from Profile	
	£'000	£'000	£'000	£'000	%
General Fund - Expenditure					
Salaries	17,871	11,550	11,712	-162	-1.4%
Other Controllable Expenditure	42,742	29,118	29,040	78	0.3%
General Fund - Income					
Commercial & Industrial Property - Rental Income	-2,867	-2,421	-2,384	-37	1.6%
Other Controllable Income	-43,207	-28,497	-28,148	-349	1.2%
General Fund - Net Revenue (Controllable)	**14,539**	**9,750**	**10,220**	**-470**	**-4.6%**
Capital Programme	11,620	3,515			

	Full Year Target	Actual 30 Nov 2019	Actual 30 Nov 2018	Variance
Council Tax collection in year - %	98.30%	77.15%	77.64%	-0.49%
Council Tax collection - income collected for year - £m	£94.05	£72.56	£68.65	£3.91
Write-offs in year - £'000		£18	£23	-£5
Write-offs in year - number		165	128	37
Write-offs all years £'000		£85	£61	£24
Write-offs all years - number		1047	500	547
Business Rates collection in year - %	98.60%	75.52%	75.56%	-0.04%
Business Rates collected for year - £m	£43.55	£32.89	£32.91	-£0.02
Write-offs in year - £'000		£44	£52	-£8
Write-offs in year - number		30	17	13
Write-offs all years - £'000		£131	£180	-£49
Write-offs all years - number		64	42	22
Creditors - payment of invoices within 30 days of receipt	99.25%	99.55%	99.49%	0.06%

Debtors - Balance Outstanding	31-Mar-17	31-Mar-18	31-Mar-19	30-Nov-19
	£'000	£'000	£'000	£'000
Service Level Agreement charges - principally Tabor Academy and residents of Twin Oaks, Stisted	303	197	190	182
Capital Projects	3	-	-	-
Charges for services provided by: Democratic Services, Training Services, Procurement Services, etc.	8	7	12	42
Charges for services provided by: ICT, Marketing, Offices, Elections, etc	103	80	43	52
Development & Environment	619	538	485	278
Finance	108	111	91	189
Leisure	208	65	189	204
Operations	936	1,219	953	425
Housing	83	47	51	61
Sub-Total - excluding Hsg. Benefits	2,371	2,264	2,014	1,433
Housing Benefits	1,436	1,745	1,719	1,659
Total	**3,807**	**4,009**	**3,733**	**3,092**
Target is for Debt Outstanding (excluding Housing Benefits, charging orders and large value invoices raised in final days of the month-end) to be £0.6million by 31 March 2020.	760	651	521	1,158

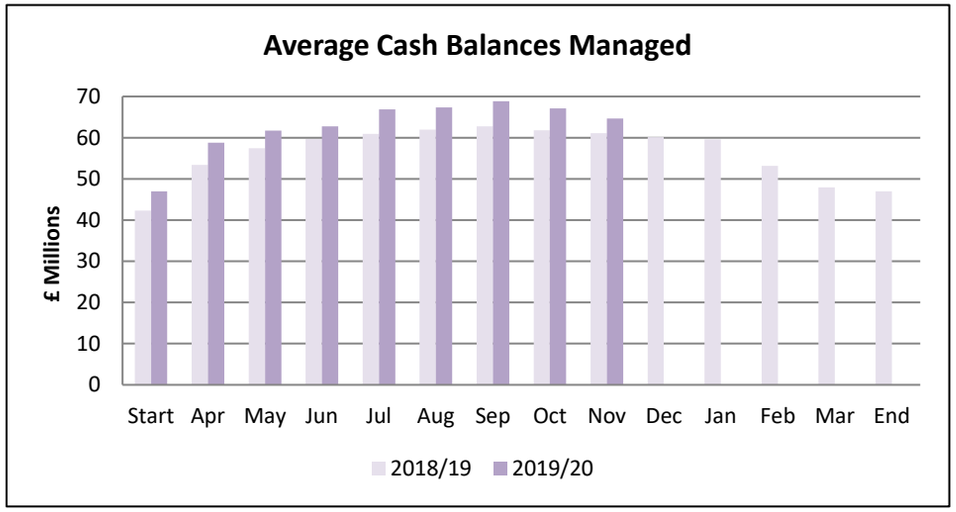
Profile by Recovery Stage:				
Invoice	2,561	2,542	2,109	1,113
Reminder	281	329	421	688
Final Notice	-	-	-	
Pre-legal	212	567	366	340
Enforcement Agent	387	310	354	422
Tracing Agent	11	2	-	1
Charging Order	32	31	31	31
Attachment to Benefits/Earnings	322	228	452	497
Summons	1	-		
Total	**3,807**	**4,009**	**3,733**	**3,092**
Write offs (debits and credits) in year - value - £000	£25.5	£161.4	£5.1	£4.4
Write-offs in year - number	371	392	140	58

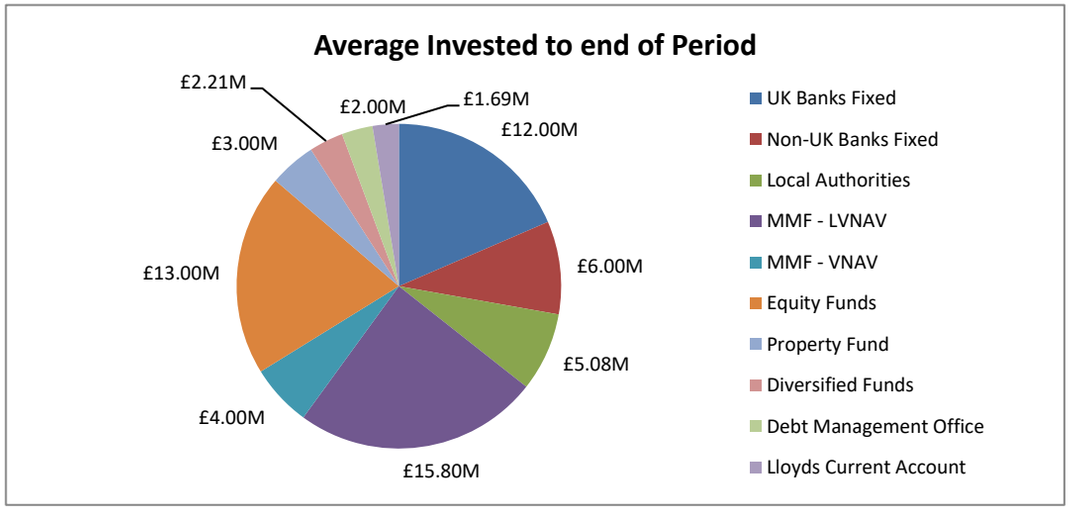
Progress on achieving Efficiency Savings Targets

The amount of the Efficiency Savings target included in the budget for 2019/20 is a net amount of £200,000. The underspend on salaries of £162,000, recorded above, is after offsetting £133,330 of the target.

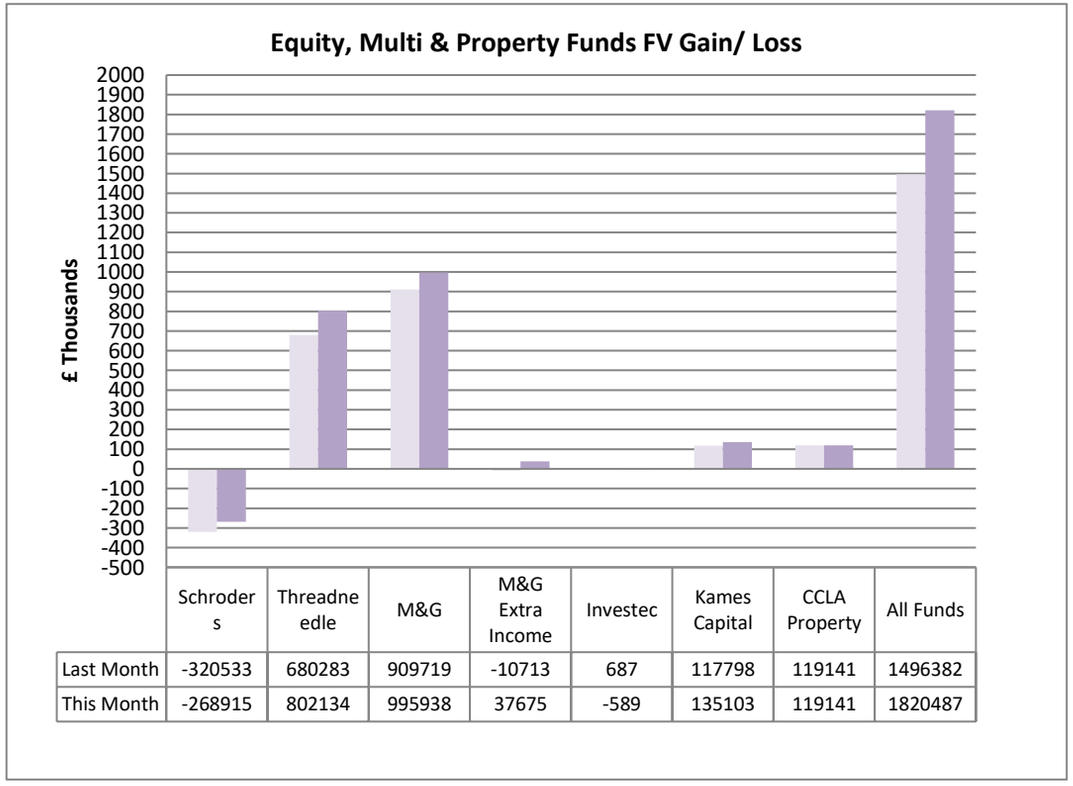
Treasury Management Monitor - November 2019

APPENDIX B





	Investment Activity			
	This Month		Cumulative	
	Made	Sold	Made	Sold
	£m	£m	£m	£m
External Investments				
Property Fund	0.0	0.0	0.0	0.0
Equity Funds	0.0	0.0	0.0	0.0
Multi Funds	0.0	0.0	1.0	0.0
MMF - LVNAV	2.0	-5.0	26.5	-18.0
MMF - VNAV	0.0	0.0	0.0	0.0
Sub-Total	**2.0**	**-5.0**	**27.5**	**-18.0**
Deposits - Fixed				
UK Bank & Building Soc.	0.0	0.0	6.0	0.0
Non-UK Banks	0.0	0.0	3.0	0.0
Debt Mgt Office	0.0	0.0	51.5	-51.5
Local Authorities	3.0	0.0	8.0	-11.0
Sub-Total	**3.0**	**0.0**	**68.5**	**-62.5**
Lloyds Bank PLC	0.0	-0.3	0.0	-1.0
Sub-Total	**0.0**	**-0.3**	**0.0**	**-1.0**
Total	**5.0**	**-5.3**	**96.0**	**-81.5**



	Schroders	Threadneedle	M&G	M&G Extra Income	Investec	Kames Capital	CCLA Property	All Funds
Last Month	-320533	680283	909719	-10713	687	117798	119141	1496382
This Month	-268915	802134	995938	37675	-589	135103	119141	1820487

Treasury Management Monitor - November 2019

APPENDIX B

Commentary

Average sum invested in the month £64.69m (Last year £61.1m)

Average sum invested for the year to date £64.78m (Last year £59.88m)

Actual sum invested at the end of the period £61.51m (Last year £59.11m)

Interest secured on instant access accounts, fixed deposits, and MMFs at the end of the period £249324 a return of 0.80% [Annual Budget £171k]

Note: 3mth Libid 0.74% 6mth LIBID 0.83%

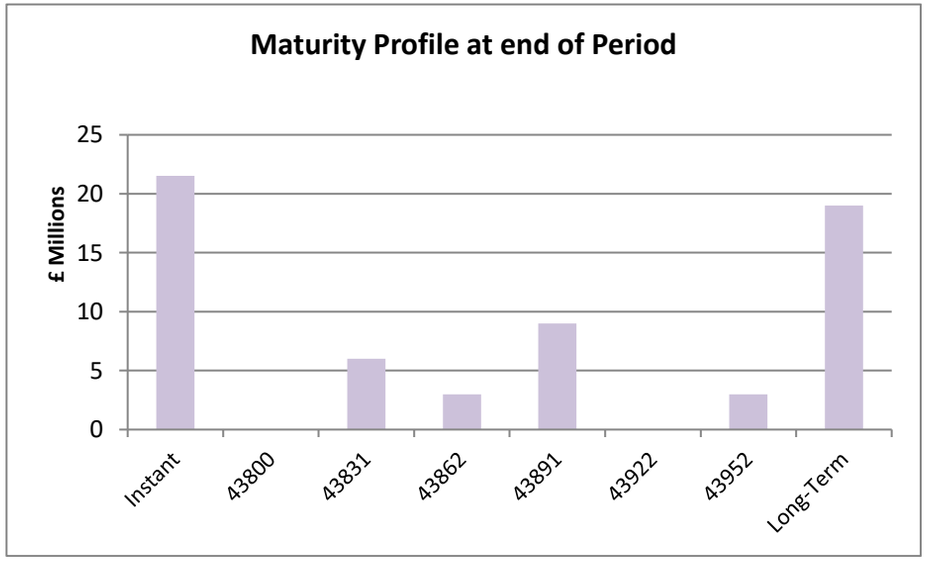
Dividends earned (declared) on equity, property and diversified funds to the end of the period £550530 [Annual Budget £825k]

Unrealised gain/ -loss at end of period for equity, property and diversified funds is a net £1820487 a change of £324105 from last month

LAMIT details still to be received for month end

INVESTMENT HOLDINGS AT END OF PERIOD

COUNTERPARTY	Type	Principal	Start	Maturity	Yield
SANTANDER	FIXED	3000000	01/08/2019	03/02/2020	0.79%
NATIONWIDE BS	FIXED	3000000	01/07/2019	02/01/2020	0.82%
COVENTRY BS	FIXED	3000000	01/10/2019	09/01/2020	0.69%
GOSPORT BOROUGH COUN	DEPOSIT - LA	2000000	25/11/2019	29/05/2020	0.89%
NORTH WALES FIRE & RESC	DEPOSIT - LA	1000000	01/11/2019	01/05/2020	0.87%
AUST AND NZ BANKING	FIXED	3000000	20/09/2019	19/03/2020	0.85%
LANDESBANK HESSEN-THU	FIXED	3000000	01/10/2019	31/03/2020	0.81%
BANK OF SCOTLAND	FIXED	3000000	01/09/2019	02/03/2020	0.85%
LLOYDS BANK	CALL A/C	1007000	30/11/2019	01/12/2019	0.65%
DEUTSCHE	MMF	0	30/11/2019	01/12/2019	Variable
GOLDMAN SACHS	MMF	4000000	30/11/2019	01/12/2019	Variable
CCLA PUBLIC DEPOSIT	MMF	2500000	30/11/2019	01/12/2019	Variable
FEDERATED PRIME	MMF	5000000	30/11/2019	01/12/2019	Variable
ABERDEEN STANDARD	MMF	5000000	30/11/2019	01/12/2019	Variable

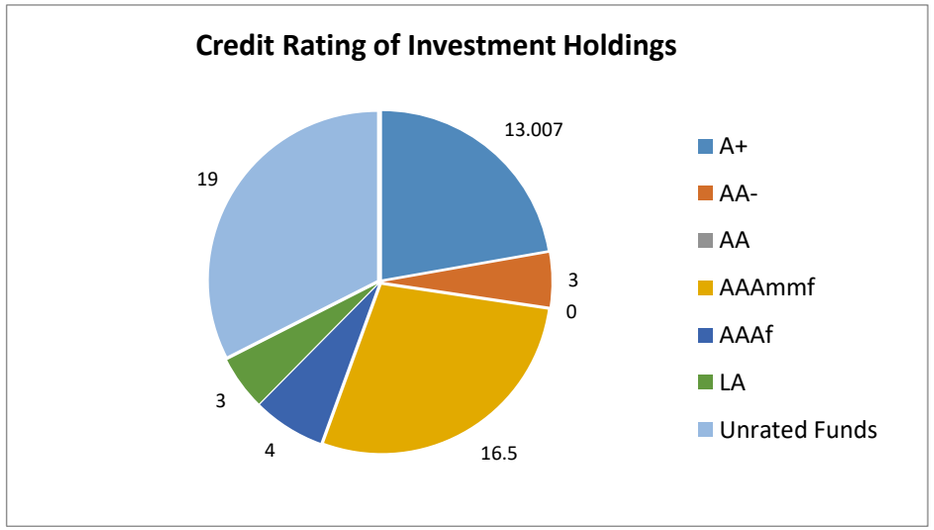


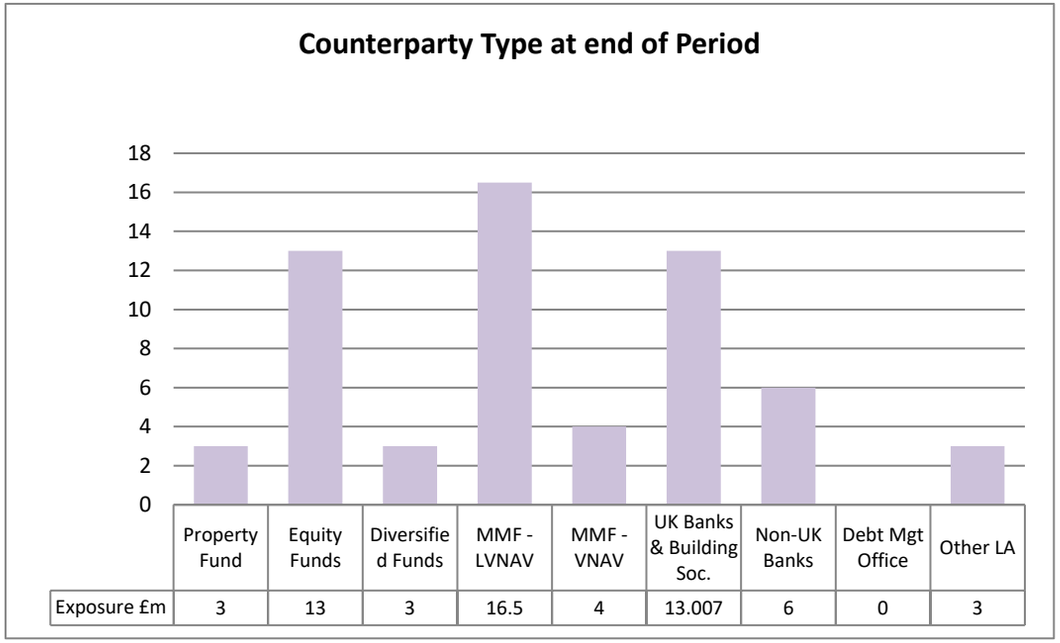
Treasury Management Monitor - November 2019

APPENDIX B

EXTERNAL FUND INVESTMENTS

SHRODERS INCOME MAX.	EQUITY	2500000	[redacted]	Variable
THREADNEEDLE UK EQUITY	EQUITY	5000000	[redacted]	Variable
M&G GLOBAL DIVIDEND	EQUITY	2500000	[redacted]	Variable
M&G EXTRA INCOME	EQUITY	3000000	[redacted]	Variable
KAMES CAPITAL	MULTI	2000000	[redacted]	Variable
INVESTEC	MULTI	1000000	[redacted]	Variable
CCLA – LAMIT PROPERTY	PROPERTY	3000000	[redacted]	Variable
ROYAL LONDON CASH PLUS	MMF-VNAV	4000000	[redacted]	Variable





	Property Fund	Equity Funds	Diversified Funds	MMF - LVNAV	MMF - VNAV	UK Banks & Building Soc.	Non-UK Banks	Debt Mgt Office	Other LA
Exposure £m	3	13	3	16.5	4	13.007	6	0	3

CORPORATE GOVERNANCE GROUP
16th January 2020

Braintree District Council

Internal Audit Update, Including Progress Against Audit Plan 2019/2020	**Agenda No: 6**

Portfolio	**Finance and Performance Management**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services**
Report presented by:	**Angela Mitchell, Audit, Insurance and Fraud Manager**
Report prepared by:	**Angela Mitchell, Audit, Insurance and Fraud Manager**

Background Papers: None.	**Public Report** **Key Decision: No**

Executive Summary:

The Internal Audit Plan for 2019/2020 was approved by the Corporate Governance Group on 24th April 2019. This report provides Members with an update on progress against planned work and any other matters affecting the provision of the Internal Audit Service.

Recommended Decision:

That Members note the progress against the Internal Audit Plan 2019/20.

Purpose of Decision:

The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Corporate Governance Group, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.

This report provides an update on Internal Audit activity, and progress and performance against the approved Internal Audit Plan in accordance with the Corporate Governance Group role and the requirements of the PSIAS.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	None.
Legal:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	None.
Officer Contact:	Angela Mitchell
Designation:	Audit, Insurance and Fraud Manager
Ext. No:	2821
E-mail:	Angie.mitchell@braintree.gov.uk

1. INTRODUCTION

The revised Internal Audit Plan was approved by the Corporate Governance Group on 24th April 2019. This report identifies progress against the plan, the outcome of audits completed since the last report to the Corporate Governance Group, and other work completed.

2. PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2019/20

The progress against the Internal Audit Plan for 2019/20 is detailed in Appendix 1 to this report.

The following audits have been completed since the last report to the Corporate Governance Group (24th October 2019). Appendix 2 provides a summary of the outcomes of these audits:

- S106 Income – **Full Assurance**
- Community Transport Volunteers – **Full Assurance**
- Handy Person Scheme – **Significant Assurance**
- Safeguarding – **Significant Assurance**
- DVSA Compliance – **Significant Assurance**
- Business Resilience (no assurance level assigned)
- Annual Governance Statement (no assurance level assigned)

The proportion of planned work completed has been/will be affected by the following factors:

- Significant resources were spent conducting formal investigations on matters brought to the attention of the Audit Team, the outcome of these investigations is reported to the Corporate Governance Group.
- The Trainee Auditor left the Council at the end of June 2019, her replacement commenced employment late September 2019.
- The Audit Manager's time is also spent on Insurance matters (including the renewal process, review of the scope of cover and claims management), and Fraud (including the application of sanctions, development of fraud related policies and strategies, and review of the scope of anti-fraud activity).
- Additional ad hoc advice and consultancy services have been provided in the areas summarised in Appendix 1.

The Internal Audit Plan is prioritised; audit resources will be focussed in the areas considered to be greatest priority and progress of and any changes to planned work will be reported to the Corporate Governance Group at each meeting.

In addition, an external consultant has been appointed to conduct a review of a major contract including to support learning from the experience and to gain knowledge to support effective management of and decision making for future projects. This work is currently in progress.

APPENDIX 1 – PROGRESS AGAINST THE 2019/20 INTERNAL AUDIT PLAN

This Appendix summarises the work completed in respect of the 2019/20 Internal Audit Plan (approved by the Governance Committee in April 2019), and also reflects the audits from the 2018/19 Internal Audit Plan (approved by the Governance Committee in July 2018) which were in progress at the close of 2018/19. Audits are assigned based on their relative priority with consideration to Auditor experience and auditee preferred timescales.

	Audit	**Priority**	**Current Status**	**Completed – Date Report to Corporate Governance Group**
2018/19 Revised Internal Audit Plan – Audits In Progress At April 2019				
	Projects - Other	1	Completed	25 July 2019
	Asset Acquisitions	1	Completed	25 July 2019
	Business Continuity	1	Completed	25 July 2019
	Risk Management	1	Completed	25 July 2019
2019/20 Internal Audit Plan – All Audits				
1	Core Financial Systems	1	Completed/Ongoing	*Note 1*
2	Contract Management – Major Contracts	1	In Progress	*Note 2*
3	Online Payments system	1	In Progress	*Note 3*
4	Payroll	2	In Progress	
5	Overtime - Operations	2	Completed	25 July 2019
6	Operations Quotations	3		
7	Debtors Efficiency	3		
8	North Essex Garden Communities (NEGC)	1	Deferred	
9	S106 Income	2	Completed	16 January 2020
10	Development Management	1	Completed	24 October 2019
11	Planning Agreements	2	In progress (substantially complete)	
12	Community Transport Volunteers	2	Completed	16 January 2020
13	Handy Person Scheme	2	Completed	16 January 2020
14	Safeguarding	2	Completed	16 January 2020
15	Contract Management	1	TOR prepared	
16	DVSA Compliance	2	Completed	16 January 2020
17	Agency staffing – Operations Service	2	Completed	25 July 2019
18	Taxi Licensing	2	Completed	25 July 2019
19	Organisational Learning	3		

20	Pest Control	3		
21	Housing Application Document Verification	2	TOR prepared. Staff Training arranged	
22	Investments	2	TOR prepared	
23	Risk Management	1		Note 4
24	Business Resilience	2	Completed / Ongoing	16 January 2020
25	Information Management	1	In progress	
26	Corporate Governance	1	Completed	24 October 2019
27	Digital Strategy and Cyber Security	1	In Progress (substantially complete)	
28	Culture & Ethics	2		
29	PCI DSS Compliance	2		
30	Uniform System - Street Scene Protection Scheme	3		
31	Performance Management	3		
32	Strategic Investment Projects - Advisory	1	In Progress / ongoing	*Note 2*
33	Annual Governance Statement	1	Completed	16 January 2020
34	Follow Up Reviews	2	In Progress / ongoing	24 October 2019
35	Fraud Risks	2	Review of NFI Matches is in progress	
Additional Work Completed				
	Barclaycard purchases		Completed	25 July 2019
	Vending Machine funds		Completed	25 July 2019
	Fitness Class Income		Completed	25 July 2019
	Access Cards (Members)		Completed	25 July 2019
	Council Tax Review (Members)		Completed	25 July 2019
	Access to Partner Information System		Completed	24 October 2019

Notes:

Note 1*: The following work contributes to assurance on Core Financial Systems:*
External Audit
Scope of External Audit work includes review of information supporting the financial statements (including fraud risks, journals, transactions, grants, fees and charges, assets, MTFS assumptions, Capital & Revenue planning, budgeted savings, investment and borrowing) and information published with the financial statements (including the Annual Governance Statement). (Completed for audit of 2018/19)

Service Assurance Statements
As part of the process of preparing the Annual Governance Statement, Service Managers provide statements on the operation of key controls, including financial controls.
Payroll
(4) Payroll: Cross check (following May 2019 District Election) of Members on the Payroll system to ensure properly set up with correct allowances, and outgoing Members cancelled (completed)
(4) Payroll: Review of adequacy of checks on consultants timesheets (in progress)
(17) Agency Staffing (completed)
(25) Information Management: review of security of data for Payroll Shared Service (in progress)
Investments
(2) Contract Management – Major Contracts (In progress)
(22) Investments review of sources of assurance (TOR prepared)
Asset Acquisitions (completed)
Debtors
(3) Online Payments System (in progress)
(9) S106 Income (completed)
(11) Planning Agreements (substantially complete)
(13) Handy Person Scheme (completed)
Creditors & Payments
(15) Contract Management (TOR Prepared)
Barclaycard Purchases (completed)
Cash & Bank
(3) Online Payments System (in progress)
Council Tax/NDR
Council Tax Review (Members) (completed)

***Note 2**: Contract Management – Major Contracts / Strategic Investment Projects – Advisory. An external consultant with extensive contract and project related experience has been appointed to conduct a review of a major project, including to provide advice on Governance arrangements. This work is currently in progress. A further internal review of contract management is also in progress*

***Note 3**: Online Payments system. Audit was delayed for progression of system implementation, further work will be conducted in 2020.*

***Note 4**: Risk Management. The Head of Finance is currently reviewing and updating the risk policy & strategy and Strategic Risk Register (to be reported to Cabinet in February 2020 and the Corporate Governance Group in April 2020) therefore the Internal Audit overview of the corporate framework and risk maturity will be deferred to 2020/21. A review of a sample of Strategic Risks (to assess the existence & effectiveness of mitigating controls) will be conducted in line with the 2019/20 Internal Audit Plan.*

ADDITIONAL WORK COMPLETED

Since the last report to the Corporate Governance Group, the function has provided ad hoc advice and guidance in a number of areas, including:

- Further support in the process for selection of the next BACS provider

- Advice to services on the management of risks (various)
- Advice on protocols relating to staff undertaking private work activity (outside Council employment)
- Verifying file extracts for the National Fraud Initiative to ensure compliance with data requirements, and initial review of matches

APPENDIX 2 - OUTCOME OF AUDITS COMPLETED SINCE THE PREVIOUS REPORT TO CORPORATE GOVERNANCE GROUP (24th October 2019)

The following work has been completed since the preparation of the report for the Corporate Governance Group meeting held 24th October 2019.

(Recommendations reflect only High and Medium priority matters raised):

Audit	Overview of Scope	Summary of Findings	Recommendation(s)	Priority	Agreed / Responsible Officer / Action Date
S106 Income **Full Assurance**	The audit reviewed the following: - Receipt and use of S106 income in accordance with agreement - Audit trail of S106 funds received, allocated and spent - Arrangements for monitoring to ensure completion within required timescales	Areas of good practice identified: - Comprehensive records are maintained by Asset Management and Accountancy teams, and liaison with other services as appropriate - Responsible officers are designated for each project, and project deadlines defined - Quarterly monitoring is conducted of progress against projects, and forthcoming deadlines identified to prompt oversight to ensure funds spent before deadline expiry	There were no recommendations arising from this review.	N/A	N/A
Community Transport Volunteers **Full Assurance**	The audit reviewed the following: - Protocols to ensure driver health and safety - Arrangements to	Areas of good practice identified: - The function supports the Health and Communities corporate priority - Effective workshop systems to ensure vehicle roadworthiness, and checks on MOT and tax status	There were no required actions arising from this review. Advice was provided relating to the use of the Motor	N/A	N/A

	ensure vehicles are roadworthy - Impact of licensing requirements on future service provision	- Effective systems to ensure driver health & safety, including requirements for breaks - Driving licence policies meet legal requirements - Drivers undertake appropriate driver training - Drivers are subject to DBS checks	Insurance Bureau records, and options for driver training.		
Handy Person Scheme **Significant Assurance**	The audit reviewed the following: - Safeguarding protocols for the Handy Person service - Prioritisation of works - Standard of works - Service budget and accuracy of charges	Areas of good practice were identified: - The Handy person service is provided to vulnerable people for specified works. Feedback provided has been positive - Work is prioritised as appropriate - Charges were correctly invoiced and paid - Funding is currently adequate to meet service needs There were some opportunities to improve relating to : - Works conducted outside the scope of the scheme - Safeguarding referrals - Feedback and quality checks	Works requested which fall outside the scope of the scheme are completed on a private basis; the arrangements for allocation of this work are to be reviewed.	Medium	Sustainability Manager Action to be advised
Safeguarding **Significant Assurance**	The audit reviewed the following: - Safeguarding training provision for staff - Safeguarding reporting arrangements	Areas of good practice were identified: - The Council has a safeguarding policy and requires all staff to complete safeguarding training - External Leisure provider has an up to date safeguarding policy - Minimal third party reports have been submitted by staff, and further	Ensure all staff complete the required safeguarding training. Consider safeguarding in all contracts with external organisations.	High	Community Services Manager Action to be advised

	- Safeguarding procedures for organisations providing services on behalf of BDC	advice was provided at the time of submission	Contracts for provision of goods and services directly related to children, young people or vulnerable adults must make specific reference to safeguarding and duties imposed on staff.		
DVSA Compliance **Significant Assurance**	Review of assurance provided by the Freight Transport Association following their comprehensive compliance and management control assessment conducted in September 2019.	The report concluded there were satisfactory arrangements for: management of compliance, management controls of the Operator Licence, management of driver hours, routine service inspections planning and execution, annual MOT checks, daily driver checks and defect reporting & rectification, procedures in the event of a road accident, arrangements for hiring of vehicles, driver training, licence checks, and vehicle loading. The review will be conducted every year.	There were no essential / urgent recommendations. There was one 'Important' recommendation: - Add requirement to driver handbook to notify manager of any Fixed Penalty Notice offences not incurring penalty points	Medium	Agreed Transport Manager Action Date: End of January 2020
Business Resilience Assurance Level not	The audit was planned to review the reliance on key staff identified through Business Continuity arrangements. Following the 2018/19 Audit of Business Continuity, the Sustainability Manager: - Revised the Business Continuity Plan - Commissioned an external review of the BC Plan including the IT Disaster Recovery Plan and identified opportunities to improve on existing arrangements, including relating to roles and responsibilities				

assigned	- Arranged training for all Service Managers to develop understanding of BC Principles and their application (training taking place in January 2020), and to guide staff in development of BC Plans (to take place in February 2020) A further review of Business Resilience would be beneficial following completion of the BC Plans and will be i8ncluded in the 2020/21 Internal Audit Plan to be presented to the Corporate Governance Group in April 2020.	
Annual Governance Statement Assurance Level not assigned	The review included evidence supporting the AGS, scope, assurance statements, and existence of action plans for areas of improvement.	The Audit, Insurance and Fraud Manager's Annual Opinion contributes to the Council's AGS. The 2018/19 Assurance statements were reviewed as part of Audit Planning processes for the 2019/20 Internal Audit Plan (reported to the Governance Committee in April 2019). (Some Services omitted to provide Assurance statements for 2018/19, these are taken into consideration in determining the scope of the Audit Plan). The AGS is reviewed by the External Auditor – their report to the Corporate Governance Group (October 2019) confirmed 'we have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge' The 2018/19 AGS noted no significant governance issues for the year, and identified the action taken to address areas of improvement identified in the 2017/18 AGS. A further review of the 2018/19 AGS will be undertaken as part of the 2019/20 Internal Audit Plan.

Key:

For the scope of objectives subject to review during the audit:

Full Assurance	*Internal controls meet acceptable standards and are consistently applied.* *Reasonable, but not absolute, assurance that adequate risk management and controls are in place.*
Significant Assurance	*Significant assurance that the internal control framework meets minimum acceptable standards.* *Some weaknesses or inconsistent application in control means some risks are not adequately mitigated.*
Limited Assurance	*Internal control framework does not meet minimum acceptable standard.* *Weaknesses or inconsistent application of controls means some risks are not mitigated and require significant improvement.*
No Assurance	*The internal control framework does not meet the minimum acceptable standards and no assurance can be given.*

CORPORATE GOVERNANCE GROUP
16th January 2020

Braintree District Council

Certification of Claims and Returns Annual Report 2018-19	**Agenda No: 7**

Portfolio	**Finance and Performance**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services**
Report presented by:	**BDO, External Auditors**
Report prepared by:	**BDO, External Auditors**

Background Papers:	**Public Report**
Certification of Grant Claims and Returns annual report 2018-19.	**Key Decision: No**

Executive Summary:

The purpose of the Certification of Claims and Returns annual report 2018/2019 is to summarise the results of the work carried out by BDO on the Housing Benefit Subsidy Claim. A copy of the report is attached at Appendix A.

Local Authorities responsible for managing housing benefits are able to claim subsidies towards the cost of these benefits from Central Government. From 1st April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. In certifying this claim, BDO followed a methodology determined by the Department for Work and Pensions.

The Housing benefits Subsidy report details the errors identified by testing, additional testing conducted, and the impact on the Subsidy claim.

The actual certification fees for 2018/2019 were £12,110. This is an increase of £1,860 over the planned fee and reflects the need for extended testing and associated support fees. The additional fee has been agreed with officers.

Recommended Decision:

To receive the Certification of Claims and Returns annual report for 2018/2019.

Purpose of Decision:

For Members to receive the Certification of Claims and Returns annual report for 2018/2019.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	None.
Legal:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	None.
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Report to the Corporate Governance Group

BRAINTREE DISTRICT COUNCIL

Audit Completion: year ending 31 March 2019

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INTRODUCTION

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2019.

A number of grant claims and returns are not within the scope of our appointment by PSAA, but Departments may still seek external assurance over the accuracy of the claim or return. These assurance reviews are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has engaged us to carry out the following for the year ended 31 March 2019:

- 'Agreed-upon procedures', based on the instructions and guidance provided by the Department for Work and Pensions (DWP), of the housing benefits return.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during our certification work.

Aphrodite Lefevre
3 January 2020

The contents of this report relate only to those matters which came to our attention during the conduct of our agreed procedures which are designed primarily for the purpose of expressing a conclusion or reporting the results of our work on the grants and returns subject to certification. This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

This table shows the details of the grant claim and return subject to certification by us for the financial year ended 31 March 2019.

Where our work identified issues which resulted in either an amendment and / or a qualification or reported exception, further information is provided on the following pages.

Claim or return	Value of return	Qualification / exceptions	Amended	Submission date	Impact of amendments
Housing benefit subsidy	£32,889,888	Yes	Yes	28 November 2019	Increased subsidy claimed +£21 *May be subject to further adjustment by DWP to decrease subsidy by £71,998 as a result of extrapolated errors as local authority error does not attract benefit subsidy.* *However, DWP does provide an allowance within the subsidy system to recover local authority errors and as the Council is below the threshold, it would be able to recover this amount through this subsidy allowance.*

FEES

Executive summary

The fees for this work are shown below:

Claim or return	2017/18 Actual fee	2018/19 Planned fee	2018/19 Actual fee	Explanation for fee amendments
Housing benefit subsidy	£13,728	£10,250	£12,110	Fee amendment required due to higher volume of subsidy calculation errors identified in the Council's records than assumed in our fee estimate.

HOUSING BENEFITS SUBSIDY

Scheme requirements

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The draft subsidy return provided for review recorded amounts claimed as subsidy of £32,889,888.

The final return was amended to £32,889,909.

Findings

Our review of 21 individual claimant files highlighted a number of errors the Council made in administering benefit and calculating subsidy entitlement.

The DWP's Reporting Framework Instruction requires that auditors undertake extended testing of 40 additional cases with similar characteristics ('40+ testing') if initial testing identified errors in the benefit entitlement calculation or in the classification of expenditure. Such testing is also undertaken as part of our follow-up of prior year issues reported. The results of this testing are extrapolated across the population to estimate a potential error amount. Where the error can be isolated to a small population, the whole population can be tested and the claim form amended if appropriate. Where there is no impact on the subsidy claim, for example where the error always results in an underpayment of benefit, we are required to report this as an observation in our report.

This resulted in 4 areas of 40+ testing (rent allowance tax credits, rent allowance earned income, rent allowance start dates and rent allowance end dates) and 1 area of additional or 100% testing (rent allowance disabled person cases).

A summary of our findings can be found on the following pages.

The final claim was amended to increase subsidy by £21 to £32,889,909.

However, the potential impact resulting from the extrapolated errors, if DWP was minded to finalise the subsidy based on these findings, would reduce subsidy by £71,998 (rent allowance earned income -£71,993 and rent allowances end dates -£5) as local authority error does not attract benefit subsidy.

However, DWP does provide an allowance within the subsidy system to recover local authority errors and as the Council is below the threshold, it would be able to recover this amount through this subsidy allowance.

Our work was completed and the claim was certified before the deadline of 30 November 2019.

HOUSING BENEFITS SUBSIDY

Rent allowance: Earned income

Reporting matter	■
Adjusted	
Unadjusted error	■

Errors

In 2017/18 audit testing identified 4 cases where earned income had been incorrectly applied in benefit calculations.

Our initial sample testing this year did not find any errors on earned income.

Additional testing

Due to the errors in the previous year, we were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

Our testing identified that earned income had been incorrectly applied in benefit calculations in 11 cases resulting in benefit being underpaid in 5 cases totalling £24, overpaid in 4 cases totalling £805, and 2 cases where it had no effect on the benefit paid.

Impact

Based on our extrapolation of the four earned income overpayment errors identified, we estimated the Council overpaid benefits by £71,993 (1.31% error rate on population of £5,495,631).

If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £71,993 as local authority error does not attract benefit subsidy.

However, DWP does provide an allowance within the subsidy system to recover local authority errors and as the Council is below the threshold, it would be able to recover this amount through this subsidy allowance.

HOUSING BENEFITS SUBSIDY

Rent allowance: Tax credits

Reporting matter
Adjusted
Unadjusted error

Errors

In 2017/18 audit testing identified 2 cases where tax credits had been incorrectly applied in benefit calculations.

Our initial sample testing this year did not find any errors on tax credits.

Additional testing

Due to the errors in the previous year, we were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

Our testing identified that tax credits had been incorrectly applied in benefit calculations in 1 case resulting in benefit being underpaid.

Impact

As there is no eligibility for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.

HOUSING BENEFITS SUBSIDY

Rent allowance: End dates

Reporting matter	■
Adjusted	
Unadjusted error	■

Errors

In 2017/18 audit testing identified 4 cases where benefit end dates had been incorrectly applied in benefit calculations.

Testing of our initial sample of 20 rent allowance cases identified 1 case totalling £0.21 where the benefit end date had been incorrectly applied in a benefit calculation, resulting in benefit being overpaid.

Additional testing

We undertook 40+ testing and identified an additional 7 cases where a benefit end date had been incorrectly applied, totalling £27,859, all resulting in an underpayment of benefit.

We also identified 1 case where an overpayment had been classified as Local Authority error when it should have been classified as DWP error. There is no requirement to perform additional testing on errors identified during additional testing which are unrelated to the area covered by the additional testing. This will however form part of our CAKE for 2019/20.

Impact

Based on our extrapolation of the overpayment error identified, we estimated the Council overpaid benefits by £5 (0.0001% error rate on population of £5,315,678).

If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £5 as local authority error does not attract benefit subsidy.

However, DWP does provide an allowance within the subsidy system to recover local authority errors and as the Council is below the threshold, it would be able to recover this amount through this subsidy allowance.

Therefore, it would not impact on overall subsidy claimed.

HOUSING BENEFITS SUBSIDY

Rent allowance: Start dates

Reporting matter
Adjusted
Unadjusted error

Errors

In 2017/18 audit testing identified 1 case where the benefit start date had been incorrectly applied in a benefit calculation.

Our initial sample testing this year did not find any errors on benefit start dates.

Additional testing

Due to the errors in the previous year, we were required to undertake 40+ testing to determine whether this issue had continued in 2018/19.

Our testing identified that the benefit start date had been incorrectly applied in benefit calculations in 1 case, totalling to £48, resulting in benefit being underpaid.

Impact

As there is no eligibility for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.

HOUSING BENEFITS SUBSIDY

Rent allowance: Pre-1973 war pensions

Reporting matter
Adjusted
Unadjusted error

Errors

Testing of our initial sample of 2 rent allowance modified scheme cases identified 1 case totalling £84 where the pre-1973 war pension disregard had been incorrectly applied in a benefit calculation, resulting in benefit being underpaid.

Additional testing

We have confirmed that this is the only case in the population with a pre-1973 war pension.

Therefore, we accepted that this was an isolated error and did not need to extrapolate the potential error.

Impact

The claim form has been adjusted resulting in increased subsidy of £21 as the £84 would attract subsidy at full rate rather than the modified scheme rate at 75% of benefit paid.

HOUSING BENEFITS SUBSIDY

Non-HRA rent rebates: Disabled person cases

Reporting matter
Adjusted
Unadjusted error

Errors

Testing of our initial sample of 20 rent allowance cases identified 1 case, totalling £1,321, where the over-occupation deduction was not applied as a result of a disabled child additional bedroom entitlement being incorrectly applied, resulting in benefit being overpaid.

Additional testing

A '100% check' of cases with disabled children additional bedroom entitlements was carried out to identify any additional errors.

Our testing identified that the disabled child additional bedroom entitlement had been incorrectly applied in benefit calculations in 3 cases where it had no effect on the benefit paid.

Impact

The claim form has been adjusted for the errors identified. This had no impact on subsidy entitlement.

HOUSING BENEFITS SUBSIDY

Rent allowance:

DWP error overpayments

Reporting matter	
Adjusted	
Unadjusted error	

Errors

Testing of our initial sample of 20 rent allowance cases identified 1 case where the DWP error overpayment had been applied to the incorrect period at the incorrect value and was included in the incorrect overpayment cell, resulting in benefit being underpaid.

Additional testing

Because this error will always result in an underpayment of benefit, additional testing has not been undertaken.

Impact

As there is no eligibility for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.

FOR MORE INFORMATION:

Aphrodite Lefevre

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The matters raised in our report prepared in connection with the review of grants claims and returns are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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CORPORATE GOVERNANCE GROUP
16th January 2020

Braintree District Council

Fraud Update	**Agenda No: 8**

Portfolio	**Finance and Performance Management**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services**
Report presented by:	**Angela Mitchell, Audit, Insurance and Fraud Manager**
Report prepared by:	**Angela Mitchell, Audit, Insurance and Fraud Manager**

Background Papers: None.	**Public Report** **Key Decision: No**

Executive Summary:

This report provides Members with an overview of Fraud affecting Local Authorities, and the work undertaken by staff, including the Audit, Insurance and Fraud team, in this respect.

Recommended Decision:

That Members note the report.

Purpose of Decision:

The Corporate Governance Group functions include monitoring the effectiveness of the Council's risk management procedures, the internal control environment and counter fraud and corruption arrangements.

The Public Sector Internal Audit Standards (PSIAS) require the Chief Audit Executive to periodically report significant risk and control issues, including fraud risks. The PSIAS also require the function, as part of Internal Audit Risk Management activity, to evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

This report summarises fraud risks affecting the public sector, and approaches taken by the Council to address those risks.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	None.
Legal:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	None.
Officer Contact:	Angela Mitchell
Designation:	Audit, Insurance and Fraud Manager
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E-mail:	Angie.mitchell@braintree.gov.uk

1. INTRODUCTION

The Council's Counter Fraud Strategy states the Council is determined that the culture and tone of the organisation is one of openness, honesty and opposition for theft, fraud, corruption and bribery, and that there is an expectation and requirement that Council Members, Chief Officers and staff at all levels will lead by example in these matters and that all individuals and organisations associated with the Council will recognise this strategy and associated policies.

The Council has adopted a corporate anti-fraud framework including Codes and Policies which underpin this strategy and exist to protect the Council against loss and reputational damage arising from theft, fraud, corruption or bribery. The approach includes:

- An established Corporate Governance Group whose remit includes monitoring the effectiveness of counter fraud and corruption arrangements
- Adopted Codes of Conduct for Members and Officers
- The Constitution, including Financial Procedure Rules and Contract Procedure Rules
- Dedicated and qualified Audit and Fraud staff whose roles include detection, prevention and sanctioning of fraud
- Participation in data matching exercises to increase opportunity for detection of fraud; these include the National Fraud Initiative, the Pan Essex Compliance and Counter Fraud Scheme, and LoCTA (Locating Council Tax Absconders), all of which provide access to data and matches across a range of data sets
- Review of fraud risks and approaches

2. PUBLIC SECTOR FRAUD RISKS

The CIPFA Counter Fraud Centre produced a Fraud and Corruption Tracker for 2018/19. This estimates that for Local Authorities in the UK, the total value of fraud detected or prevented in 2018/19 was £253m, with an average value of fraud to be £3,600. There was a slight reduction in the total value over the 2017/18 report, this was attributed to successful work in Housing resulting in a reduction in the number of unlawful subletting and false Right to Buy applications. Serious and organised crime has decreased; this may reflect the improved arrangements for sharing data to detect crime.

The key fraud risk areas identified in the report were:

- Council Tax:
    - Council Tax Single Person Discount: this area has seen the greatest growth in the last year, and is perceived to be one of the highest fraud risks
    - Council Tax Reduction: the number of cases and total value of fraud in this area continues to rise
- Procurement: Perceived to be one of the highest fraud risks
- Disabled Parking Concessions: misuse of the Blue Badge scheme is increasing, the average cost of a Blue Badge fraud is estimated to be £657
- Housing and Tenancy Fraud

- Business Rates: includes fraudulent applications for exemption, and the failure to list properties as being a business address

The following were also noted as notable fraud risks within the Public Sector:

- Adult Social Care
- Insurance
- Procurement
- No recourse to public funds / welfare assistance
- Economic and voluntary sector support and debt (grants)
- Payroll, recruitment, expenses and pension
- Manipulation of data (financial or non-financial) and Mandate fraud
- Cyber Fraud – 27% of respondents stated their organisation had been the victim of hacking / denial of service attacks in the last month

The Fraud and Corruption Tracker report recommended assessment against the checklist from 'Fighting Fraud and Corruption Locally Strategy 2016–2019' (this strategy is being updated). The Audit, Insurance and Fraud Manager has carried out an assessment against this checklist, and from this concludes that the Council has taken reasonable measures towards addressing fraud risks but that further actions are required to strengthen the approach.

3. FRAUD INVESTIGATION

The Council's Fraud Investigator, employed within the Audit, Insurance and Fraud Team, conducts investigations into alleged or suspected fraud, liaising with other services or organisations as appropriate. He is experienced and professionally qualified to conduct investigations, and ensures appropriate cases are sanctioned in accordance with the Council's Prosecution Policy. In addition to the investigation activity he has developed Fraud related policies, and arranged training for relevant staff within the organisation.

The main emphasis of Fraud work has been on Council Tax Support and Single Person Discount, the Fraud Investigator does undertake joint working with the Department of Work and Pensions (DWP) and has worked with other Council Services and external organisations to address other fraud risk areas.

4. DATA MATCHING

The National Fraud Initiative is a data matching exercise conducted by the Cabinet Office under Data Matching Powers set out in the Local Accountability and Audit Act 2014. Certain bodies, including Local Authorities, are required to participate through the provision of data for matching purposes, the initiative matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council participates in all mandatory elements of the NFI data matching; the results of the latest data matching exercise have been released and are currently being reviewed by Audit and Fraud staff. The Cabinet Office has produced a summary of the outcomes from previous matching exercises; this publication is available as a background paper to this report.

The Pan Essex Compliance and Counter Fraud Scheme performs monthly data matching of a number of data sets from Local Authorities across Essex. Braintree

District Council is one of 14 Councils who participate in this matching exercise. The Council has employed a Data Matching Officer since March 2018 (within the Revenues and Benefits Team) to upload data and review the results.

The Council now subscribes to LoCTA, a Local Authority based data sharing system for tracing debtors and minimising fraud with integrated access to other data sets (such as Companies House and Land Registry).

5. HOUSING BENEFIT FRAUD

Housing Benefit Fraud is no longer investigated by the Council, this is now the responsibility of the DWP Single Fraud Investigation Service. The Council does have a formal protocol with the DWP for exchanging information relating to Benefit Fraud investigations, and conducts joint working on relevant investigations.

6. CORPORATE POLICIES AND PROCEDURES

The Council currently has the following Fraud related strategies, policies and procedures. The Audit, Insurance and Fraud Manager will coordinate the review of these documents:

- Counter Fraud Strategy (March 2013) – summarises the Council's approach to delivering counter fraud measures throughout the Council
- Fraud, Corruption and Dishonesty Policy (November 2015) – defines fraud, corruption and dishonesty, and includes the Code of Conduct for Members, the Code of Conduct for Employees, the Code of Practice for Councillors and Officers Engaged in the Determination of Planning Applications, and summarises expectations
- Prevention of Money Laundering Procedures (June 2009 – this policy is superseded by the Anti Money Laundering Policy & Guidance which is in consultation as at January 2020) – identifies Council and staff responsibilities under Money Laundering Regulations, and protocols for record keeping and reporting
- Prosecution Policy (November 2015) – defines considerations for the prosecution of Local Council Tax Support and other fraud
- RIPA Policy (September 2016) – defines key staff contacts and outlines requirements for compliance with RIPA

In addition, the Council has a range of Policies and Procedures which support development of controls and approaches contributing to the prevention and detection of fraud, including the following:

- Whistleblowing Policy (November 2015) – defines whistleblowing, encourages reporting of wrongdoing, defines protocols for reporting and lists key officer contacts
- Risk Management Policy, Strategy and Implementation Plan (March 2005 – this policy is currently being updated and will be presented to Cabinet in February 2020 and the Corporate Governance Group in April 2020) – defines responsibility and protocols for corporate risk management
- The Constitution (May 2015) – defines how the Council operates, how decisions are made and the procedures followed to ensure these are efficient, transparent and accountable to local people

- Local Code of Corporate Governance (updated annually as part of the Annual Governance Statement) – defines the systems and processes, culture and values by which the Council is controlled
- Code of Conduct for Members, including Gifts and Hospitality (May 2019) – defines obligations and protocols for ensuring Member actions are consistent with the “Nolan Principles” and interests are disclosed
- Code of Conduct for Staff, including Gifts and Hospitality (May 2019) – ensures high standards of behaviour and conduct including avoidance of conflicts of interest and separation of roles during tendering
- Code of Practice for Members engaged in the Determination of Planning Applications (May 2019) – applies to Members and Officers, and defines protocols for ensuring fair and impartial decision making
- Disciplinary Procedures (December 2014) – provides guidance on how managers will treat cases of unsatisfactory conduct
- Staff Declarations of Conflicts of Interest – form for enabling staff to report conflicts
- IT Security Policy and ICT Codes of Practice (April 2018) – specify how the Council will apply information security
- Procurement and Contract Procedures (May 2015) – procedures for promoting good purchasing practice and public accountability and deter corruption
- Recruitment Policies – includes requirements for ensuring a fair recruitment and selection process, and the pre-employment checks conducted by HR and recruiting managers
- Corporate Post Opening Procedure (October 2013) – security of remittances sent by post

7. **CORPORATE TRAINING**

The Council has arranged the following training for staff to support them to prevent and detect fraud:

- **Regulation of Investigatory Powers Act** (RIPA) Application and Authorisation – October 2018
  15 staff attended this training covered which legislative requirements for surveillance, including tests for necessity and proportionality and the application process.

- **Document Awareness** – October 2019
  This training covered the features to examine to verify the legitimacy of identity documents (such as driving licenses and passports) presented to staff
  Two sessions were arranged by HR to extend this training to a wide selection of staff.

CORPORATE GOVERNANCE GROUP
16th January 2020

Draft Treasury Management Strategy Statement 2020/21	Agenda No: 9

Portfolio	**Finance and Performance Management**
Corporate Outcome:	**Providing value for money**
Report presented by:	**Phil Myers, Financial Services Manager**
Report prepared by:	**Phil Myers, Financial Services Manager**

Background Papers:	**Public Report**
None.	**Key Decision: No**

Executive Summary:

1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year.

2. The CIPFA Code recommends that all public service organisations maintains a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities. The following statements set out the Council's policy:

   - The Council defines its treasury management activities as the management of its investments and cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

   - The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

   - The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3. The manner in which the Council will seek to achieve its policies and objectives for treasury management are set out in a number of Treasury Management Practices (TMPs), along with supporting schedules. Appendix A to the report lists the TMPs

that are currently maintained by the In-house treasury management team.

4. Arlingclose Ltd have been re-appointed as treasury management advisors to the Council for a three-year period, commencing on 10th November 2019.

5. The Treasury Management Strategy Statement (TMSS) is set within an external context of UK and global economic conditions and regulatory changes that drive both interest rate expectations and the general credit outlook. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2020/21. The Council's treasury management adviser, Arlingclose, is forecasting that Bank Rate will remain at 0.75% until at least the end 2022. The risks to this forecast are deemed to be weighted to the downside. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Policy Report and by its Bank Rate decision that the Monetary Policy Committee now believe this is less likely. Gilt yields have risen but still remain at low levels with an outlook for some further rises over the forecast time horizon. However, the risks to this forecast remain balanced, and short-term volatility is a near certainty. The TMSS contains a more detailed economic and interest rate forecast set out in Appendix B.

6. Based on the Council's proposed capital programme, including its strategic investments, forecasts have been developed which show an increasing requirement over the medium-term to borrow for capital purposes (as measured by the Capital Financing Requirement or CFR). Forecasts have also been made of the projected levels of usable reserves and working capital which provide the underlying resources available for investment. These are set out in Table 1 of the main report.

7. Based on current forecasts, it is expected that a significant proportion of the borrowing required can be met from internal borrowing, i.e. temporarily using cash held for other purposes, supplemented by some short-term external borrowing. The main advantage of this strategy is that it both lowers exposure to external debt, and investment risks. This approach is based on the expectation that significant capital receipts will be generated from a number of major projects with the risk being, that if these are not realised or delayed, the Council might be forced to borrow at a time when financial markets are less favourable. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years. Arlingclose will assist the Council with this 'cost of carry' and break-even analysis, and advise on the appropriate financing strategy.

8. As a comparison, an alternative strategy has been shown in the report adopting a 'liability benchmark' that shows the lowest risk level of future borrowing. This assumes that cash and investment balances are kept to a minimum of £10million at each year-end to maintain sufficient liquidity. The result would be to lower borrowing in the future, but would also reduce year-end investment balances to a level below the amount currently expected to be held in long-term pooled funds (£20 million).

9. The Council's primary objectives for investment of cash balances are security, liquidity and then yield. In the continuing low interest rate environment, the Council's approach has been to diversify and lengthen its investment horizon, primarily through investment in a range of pooled funds (equity, property, and diversified

funds). In the current year it is expected that investment balances will average around £59 million. The forecast for 2020/21 is £46 million, and over the medium-term levels are expected to reduce further as the Council incurs expenditure on its strategic investment programme.

10. It is the Council's revenue reserves which must absorb any financial loss that might be incurred through a default on an investment or the through unforeseen interest rate movements. Over the medium term these reserves are forecast to be around £20 million. The TMSS provides for a maximum limit of £5 million being lent to any individual financial institution or fund, with a further lower limit of £3 million on any unsecured investment. Further limits are proposed on various aspects of the portfolio, including an overall limit of £20 million on long-term pooled funds.

11. The TMSS also sets outs a number of indicators or proposals to be used to manage the Council's exposure to treasury management risks, including security, interest rate exposure, refinancing risks, and potential early termination costs of investments made for periods longer than one year.

12. Under the European Markets in Financial Instruments Directive (MiFID) the Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies (retail investors). Given the size and range of the Council's treasury management activities, the Corporate Director (Finance) believes this to be the most appropriate status.

13. The budget for investment income in 2020/21 is £1.086 million which equates to an overall return of 2.35%. This comprises £890,000 of estimated dividend income from the Council's pooled funds (a return of 4.45%), and £196,000 of estimated interest from short-term investments (equivalent to a return of 0.75%). Over the medium-term investment income is expected to be maintained around £1 million. Interest on current borrowing is £282,000 per annum, an average interest rate of 4.7%. Whilst a number of strategic projects in the capital programme include provision for capitalised interest arising from additional borrowing, the strategy is to mitigate this position by using internal resources where possible. The Corporate Director (Finance) will keep this approach under review in conjunction with Arlingclose. Estimated interest of £99,000 per annum is also payable on assets acquired through lease type arrangements, the cost of which is budgeted within the relevant service.

Recommended Decision :

The Corporate Governance Group is asked to:

1. Review the draft Treasury Management Strategy Statement; and
2. To consider whether the Group would like to propose any amendment or provide comments or observations which the Cabinet Member for Finance and Performance Management can take into account when presenting the final Treasury Management Strategy Statement to Cabinet and Full Council.

Purpose of Decision:
The Council's Constitution requires that prior to consideration by Cabinet and Full Council, the draft Treasury Management Strategy Statement is reviewed and scrutinised by the Corporate Governance Group.

Any Corporate implications in relation to the following should be explained in detail	
Financial:	The financial implications of the treasury management activities are set out in the tables and indicators contained in the TMSS. These show an increasing need for prudential borrowing in the future based on the Council's current investment plans, albeit this is reduced by using internal borrowing. Investment income in 2020/21 is estimated to be £1.086 million. This comprises £890,000 of estimated dividend income from the Council's pooled funds and £196,000 of estimated interest from short-term investments. Interest on debt charged to the General Fund revenue account in 2020/21 is estimated at £282,000. A number of strategic projects include provision for capitalised interest although the strategy is to mitigate this through internal borrowing. Estimated interest of £99,000 is also payable on assets acquired through lease type arrangements, the cost of which is budgeted within the relevant service.
Legal:	The Treasury Management Strategy Statement (TMSS) fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the guidance issued by the Chartered Institute of Public Finance and Accountancy and the Department for Communities and Local Government.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	No direct impact but the outcomes of the treasury management activities impact on the Council's financial resources to meet its priorities and service objectives.
Environment and Climate Change:	None.
Consultation/Community Engagement:	Consultation on the TMSS is via the Corporate Governance Group prior to its consideration by Cabinet and Full Council.

Risks:	The TMSS seeks to set a framework to manage the inherent risks around treasury management activities, which effectively comprise: * Security – ensuring investments are repaid and minimising the potential for loss through diversification. * Liquidity – ensuring that cash is available for both capital and revenue purposes when required, and where borrowing is considered this is done on a basis that is prudent, sustainable, and affordable. * Interest rate – limiting the negative impacts from variable interest rates, and refinancing risks of both debt and maturing investments.
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Treasury Management Strategy Statement 2020/21

1. Introduction

1.1. Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has substantial sums of money invested, and holds legacy borrowing, meaning it is exposed to a range of financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.3. Investments held for service purposes or for commercial profit are considered in the Council's Investment Strategy (which will form part of the Council's overall budget report for 2020/21).

2. Treasury Management Policy and Practices

2.1. The CIPFA Code recommends that all public service organisations maintains a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities. The following statements set out the Council's policy:

- The Council defines its treasury management activities as the management of its investments and cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.2. The manner in which the Council will seek to achieve its policies and objectives for treasury management are set out in a number of Treasury Management Practices (TMPs), along with supporting schedules – see **Appendix A** for a list

of TMPs that are currently maintained by the In-house treasury management team.

2.3. Arlingclose Ltd have been re-appointed as treasury management advisors to the Council for a three-year period commencing on 10 November 2019.

3. External Context

3.1. **Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2020/21. The General Election has removed some uncertainty within financial markets, however, following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

3.2. Gross Domestic Product (GDP) growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its historical trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

3.3. The headline rate of UK Consumer Price Inflation (CPI) remained the same in November 2019 at 1.5% year-on-year, the same as October, however still continuing to fall from earlier highs of 2.1% as accommodation services and transport continued to contribute to a level of inflation below the Bank of England's target of 2%. Labour market data continues to be positive. The unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation real wage growth is only likely to have a moderate impact on household spending.

3.4. Domestic inflationary pressures have abated, as gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December. The limited inflationary pressure from real wages will keep inflation below the Bank of England's target. The Bank Rate was maintained at 0.75% in November following a 7-2 vote by the Monetary Policy Committee (MPC). Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

3.5. The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary policy tightening through 2019. The Federal Reserve has cut rates

three times to 1.50-1.75% to stimulate growth as GDP growth has started to fall (to 2.1%).

3.6. The fallout from the US-China trade war continues, which risks contributing to a slowdown in global economic activity 2019. There have been recent suggestions of an initial compromise and potential unwinding of tariffs; however, the position is one that could change quickly. Slow growth in Europe, combined with changes in leadership at the European Central Bank and International Monetary Fund has led to a change of stance in 2019. Quantitative easing has continued and been extended.

3.7. **Credit outlook:** The recent Bank of England stress test assessed all seven UK banking groups. The test scenarios included deep simultaneous recessions in the UK and global economies more severe overall than the previous global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a common equity tier (CET1) ratio and a leverage ratio basis as the banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach, namely: timeliness as the results are over 11 months out of date when published and based on end-2018 balance sheets; impact of ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups; and coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

3.8. The Bank of England will seek to address some of these issues in 2020, when Virgin Money/ Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

3.9. Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering negative publicity and falling customer numbers.

3.10. Looking forward, the potential for a "no-deal" Brexit and/ or global recession remain the major risks facing banks and building societies in 2020/21, and therefore a cautious approach to bank deposits is being maintained.

3.11. **Interest rate forecast:** The Council's treasury management adviser, Arlingclose, is forecasting that Bank Rate will remain at 0.75% until end of 2022 with the risks to this forecast deemed to be weighted towards the downside. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and through its Bank Rate decision that the MPC now believe this is less likely even with a deal being agreed.

3.12. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

3.13. A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix B**

3.14. For the purpose of setting the budget, it has been assumed that new short-term investments will be made at an average rate of 0.75%. The Council is currently using a project rate of 2.9% where new external borrowing is implied.

4. Local Context

4.1. The following table shows the actual and forecast balances derived from the Council's Balance Sheet that relate to its treasury management activities:

Table 1: Balance sheet summary and forecast

	31.3.19 Actual £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Capital Financing Requirement (CFR)	**12.22**	**15.76**	**26.08**	**30.69**	**26.50**	**23.77**
Less: Other debt liabilities	-2.50	-2.19	-1.98	-1.92	-1.91	-1.91
Loan CFR	**9.72**	**13.57**	**24.10**	**28.78**	**24.59**	**21.86**
Less: External borrowing	-6.00	-6.00	-9.64	-8.95	-6.00	-6.00
Internal Borrowing	**3.72**	**7.57**	**14.47**	**19.83**	**18.59**	**15.86**
Less: Usable reserves	-47.48	-47.62	-31.80	-36.84	-35.87	-34.06
Less: Working capital	-2.76	-4.65	-2.67	-2.99	-3.31	-3.65
Investments	**46.53**	**44.70**	**20.00**	**20.00**	**20.59**	**21.85**

4.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources that support investment balances. The Council has an increasing CFR due to its capital programme suggesting a need to borrow for the purposes of capital expenditure. However, in line with a strategy of keeping external borrowing and investments below their underlying levels this increased need to borrow is projected to be met largely by using internal borrowing. This strategy is based on the assumption that significant capital receipts will be generated from a number of the Council's strategic projects with the main risk being that should these receipts not be realised or are delayed, the Council could be forced to borrow at a time which is less favourable to current market conditions.

4.3. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 confirms that the Council expects to comply with this recommendation.

4.4. **Liability benchmark:** To compare actual borrowing against an alternative strategy, a 'liability benchmark' has been calculated showing the lowest risk level of future borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10 million at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	[redacted]	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Loan CFR	[redacted]	**24.10**	**28.78**	**24.59**	**21.86**
Less: Usable reserves	[redacted]	-31.80	-36.84	-35.87	-34.06
Less: Working capital	[redacted]	-2.67	-2.99	-3.31	-3.65
Plus: minimum investments	[redacted]	10.00	10.00	10.00	10.00
Liability Benchmark	[redacted]	**-0.36**	**-1.05**	**-4.59**	**-5.85**

4.5. As the table above shows, this approach would eliminate the need for any additional external borrowing over the medium-term (reflected by a negative liability benchmark), although this also implies a level of investments at year-end below the Council's current long-term pooled fund holdings, which would result in a net reduction in income to the General Fund Revenue Account as the return on pooled funds exceeds current borrowing costs.

4.6. The Corporate Director (Finance) will, within the limits approved by Council, have flexibility to adjust this balance between borrowing and investments to respond to changing circumstances.

5. Borrowing Strategy

5.1. The Council currently has £6 million of debt, which it incurred in March 2002, and has a maturity date of March 2042, subject to lender options (see below). The balance sheet forecasts show that borrowing is expected to increase in the near term during 2020/21 and 2021/22, subject to the progress made on delivering a number of the Council's strategic investment projects. Additional sums may be borrowed in any year to pre-fund future years' financing requirements, providing this does not exceed the authorised limit for borrowing.

5.2. **Objectives:** The main objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the plans change is a secondary objective.

5.3. **Strategy:** The borrowing strategy will address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term.

5.4. By adopting this strategy both net borrowing costs and overall treasury risk can be reduced. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and break-even analysis, the output from which may determine whether additional sums are borrowed at long-term fixed rates sooner than expected if this demonstrates longer-term benefit, even if there are some short-term additional costs.

5.5. Alternatively, forward starting loans might be used during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.6. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body

5.7. Whilst the PWLB would normally have been the main source of any new borrowing, since October 2019 the cost of borrowing from the Board has increased by 1% (i.e. borrowing rates are now set at gilt yield +1.8% margin), making it a relatively more expensive source of finance. Consequently, at the point there is need to arrange new borrowing full consideration will be given to the alternative sources available at the time.

5.8. Other sources of debt finance: In addition, capital finance may be raised by leasing (or other similar credit arrangement) which is technically not classed as borrowing but treated as other debt liabilities.

5.9. **LOBOs:** Current external borrowing is in the form of two loans of £3 million each on LOBO (Lender's Option, Borrower's Option) terms, where the lender has six-monthly options to propose an increase in the interest rate, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Whilst the Council understands that the lender is unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Currently it is not anticipated that any future new borrowing will be on LOBO terms.

5.10. **Short-term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to interest exposure limits. Financial derivatives may be used to manage this interest rate risk (see Section 8).**Debt rescheduling:** The lender of the LOBOs may be prepared to negotiate premature redemption terms. The Council may take advantage of this where this is expected to lead to an overall cost saving and/ or a reduction in risk.

6. Investment Strategy

6.1. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Working capital requirements during the year also increase the amount of cash available for investment purposes. The following table shows the average investment balance including forecasts over the medium-term:

Table 3: Average investment balances

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Pooled Funds (long-term)	16.54	18.50	20.00	20.00	20.00	20.00
Short-term investments	41.81	40.90	26.14	13.79	14.08	15.01
Total Average Investment balance	**58.34**	**59.40**	**46.14**	**33.79**	**34.08**	**35.01**

6.2. **Objectives:** The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.3. **Negative interest rates:** If the UK enters into a recession, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4. **Strategy:** Given the risk and very low returns from short-term unsecured bank investments, the Council will maintain its diversification towards higher yielding asset classes through longer-term investments. A portion of surplus cash will continue to be invested in short-term unsecured bank deposits, money market funds (MMFs), loans to other local authorities, and the UK Government via the Debt Management Office.

6.5. **Investment business model:** the accounting arrangements for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed short-term treasury investments by collecting contractual cash flows and so these investments are accounted for at amortised cost, i.e. principal and interest, the latter based on the effective interest rate method.

6.6. For investments in long-term pooled funds, the accounting rules require the Council to account for changes in fair value (or market value) as well as any dividend income. However, currently regulations provide a statutory override mitigating the impact this would normally have on the General Fund revenue account. These regulations apply for a period of five years ending on 31st March 2023. Without any further extension to the regulations, after this time the Council will have to take into account changes in fair value when setting budgets and council tax.

6.7. **Criteria for selecting approved investment counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Counterparty or Credit Rating	Banks Unsecured	Banks Secured	Government	Registered Providers (Housing)
UK Government			£ unlimited 50 years	
UK Local Authorities			£5m/ 5 years per authority	
Supranational bodies with rating of at least AA+			£5m per body 25 years	
AA+ or AAA	£3m 5 years	£5m 10 years		£5m 5 years
AA- or AA	£3m 3 years	£5m 4 years		
A+	£3m 2 years	£5m 3 years		
A	£3m 13 months	£4m 2 years		
A-	£3m 6 months	£3m 2 years		
Unrated Building Societies	£1m 6 months			
MMFs, Pooled Funds, and REITs	£5m per fund			

This table should be read in conjunction with the notes below.

6.8. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

6.9. **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

6.10. **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time

limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

6.11. **Government:** Loans, bonds and bills issued or guaranteed by the UK Government, multilateral development banks, and UK local authorities. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

6.12. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated and as providers of public services, they retain the likelihood of receiving government support if needed.

6.13. **Money Market Funds/ Pooled funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus for some funds, equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

6.14. **Bond, equity and property funds** offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

6.15. **Real estate investment trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

6.16. **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services. These are not classed as investments, but are still subject to the risk of a bank bail-in or counterparty default. Normally balances will be kept at/ around £1.5 million (net); although for specific cash flow purposes it may be necessary to hold higher balances for short periods. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

6.17. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by Arlingclose, who will notify the Council of changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.18. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn at short notice will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.19. **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from Arlingclose. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

6.20. In the event of deteriorating financial market conditions which is affecting the creditworthiness of all organisations that is not reflected in credit ratings, investments will be restricted to those organisations of higher credit quality along with a reduction in duration limits. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

6.21. **Investment limits**: The Council's revenue balances and reserves available to cover investment losses are forecast to be around £28 million at 31st March 2020, but reduce to around £20 million over the medium-term. To protect the impact on these reserves in the case of default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million (£3 million where the investment is unsecured and held with a single bank). A group of banks under the same ownership will be treated as a single organisation. Limits will also be placed on fund managers, foreign countries and industry sectors as shown in the table below.

Table 5: Investment limits

	Cash limit
Any single organisation/ fund, except the UK Central Government	£5m each
UK Central Government	Unlimited
Foreign countries (if not via pooled/ money market fund)	£5m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£3m in total
Any group of pooled funds under the same management organisation*	£10m per manager
Pooled funds (held for the long-term)*	£20m in total
Money market funds (low volatility, cash+ funds)*	£25m in total
Real estate investment trusts*	£5m in total

* Based on the initial principal amounts invested

6.22. **Liquidity management**: The Council prepares a medium-term cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of being forced to borrow on unfavourable terms to meet financial commitments. Limits on long-term investments are set by reference to medium-term financial plans and cash flow forecasts. A detailed in-year cash flow statement is maintained to manage short-term liquidity.

7. Treasury Management Indicators

7.1. Exposure to treasury management risks is measured and managed using the following indicators.

7.2. **Security:** Exposure to credit risk is measured by monitoring the value-weighted average credit rating of the investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score by Arlingclose based on their perceived risk. The target average credit rating adopted is to aim to maintain the Council's portfolio at an overall rating of at least A.

7.3. **Interest rate exposures**: Whilst the Council has an anticipated increase in borrowing requirement, it still has a significant investment portfolio meaning that at present a 1% increase in rates would have a net beneficial impact on the Council.

7.4. Conversely, a 1% reduction in interest rates would have an overall negative impact due to a reduction in investment income.

7.5. **Maturity structure of borrowing:** This indicator is set to control exposure to refinancing risk. At present the only borrowing the Council has is its LOBO debt which means that there is exposure to refinancing risk of £6 million at a frequency of 6 months. Liquid funds are normally held which mitigate this along with ready access to refinancing if necessary via the PWLB, LA to LA lending, or

financial markets. Any new external borrowing incurred will be arranged so as to manage the future refinancing risk.

7.6. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments (excluding pooled funds). The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 6: Investment beyond one year limits

Price risk indicator	**2020/21**	**2021/22**	**2022/23**
Limit on principal invested beyond year end	£10m	£8m	£5m

8. Related Matters

8.1. The CIPFA Code requires the Council to include the following in its treasury management strategy.

8.2. **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income by adjusting risk exposure (e.g. LOBO loans and callable deposits).

8.3. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

8.5. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

8.6. **Markets in Financial Instruments Directive (MiFID)**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers where requested to confirm status, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Corporate Director (Finance) believes this to be the most appropriate status.

9. Financial Implications

9.1. The following table sets out the actual and forecast investment income over the medium-term:

Table 6: Investment Income

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Dividend and Interest income:						
Pooled Funds (long-term)	0.866	0.841	0.890	0.890	0.890	0.890
Short-term investments	0.292	0.306	0.196	0.103	0.106	0.113
Total	**1.158**	**1.147**	**1.086**	**0.993**	**0.996**	**1.003**
Income return %:						
Pooled Funds (long-term)	5.24%	4.55%	4.45%	4.45%	4.45%	4.45%
Short-term investments	0.70%	0.75%	0.75%	0.75%	0.75%	0.75%
Total	**1.98%**	**1.93%**	**2.35%**	**2.94%**	**2.92%**	**2.86%**

9.2. Annual interest payable on current borrowing is £282,000 (equivalent to an average interest rate of 4.7%). Whilst a number of strategic investment projects in the capital programme include provision for additional capitalised interest, the strategy is to mitigate this by using internal resources where this is shown to be most beneficial. The Corporate Director (Finance) will keep this position under review in conjunction with Arlingclose. Estimated interest of £99,000 per annum is also payable on assets acquired through lease type arrangements, the cost of which is budgeted within the relevant service.

9.3. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

10. Other Options Considered

10.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Corporate Director (Finance), having consulted the Cabinet Member for Finance and Performance Management, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Table 8: Alternative Strategies and Impact

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at	Debt interest costs will rise;	Higher investment balance

long-term fixed interest rates	this is unlikely to be offset by higher investment income	leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of new borrowing by increasing internal borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Treasury Management Practices (TMPs)

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

Appendix B – Arlingclose Economic & Interest Rate Forecast December 2019

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- The General Election has removed some uncertainty within financial markets, however, following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.
- UK economic growth has stalled despite Q3 2019 GDP of 0.4%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Election promises suggest substantial fiscal easing, which should help support growth.
- The weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.5%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there remains substantial risks to this forecast.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%