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NOTICE

OF

MEETING

# AUDIT AND GOVERNANCE COMMITTEE

will meet on

**THURSDAY, 21ST OCTOBER, 2021**

**At 7.00 pm**

In the

**GREY ROOMS - YORK HOUSE, WINDSOR AND ON RBWM YOUTUBE**

TO: MEMBERS OF THE AUDIT AND GOVERNANCE COMMITTEE

COUNCILLORS CHRISTINE BATESON (CHAIRMAN), LYNNE JONES (VICE-CHAIRMAN), JULIAN SHARPE, GURPREET BHANGRA AND SIMON BOND

SUBSTITUTE MEMBERS

COUNCILLORS SIMON WERNER, JOHN BOWDEN, GREG JONES, SHAMSUL SHELIM AND NEIL KNOWLES

Karen Shepherd – Head of Governance - Issued: 13th October 2021

Members of the Press and Public are welcome to attend Part I of this meeting. The agenda is available on the Council's web site at www.rbwm.gov.uk or contact the Panel Administrator **Mark Beeley** 01628 796345

**Recording of Meetings** – In line with the council's commitment to transparency the Part I (public) section of the virtual meeting will be streamed live and recorded via Zoom. By participating in the meeting by audio and/or video, you are giving consent to being recorded and acknowledge that the recording will be in the public domain. If you have any questions regarding the council's policy, please speak to Democratic Services or Legal representative at the meeting.

## AGENDA

## PART I

# MEMBERS' GUIDE TO DECLARING INTERESTS AT MEETINGS

**Disclosure at Meetings**

If a Member has not disclosed an interest in their Register of Interests, they **must make** the declaration of interest at the beginning of the meeting, or as soon as they are aware that they have a Disclosable Pecuniary Interest (DPI) or Other Registerable Interest. If a Member has already disclosed the interest in their Register of Interests they are still required to disclose this in the meeting if it relates to the matter being discussed.

Any Member with concerns about the nature of their interest should consult the Monitoring Officer in advance of the meeting.

**Non-participation in case of Disclosable Pecuniary Interest (DPI)**

Where a matter arises at a meeting which directly relates to one of your DPIs (summary below, further details set out in Table 1 of the Members' Code of Conduct) you must disclose the interest, **not participate in any discussion or vote on the matter and must not remain in the room** unless you have been granted a dispensation. If it is a 'sensitive interest' (as agreed in advance by the Monitoring Officer), you do not have to disclose the nature of the interest, just that you have an interest. Dispensation may be granted by the Monitoring Officer in limited circumstances, to enable you to participate and vote on a matter in which you have a DPI.

Where you have a DPI on a matter to be considered or is being considered by you as a Cabinet Member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

*DPIs (relating to the Member or their partner) include:*

- *Any employment, office, trade, profession or vocation carried on for profit or gain.*
- *Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses*
- *Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.*
- *Any beneficial interest in land within the area of the council.*
- *Any licence to occupy land in the area of the council for a month or longer.*
- *Any tenancy where the landlord is the council, and the tenant is a body in which the relevant person has a beneficial interest in the securities of.*
- *Any beneficial interest in securities of a body where:*
  *a) that body has a place of business or land in the area of the council, and*
  *b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body* ***or*** *(ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.*

Any Member who is unsure if their interest falls within any of the above legal definitions should seek advice from the Monitoring Officer in advance of the meeting.

**Disclosure of Other Registerable Interests**

Where a matter arises at a meeting which ***directly relates*** to one of your Other Registerable Interests (summary below and as set out in Table 2 of the Members Code of Conduct), you must disclose the interest. **You may speak on the matter only if members of the public are also allowed to speak at the meeting** but otherwise **must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation**. If it is a 'sensitive interest' (as agreed in advance by the Monitoring Officer), you do not have to disclose the nature of the interest.

*Other Registerable Interests (relating to the Member or their partner):*

*You have an interest in any business of your authority where it relates to or is likely to affect:*

a) *any body of which you are in general control or management and to which you are nominated or appointed by your authority*

b) *any body*
   - *(i) exercising functions of a public nature*
   - *(ii) directed to charitable purposes or*

*one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union)*

**Disclosure of Non- Registerable Interests**

Where a matter arises at a meeting which ***directly relates*** to your financial interest or well-being (and is not a DPI) or a financial interest or well-being of a relative or close associate, you must disclose the interest. **You may speak on the matter only if members of the public are also allowed to speak at the meeting** but otherwise **must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation**. If it is a 'sensitive interest' (agreed in advance by the Monitoring Officer) you do not have to disclose the nature of the interest.

Where a matter arises at a meeting which ***affects*** –

a. your own financial interest or well-being;
b. a financial interest or well-being of a friend, relative, close associate; or
c. a body included in those you need to disclose under DPIs as set out in Table 1 of the Members' code of Conduct

you must disclose the interest. In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied.

Where a matter ***affects*** your financial interest or well-being:

a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;
b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest

**You may speak on the matter only if members of the public are also allowed to speak at the meeting** but otherwise **must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.** If it is a 'sensitive interest' (agreed in advance by the Monitoring Officer, you do not have to disclose the nature of the interest.

**Other declarations**

Members may wish to declare at the beginning of the meeting any other information they feel should be in the public domain in relation to an item on the agenda; such Member statements will be included in the minutes for transparency.

# AUDIT AND GOVERNANCE COMMITTEE

## THURSDAY, 29 JULY 2021

PRESENT: Councillors Christine Bateson (Chairman), Lynne Jones (Vice-Chairman), Julian Sharpe, Gurpreet Bhangra and Simon Bond

Also in attendance: Councillor John Baldwin

Officers: Mark Beeley, Emma Duncan, Duncan Sharkey, Adele Taylor, Andrew Vallance and Karen Shepherd

## APOLOGIES FOR ABSENCE

There were no apologies for absence received.

## DECLARATIONS OF INTEREST

There were no declarations of interest received.

## MINUTES

**RESOLVED UNANIMOUSLY: That the minutes of the meeting held on 17th May 2021 were approved as an accurate record.**

## STATEMENT OF ACCOUNTS UPDATE 2019/20

Andrew Vallance, Head of Finance, explained that Deloitte had recently written to the objectors with their provisional views on the objections to the 2019/20 accounts. Objectors had been given three weeks to respond to Deloitte.

Andrew Hill, a member of the public, asked to clarify that in the agenda pack the 2019/20 report from the May meeting of the Audit and Governance Committee was referred to as the 'final' report. Andrew Hill asked if this should instead say the 'latest' report.

Jonathan Gooding, Deloitte, confirmed that this was correct and that there would be a further report in due course to summarise the objections that had been made.

Councillor Sharpe asked when the final report on the 2019/20 accounts would be available.

Jonathan Gooding explained that the only work left was on the objections. Objectors had been written to, setting out Deloitte's provisional view. They had three weeks to request documents and submit their comments. If there were no comments submitted, the accounts could be concluded very quickly after the three week deadline. The final report would not be available immediately after the deadline as the audit letter would still need to be reviewed.

The Chairman asked if the report would be ready for the September meeting of the Committee.

Jonathan Gooding said that it was possible but was unable to give any guarantees.

Councillor Baldwin asked if there was a legal obstruction to having members of the Committee who were meeting in person at the Town Hall also join by Zoom so that those on the call and watching on YouTube could hear and see clearly what was going on.

Emma Duncan, Monitoring Officer and Deputy Director of Law and Strategy, said that Democratic Services were looking at potential solutions to improve the accessibility and transparency of broadcasting council meetings.

STATEMENT OF ACCOUNTS UPDATE 2020/21

Jonathan Gooding said that the 2020/21 accounts were in the process of being completed. The audit plan was in the agenda pack for both the statement of accounts and the pension fund, which set out the scope and timing of the work. Three significant audit risks had been identified. One was around properties being valued incorrectly, another was around expenditure which had been capitalised when it should not have been, and the final risk was around management override of controls. For the pension fund, override management of controls had also been identified as a significant risk, as well as the longevity swap not being appropriately valued. For these audit risk areas, Deloitte planned to test the controls. There was a change with consideration to value for money, as the requirements were now broader. There would also be a change in reporting, with an annual audit report produced in addition to the ISA260. The deadline for this report would be three months after the opinion was issued on the statement of accounts.

Andrew Hill asked when and how the period of inspection on the accounts was publicised by RBWM. He said that of the three risks Jonathan Gooding had mentioned, he asked for clarification that the first two were specific to RBWM where as the third risk was a general risk amongst most local authorities. Andrew Hill also asked for clarification on if Deloitte meant the RBWM Property Company or property owned by the council when it was mentioned in the report. Andrew Hill asked if Deloitte had already identified capitalisation of expenditure as a risk in the 2020/21 audit.

Jonathan Gooding said that significant risks were not the only thing that the auditors looked at. There was a set of presumed risks which Deloitte had to presume for all audits it undertook, including the risk of management override of controls. Another risk was revenue recognition, but Deloitte was keeping this under review to see if there were any changes. This was a similar position to most other local authorities. The property valuation and expenditure was taken from Deloitte’s understanding of the authority but they had not seen any evidence of fraud. Property valuations were a significant risk but this was very common. Deloitte was in the process of determining their judgement and valuation of property.

Andrew Vallance added that the accounts were summarised on the RBWM website.

Councillor L Jones commented on their being a requirement for councils to provide value for money. She asked what would be looked at as part of the audit to determine if the council was getting value for money.

Jonathan Gooding explained that previous audit guidance required a risk assessment to be performed. Certain documents needed to be reviewed to see if there were any significant risks identified in these areas. The arrangements in place were documented, which formed part of the risk assessment. The primary base of reporting on the accounts was the annual report, which would include more extensive detail and commentary.

Councillor L Jones asked if assumptions made last year would be used this year and how much did the auditors consider forward decision making.

Jonathan Gooding said that it was considered to an extent, areas that were focused on included financial sustainability, governance and information based on performance. Deloitte started the process by asking officers at the authority what their arrangements were and then sought evidence to support those arrangements.

Councillor Sharpe said that there had been some issues identified in the 2019/20 accounts and asked when issues would be identified for the 2020/21 accounts.

Jonathan Gooding said that recommendations had been identified and made to the local authority last year. The objections made to the accounts would need to be completed before the audit could be finished. The 2020/21 audit was happening at the same time, with completion possible in a minimum of five weeks.

Councillor Bond asked about property valuations and said that it had been mentioned that there was the potential temptation to capitalise revenue. He said that if the value of the property was different this would change the assets on the balance sheet but not the liquid assets. He mentioned the actuarial evaluation in the pension fund.

Jonathan Gooding said that the revenue expenditure could be capitalised, there was no incentive to capitalise the property valuation. There was an actuarial evaluation in the pension fund liability. Jonathan Gooding said he would check this and correct it if required.

Councillor Baldwin asked for clarification on whether the wording “bribery basis of reporting” was used by Jonathan Gooding.

Jonathan Gooding confirmed that Councillor Baldwin had misheard, he had said the “primary basis of reporting”.

## TREASURY MANAGEMENT OUTTURN REPORT

Andrew Vallance introduced the report. He explained that there had been slightly less borrowing across the year due to cash balances which was the result of Covid-19 funding from central government. This has been distributed to businesses as business rate grants which had helped to improve cash flow. 70% of borrowing remained short as short money was extremely cheap at the moment. The council was constantly reviewing its borrowing portfolio and at some point officers would look to borrow for 5-10 years at slightly higher rates in order to lock in low rates. Therefore, if it was beneficial the council would move some of its short term borrowing to medium term borrowing. In terms of investment, rates had been low at near 0% which meant that investment income had been low. Andrew Vallance reported that there had been one breach of the counterparty limit for eight days, with £8 million invested in a money market fund where the counterparty limit was actually £5 million. However, money market funds were low risk investments.

Andrew Hill had noted that in the mandatory consultation box at the end of the report, 10 out of the 12 officers listed had not been sent the report. He asked what the point of the consultation was if officers did not review the report.

Andrew Vallance explained that it depended on each report which specific officers the report was sent to for consideration. The consultation box was under review and would be updated for all reports in due course.

Andrew Hill asked about the counterparty limit breach and whether the additional £4 million which had been invested had come from a reserve.

Andrew Vallance said that the money should have been invested somewhere else, either in a different money market fund or another bank account.

Andrew Hill said that in the report it was mentioned that RBWM held a £100 million sum that was a pure investment. He asked what the investment risk was attached to this amount, was it a low risk asset performing the yield or a poor performing high risk asset. If so, was RBWM going to consider disposing the assets as suggested by CIPFA.

Andrew Vallance confirmed it was not an investment in any particular asset, it was just the cash flow consequence of normal business. RBWM did not borrow to invest in terms of yield purposes and it did things in accordance with CIPFA guidance.

Councillor Bond asked about Arlingclose and that a duration of 35 days had been mentioned. He asked if that meant that money could only be locked up in these institutions for 35 days.

Andrew Vallance said that this was an error in the report and should actually say 365 days.

On the counterparty limit being reached, Councillor L Jones asked if Andrew Vallance could confirm whether procedures or the process had been changed as a result, to ensure that it did not happen again.

Andrew Vallance explained that the incident had occurred due to a spreadsheet error, appropriate training had been provided to the officers involved.

Councillor L Jones said that a number of years ago, Members were told that RBWM would be debt free by 2025. She therefore asked why there was £5 to £10 million worth of debt.

Andrew Vallance said that he was not sure how anyone could guarantee that the authority could be debt free, RBWM currently had long term debt.

**RESOLVED UANIMOUSLY: That the Audit and Governance Committee noted and approved the annual Treasury Outturn Report 2020/21.**

## ANNUAL GOVERNANCE STATEMENT 2020/21

Emma Duncan, Monitoring Officer and Deputy Director of Law & Strategy, explained that governance was a joint enterprise with all officers to ensure that good standards were upheld. The officer governance group met regularly and consisted of statutory officers, the head of paid service, the chief executive, the section 151 officer, the monitoring officer, the head of finance, the head of law and the head of governance. The group considered governance issues and how to improve the council's governance framework. The Annual Governance Statement (AGS) for 2020/21 had been delivered with regard to the CIPFA 'delivering good governance' framework. The Centre for Public Scrutiny risk and resilience framework had also provided useful insight when producing the AGS.

The AGS set out how the local authority would look to do things, with values and behaviour being a key focus. The council wanted to build on this and the statement had been a significant piece of work. New procedures had been put in place so that Democratic Services were able to record delegated decisions made by officers. The statutory officers consultation section on reports would be reviewed as part of the process.

A significant piece of work this year had been the development of the corporate plan. This would ensure that decisions were taken that were in line with the council's aims and objectives. Members would be able to see more of this during the rest of year and track delivery. Capacity to consult with communities had been improved so that they formed a part of the decision-making process. Virtual meetings had allowed more people to engage and participate in council meetings, while statutory rights like freedom of information had been maintained effectively.

Overview and scrutiny had been identified as an area for governance improvement, to ensure that the scrutiny function was able to add value to the council. This would involve a cultural shift with both officers and Members to ensure that scrutiny was effective. Looking at the action plan in the AGS, work had been themed around the key areas. The action plan would be kept under review by the Audit and Governance Committee.

Andrew Hill thanked Emma Duncan for her comprehensive explanation of the AGS. He felt that the council had been listening to residents more, particularly with the library consultation. On overview and scrutiny, Andrew Hill asked how it would be decided which decisions came to Full Council and which were considered by Cabinet. Andrew Hill believed that decisions that went to Cabinet did not seem to go through the scrutiny process and therefore arrived at Cabinet with little or no input from other Members. He also asked if there would be greater transparency on the public contracts that the council entered into, particularly with the RBWM Property Company.

Emma Duncan explained that executive functions came under Cabinet. Scrutiny had a number of roles but should not look to scrutinise everything. There was the call in system but policy development was an important function which was not used effectively. Scrutiny was given the opportunity to make recommendations to Cabinet and help shape decisions. This way scrutiny could add value and come up with solutions, this would allow Members to make a difference to their communities.

Councillor Sharpe commented that RBWM was on a journey and asked how far along that journey RBWM currently was, on a scale of 1 to 10.

Emma Duncan said that she had joined RBWM in February 2021 and in the time she had been at the council she had seen progress. There was a desire to do the right thing but governance was never perfect and there was still things left to do. Considering Councillor Sharpe's query of a rating, Emma Duncan said that the authority was over the worst of the issues and was now looking at how to build for the future.

Considering Andrew Hills point on transparency, Emma Duncan explained that there would always be some information that the council would not be able to share. However, RBWM was more open than a lot of authorities.

Councillor L Jones asked how capacity was affected by financial constraints. She asked if Members would get the opportunity to comment on performance monitors before they were put into the performance framework. Councillor L Jones welcomed that scrutiny was going to be reviewed.

Emma Duncan said that it was important to develop capacity in the right places. It was important to deliver things like training where it was required, particularly for Members. The review of the performance management framework could take place as a 'scrutiny in a day' session. The new corporate plan was evidence based and the same applied to the performance indicators. It was important that Members listened to what officers had set for performance indicators and did not reject them for no reason. There would be opportunities for Members to provide input and test performance indicators.

The Chairman asked what the council was doing for those on apprenticeships.

Emma Duncan said that the corporate plan consultation was being sent out next week and officers wanted to hear from the public on the areas that they would like to see in the corporate plan. The consultation would be done through a new platform called Engagement HQ.

Councillor Bond commented on the officer teams that were part of the governance framework and suggested that they overlapped, along with the Leaders Board. He asked how this linked with the political side of the council. Councillor Bond said that the AGS was very comprehensive on the risks the council faced and specifically on each type of risk.

Emma Duncan explained that the council used a committee structure, which meant that there was Full Council, Cabinet and then other committees, all of which had their own functions and powers. Officers made decisions which were made through the officer meetings. Leaders Board was an informal Cabinet meeting where Cabinet Members could discuss reports and address any issues. Members were the decision makers, any big decisions above a certain threshold that were made by officers had to be published as an Officer Decision Notice. Smaller decisions were made under delegated authority and did not have to be publicly reported. Officers made sure that Members had the tools to make decisions. Regarding procurement, the action plan suggested that the procurement process would be looked at. The point of tender was usually confidential information but other information around the process could be disclosed.

Councillor Baldwin said that he had raised the issue of the RBWM Property Company with Cabinet and he had suggested that the two opposition leaders were kept involved with the creation of the report but this was rejected.

Emma Duncan said the action plan was developed through the scrutiny committees. It was good practise to develop reports through the scrutiny system and promoted good governance. The formal committee structure allowed for transparency, accountability and allowed the discussion and decision to be minuted and recorded.

Councillor L Jones said that she would like to place on record her concern about the financial constraints when looking at capacity within the organisation and whether there was enough finance to ensure that objectives were met.

**RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the report and:**

- **i) Considered the draft 2020/21 AGS, identified any specific matters which should be brought to the attention of Council or Cabinet.**
- **ii) Recommended the 2020/21 AGS to the Leader of the Council and Chief Executive for signature and publication with the Council's Statement of Accounts.**
- **iii) Requested that update reports be provided to the Committee summarising progress on the AGS Action Plan.**

## WORK PROGRAMME

Andrew Vallance said it was hoped that the Committee would be able to consider the final 2019/20 accounts and a significant update on the 2020/21 accounts at the September meeting.

Councillor Sharpe suggested that it would be useful for the Committee to consider business controls within the council, this could be added for the February 2022 meeting.

Adele Taylor, Executive Director of Resources, explained that the item suggested by Councillor Sharpe was covered by the update reports from internal audit. The next update from the internal audit team was planned to be in October 2021. If there were any specific areas of business control the Committee wanted to look at, this could be added to the work programme.

The Chairman asked if this could be brought forward to the September meeting.

Adele Taylor said that this could be discussed with the internal audit team.

The meeting, which began at 7.00 pm, finished at 8.35 pm

CHAIRMAN……………………………….

DATE………………………………..........

| | |
|---|---|
| Report Title: | 2021-22 Audit and Investigation Interim Report (1 April – 30 September 2021) |
| Contains Confidential or Exempt Information | No - Part I |
| Cabinet Member: | Cllr C. Bateson (Chairman of the Audit and Governance Committee) |
| Meeting and Date: | Audit and Governance Committee, 21 October 2021 |
| Responsible Officer(s): | Andrew Vallance, Head of Finance & Deputy S151 Officer |
| Wards affected: | None |

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Royal Borough of Windsor & Maidenhead

***REPORT SUMMARY***

This report summarises the Shared Audit and Investigation Service (SAIS) activity, including progress in achieving the 2021/22 Internal Audit and Investigation Work Programme, during the first six months of 2021/22 to 30 September 2021. This report will complement the 2021/22 Annual Audit and Investigation Report that will be presented to this Committee in June 2022.

It recommends that Members note the activity of the SAIS during the first six months of the 2021/22 financial year and the outcome of the audit reviews and investigations undertaken.

This recommendation is being made to ensure that the Council meets its legislative requirements, as well as the requirements of the Audit and Governance Committee's Terms of Reference and the Council's Anti Fraud and Anti Corruption Strategy.

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION: That the Audit and Governance Committee notes the Shared Audit and Investigation Service activity for the six months ending 30 September 2021.**

## 2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

**Options**

**Table 1: Options arising from this report**

| **Option** | **Comments** |
|---|---|
| Note the activity of the SAIS during the first six months of the financial year.<br><br>**This is the recommended option** | This will ensure that the Council meets its statutory requirements. In addition, the Audit and Governance Committee will comply with its responsibilities as set out within their ToR and also the requirements of the Council's Anti Fraud and Anti Corruption Strategy. |

| Option | Comments |
|---|---|
| | In addition, it will ensure that the SAIS is complying with industry best practice as detailed in the Public Sector Internal Audit Standards (PSIAS). |
| Not note the activity of the SAIS during the first six months of the financial year until amendments have been made. | Members may wish to request that this report be amended / altered if they feel that there are material issues which have not received sufficient emphasis or if there are specific issues the report is deficient in.<br><br>This may mean that the SAIS may not be complying with industry best practice as stated in the PSIAS. |
| Not note the activity of the SAIS during the first six months of the financial year. | This may expose the Council to unnecessary risks by not having an adequate internal control framework leading to poor performance and poor outcomes for service users/residents.<br><br>It may result in a qualification in the External Auditors' Annual Management Letter.<br><br>The SAIS will not be complying with industry best practice as detailed in the PSIAS. |

2.1 The Accounts and Audit Regulations 2015 require that every local authority undertakes an effective internal audit of their risk management, internal control and governance processes.

2.2 In addition, the Executive Director of Resources (& Section 151 Officer) has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty, the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management. The SAIS carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to the Audit and Governance Committee.

2.3 The aim of the report attached at Appendix A and the supporting Appendix A(I) is to cover these legislative requirements and it also provides a summary of the Council's investigation activities, as required to be reported on a half yearly and annual basis to the Audit and Governance Committee in accordance with the Council's Anti Fraud and Anti Corruption Strategy.

2.4 This recommendation is being made to ensure that industry best practice for the SAIS is being followed.

2.5 It should be noted that following the decision of the Council to give notice in April 2021 that they do not intend to continue the Shared Audit and Investigation Service Partnership with Wokingham Borough Council beyond 31 March 2022, this has impacted on resourcing within the team as permanent recruitment to vacant posts has been put on hold during the transition period. This is being carefully managed through this period so as to reduce, as far as practically possible, the impact on the delivery of the 2021/22 Audit and Investigation Work Programme. This has been partly addressed by the engagement of temporary resource for the first part of the year. In addition, in order to make the best use of audit resource, we have: -

- Streamlined audit processes to increase capacity, where appropriate.
- Narrowed the focus of audit scopes to examine only key risks.
- Used resource flexibly to refocus on specific potential control risk/fraud areas.

We will work with the new Internal Audit Service provider, when they have been commissioned, to assist, as far as possible, with ensuring a smooth transition as we handover to the Council's new Internal Audit arrangement.

## 3. KEY IMPLICATIONS

3.1 **Table 2: Key Implications**

| Outcome | Unmet | Met | Exceeded | Significantly Exceeded | Date of delivery |
|---|---|---|---|---|---|
| SAIS work is effective and is working to achieve the 2021/22 Internal Audit and Investigation Work Programme. In addition, the Committee is complying with the requirements of its ToR and the requirements of the Council's Anti Fraud and Anti Corruption Strategy. | Failure of the Council to meet its statutory requirements and failure of the Audit and Governance Committee to discharge its responsibilities. | Council meets its statutory requirements to provide an adequate and effective internal audit of its system of internal control. The Audit and Governance Committee discharges its responsibilities. | n/a | n/a | 31 March 2022 |
| Unqualified External Audit Financial Accounts and Management Letter. | Adverse comment and a qualified External Audit Management Letter if the Council fails to maintain an | Unqualified External Audit Management Letter as Council meets its requirements to provide an | n/a | n/a | 31 March 2022 |

| Outcome | Unmet | Met | Exceeded | Significantly Exceeded | Date of delivery |
|---|---|---|---|---|---|
| | adequate Internal Audit function. | adequate and effective Internal Audit function. | | | |
| Residents have confidence that public funds are being used economically, efficiently and effectively and that Council assets and interests are being safeguarded from misappropriation, loss or fraud. | Loss of residents' confidence, Council assets and interests may not be safeguarded and the Council's reputation may be affected if there are not effective Internal Audit and Investigation functions. | Gain residents confidence, Council assets and interests are safeguarded and the Council's reputation is protected as Council provides an effective Internal Audit and Investigation functions. | n/a | n/a | Ongoing |

## 4. FINANCIAL DETAILS / VALUE FOR MONEY

### a) Financial impact on the budget

Revenue - Officer time in dealing with provision of the SAIS
Capital – None.

### b) Financial Background – n/a – see 4a) above

## 5. LEGAL IMPLICATIONS

5.1 Internal Audit carry out their activities under:-

- Regulations 6 (1), 6(3) and (4) of the Accounts and Audit Regulations 2015.
- S151 Local Government Finance Act 1972.
- CIPFA/IIA Public Sector Internal Audit Standards 2017.

5.2 Investigatory activities are carried under:-

- Fraud Act 2006
- Criminal Justice Act 1987
- Theft Act 1968
- Forgery and Investigation Act 1981
- Social Security Administration Act 1992.
- Welfare Reform Act 2012.

## 6. RISK MANAGEMENT

6.1 Table 3 summarises the potential risks associated with the options and the proposed course of action.

**Table 3: Impact of risk and mitigation**

| Risk | Level of uncontrolled risk | Controls | Level of controlled risk |
|---|---|---|---|
| 1. Failure of the Council to adequately plan and undertake audit reviews leading to failure to meet its statutory requirements. Without an adequate internal audit function, the Council's key systems and services are consequently at risk of not achieving their objectives in the most economic, efficient and effective way thus being exposed to misappropriation / loss | High | Ensure and demonstrate an adequate internal audit function.<br><br>Provide a regular written progress report on the work of internal audit to those charged with governance for endorsement. | Low |
| 2. Failure to provide assurance that the work of the Internal Audit function properly supports the governance framework and the content of the Annual Governance Statement. | High | Internal audit coverage included as part of the governance assurance framework and informing the Annual Governance Statement. | Low |
| 3. Without an appropriate internal audit governance framework in place, which includes an Internal Audit Charter, improved organisational processes and operations will not be identified across the Council which means that value for money is not achieved. | Medium | Approved Internal Audit Charter in operation and being followed. | Low |

## 7. POTENTIAL IMPACTS

7.1 Equalities. The Equality Act 2010 places a statutory duty on the council to ensure that when considering any new or reviewed strategy, policy, plan, project, service or procedure the impacts on particular groups, including those within the workforce and customer/public groups, have been considered. This report is a non-decision making report and is provided for Members to note progress against the 2021/22 Work Programme. In undertaking our audit and investigative work, we ensure that we have regard for equalities.

7.2 Climate change/sustainability. We have considered the potential impact of the recommendations in relation to climate change / sustainability and have identified no impact.

7.3 Data Protection/GDPR. No personal data is being processed for this decision maker taking regard of the requirements of the Data Protection Act 2018 and the General Data Protection Regulation. Data Protection Impact Assessments are a lawful requirement under certain conditions but do not impact on this report.

7.4 Staffing/workforce, Human Rights and community cohesion, accommodation, property and assets – these have been considered and are not applicable to this report.

## 8. CONSULTATION

8.1 Consultation was undertaken with internal stakeholders (Members of the Corporate Leadership Team, Executive Director of Resources (& S151 Officer) and Head of Finance (& Deputy S151 Officer) in preparing the 2021/22 Internal Audit and Investigation Work Programme.

8.2 Management and staff have been consulted prior to and during the course of the audit and investigation reviews to ensure that work is timed to suit both parties, to incorporate managements' priorities and to agree a course of action to implement the outcome of those reviews.

8.3 Consultation in respect of investigations work is as set down in the Council's Anti Fraud and Anti Corruption Strategy.

## 9. TIMETABLE FOR IMPLEMENTATION

9.1 The full implementation stage is set out in Table 4.

**Table 4: Implementation timetable**

| Date | Details |
|---|---|
| 31 March 2022 | 2021/22 Internal Audit and Investigation Work Programme completion |

## 10. APPENDICES

10.1 This report is supported by 2 appendices:-

- Appendix A – 2021/2022 Audit and Investigation Interim Progress Report (1 April 2021 to 30 September 2021)
- Appendix A(I) – 2021/22 Internal Audit Plan Status (1 April 2021 – 30 September 2021)

## 11. BACKGROUND DOCUMENTS

11.1 This report is supported by 2 background documents:-

- CIPFA/IIA Public Sector Internal Audit Standards 2017
- Anti Fraud and Anti Corruption Strategy

## 12. CONSULTATION

| Name of consultee | Post held | Date sent | Date returned |
|---|---|---|---|
| *Mandatory:* | *Statutory Officers (or deputy)* | | |
| Adele Taylor | Executive Director of Resources/S151 Officer | 11/10/21 | 13/10/21 |
| Emma Duncan | Deputy Director of Law and Strategy / Monitoring Officer | 11/10/21 | |
| *Deputies:* | | | |
| Andrew Vallance | Head of Finance (Deputy S151 Officer) | 11/10/21 | 13/10/21 |
| Elaine Browne | Head of Law (Deputy Monitoring Officer) | 11/10/21 | |
| Karen Shepherd | Head of Governance (Deputy Monitoring Officer) | 11/10/21 | |
| *Directors* | | | |
| Duncan Sharkey | Chief Executive | 11/10/21 | 11/10/21 |
| Andrew Durrant | Executive Director of Place | 11/10/21 | |
| Kevin McDaniel | Executive Director of Children's Services | 11/10/21 | |
| Hilary Hall | Executive Director of Adults, Health and Housing | 11/10/21 | |
| *Heads of Service (where relevant)* | | | |
| Nikki Craig | Head of HR, Corporate Projects and IT | 11/10/21 | 13/10/21 |
| *External (where relevant)* | | | |
| *N/A* | | | |

| | | |
|---|---|---|
| Confirmation relevant Member(s) consulted | Chairman Audit and Governance Committee | Yes |

**REPORT HISTORY**

| **Decision type:** | **Urgency item?** | **To follow item?** |
|---|---|---|
| Audit and Governance Committee for noting | No | No |

| |
|---|
| Report Authors: Andrew Moulton, Assistant Director Governance; Wokingham Borough Council for the Shared Audit and Investigation Service, Tel no.07747 777298; Catherine Hickman, Lead Specialist, Audit and Investigation; Tel no: 07885 983378 |

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Royal Borough of Windsor & Maidenhead

WOKINGHAM BOROUGH COUNCIL

# INTERIM INTERNAL AUDIT & INVESTIGATION REPORT 2021/22 (TO 30 SEPTEMBER 2021)

## 1. INTRODUCTION

1.1 This report summarises the work of the Shared Audit and Investigation Service from 1 April 2021 to 30 September 2021. There are three key areas of the services work; Internal Audit, Governance and Investigation.

1.2 Internal audit is a statutory function under the Accounts and Audit Regulations 2015 and it is an independent and objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

1.3 A formal annual report presenting the Chief Audit Executive (Head of Internal Audit) opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance is required, as stated in the Public Sector Internal Audit Standards (PSIAS). The purpose of this interim report is to provide an update on the progress made against the delivery of the Audit and Investigation Work Programme at an interim stage (30 September 2021). This report provides details of the status of audits, i.e. those completed to date, at draft stage or work in progress with the assurance opinions given. In addition, it provides a summary of internal audit performance, planning and resourcing issues.

1.4 Investigation work involves the proactive prevention, detection and investigation of fraud, corruption and wrong-doing. The main focus of this activity is financial fraud committed against the council. However, the team can use their skills in other relevant cases i.e. disciplinary investigations.

1.5 The Lead Specialist, Audit and Investigation, Shared Audit and Investigation Service under the Regulation of Investigatory Powers Act 2000 (RIPA) is the Council's RIPA Co-Ordinating Officer responsible for oversight and control over RIPA applications. RIPA regulates the ways that government bodies, including the police, are allowed to carry out surveillance, which includes accessing any communications data, listening to phone calls, following people, taking photographs and intercepting e-mails.

## 2. INTERNAL AUDIT

2.1 The overall 2021/22 Internal Audit Strategy, outlining the role, scope and purpose of Internal Audit, the 2021/22 Audit Work Programme Planning process, resourcing, reporting arrangements and Internal Audit's requirements to conform to the Public Sector Internal Audit Standards (2017), was presented to this Audit and Governance Committee (AGC) on 22 February 2021.

2.2 Performance against the Internal Audit and Investigation Plan to 30 September 2021 is as follows;

- Appendix A(I) presents progress made against the 2021/22 Internal Audit and Investigation Work Programme (including audits carried forward from 2020/21) between 1 April and 30 September 2021.

.

- Audit work in Quarter 1 and 2 included completing audits from the 2020/21 financial year where there had been delays with the commencement of specific audit work due to services continuing to need to respond to the impacts of the Covid-19 crisis and council priorities and the associated recovery plans. The work of the Internal Audit team has continued to be refocussed and reprioritised in order to accommodate the need to be flexible during this period of uncertainty.
- Following the decision of the Council to give notice in April 2021 that they do not intend to continue the Shared Audit and Investigation Service Partnership with Wokingham Borough Council beyond 31 March 2022, this has impacted on resourcing within the team as permanent recruitment to vacant posts has been put on hold during the transition period. This is being carefully managed through this period so as to reduce, as far as possible, the impact on the delivery of the 2021/22 Audit and Investigation Work Programme. This has been partly addressed by the engagement of temporary resource for the first part of the year. In addition, in order to make the best use of audit resource, we have: -
    - Streamlined audit processes to increase capacity, where appropriate.
    - Narrowed the focus of audit scopes to examine only key risks.
    - Used resource flexibly to refocus on specific potential control risk/fraud areas.
- We will work with the new Internal Audit Service provider, when they have been commissioned, to assist, as far as possible, with ensuring a smooth transition as we handover to the Council's new internal audit arrangement.

## 3. INTERNAL AUDIT SERVICE PERFORMANCE AND CONTRIBUTION

3.1 Appendix A (I) details the status of audits against the 2021/22 Audit and Investigation Work Programme as at 30 September 2021, including those audits completed from the 2020/21 financial year. Table 1 provides a summary.

**Table 1: Status of 2021/22 audits (including audits carried forward from 2020/21)**

| Audit Status | Number of audit/associated audit work |
|---|---|
| Final Report | 13 |
| Draft Report | 3 |
| Grants Certified | 4 |
| Work in Progress | 7 |
| Other | 2 |
| Total | 29 |

.

3.2 For the reviews completed, where an audit opinion was appropriate (i.e. Final Report stage), the following breakdown of classification is summarised in Table 2 below.

**Table 2: Summary of 2021/22 Audit Opinions (including audits carried forward from 2020/21)**

| Overall Audit Opinion | Summary of Audit Opinion | No. of Audits completed during 2021/22 (incl. carried forward from 2020/21) |
|---|---|---|
| 1 | Complete and Effective | 6 |
| 2 | Substantially Complete and Generally Effective | 6 |
| 3 | Range of Risk Mitigation Controls is incomplete, and risks are not effectively mitigated | 0 |
| 4 | There is no effective Risk Management process in place | 0 |
| N/A | Advisory | 1 |

3.3 Management is given one month between the draft and final reporting stage to address any countermeasures and, where applicable, improve the overall audit opinion. There was one audit undertaken during the period (Pensions Payroll & Administration) where this option was utilised by management and the audit opinion improved from a 2 to a 1 category of opinion.

3.4 There are no audit reviews during the period that have attracted the third or fourth category of audit opinion (as shown in Appendix A(I) – Legend Section) that have been completed to Final Report stage since the 2020/21 Annual Report submitted to the Audit and Governance Committee on 17 May 2021.

3.5 At the time of last reporting to AGC (17 May 2021), there were three audits that received the 3rd category of Audit Opinion (Cash and Bank Reconciliation, Debtors and Reconciliations). Members requested at that meeting that ongoing audit work be undertaken to give this Committee assurances that the concerns identified during the audits were being progressed. At the time of this reporting, audit activity is in progress in each of three audit areas and a verbal update will be given to the Committee.

3.6 Where concerns are classified as being major or extreme that have been tolerated by management, these are highlighted to the Audit and Governance Committee. There are no cases of Major or Extreme concerns being tolerated by management.

.

**Grant Certification**

3.7 Where a grant giving body requires an internal audit certificate before releasing payment, the team carries out work to verify and certify amounts that the Council can claim. Without this certification, grants may become repayable. Grants certified include: -

- Covid-19 Restart Grants
- Troubled Families Grant – Quarter 1 and 2 certifications
- Local Enterprise Partnership:-
  - Core Funding
  - Additional Funding
  - Covid Funding
    EU Transition Funding

**Consultancy, Contingency and Advice**

3.8 In addition to completing planned audit reviews, the team also provide consultancy, ad hoc advice, and guidance across the Council to assist colleagues with ensuring control and governance arrangements are considered in developing processes/policies etc. as summarised in Appendix A(I) to this report.

**Outstanding management responses**

3.9 There are no outstanding management responses to audit reports.

**4. INVESTIGATIONS**

4.1 The work undertaken by the SAIS includes reactive investigations as well as developing pro-active fraud drives.

4.2 There have been no incidences of material fraud, irregularities or corruption discovered or reported during the year.

**Pro-active Exercises - Empty Property Relief**

4.3 Work has been undertaken during the first part of the year to investigate Council Tax Empty Property Relief. It should be noted that the properties identified in the Council Tax Empty Property Relief exercise as occupied, that were previously shown as unoccupied, feed into the New Homes Bonus Scheme formula and may result in extra income in to the council through liable charges being raised for previous council tax liability. The results of this work are currently being compiled.

.

**National Fraud Initiative Data Matching**

4.4 The bi-annual upload of data for the National Fraud Initiative has taken place and the data matches returned will be reviewed as part of the 2021/22 financial year Work Programme.

**Regulation of Investigatory Powers Act**

4.5 No investigation cases have been undertaken during the first six months of 2021/22 that have required Regulation of Investigatory Powers surveillance approval to be requested.

## 5. CONFORMANCE WITH PUBLIC SECTOR INTERNAL AUDITING STANDARDS (PSIAS)

5.1 The PSIAS, as revised in April 2017, define the service and professional standards for public sector internal audit services. The standards apply to the Internal Audit function in all parts of the public sector in the UK and are mandatory. Internal Audit activity is undertaken in compliance with the PSIAS.

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# 2021/22 Royal Borough of Windsor and Maidenhead Internal Audit Plan Status (as at 30 September 2021)

## Key Financial Systems

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| Benefits/Council Tax Reduction Scheme Follow Up | Resources | FINAL | 2 |
| Council Tax Follow Up | Resources | FINAL | 1 |
| NNDR Follow Up | Resources | FINAL | 1 |
| Cash & Bank Reconciliation (Progress of High Risk Concerns) | Resources | WIP | |
| Debtors Follow Up (Progress of High Risk Concerns) | Resources | WIP | |
| Reconciliations (Progress of High Risk Concerns) | Managing Director | WIP | |

## Governance Building Blocks

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| Procurement (Covid-19 Expenditure) | Resources | DRAFT | |

## Key Operational Risks

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| Health & Safety (incl. PPE) | Cross cutting | DRAFT | |

## Servicing the Business

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| Schools Financial Value Statement | Children's Services | Completed | n/a |
| Schools Risk Assessment Exercise | Children's Services | Completed | n/a |
| All Saints School | Children's Services | WIP | |

## Grant Certifications

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| Covid-19 Restart Grants | Resources | FINAL | Certified |
| Troubled Families Grant (Qtr. 1) | Resources | FINAL | Certified |
| Troubled Families Grant (Qtr. 2) | Resources | FINAL | Certified |
| Local Enterprise Grant:-<br>- Core Funding<br>- Additional Funding<br>- Covid Funding<br>- EU Transition Funding | Resources | FINAL | Certified |
| Department for Transport Grant | Resources | WIP | |

## Contingency/Management Requests

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| Direct Payments Fact Finding | Adults, Health and Housing | FINAL | n/a - Advisory |
| Housing (Income from Clients) | Adults, Health and Housing | DRAFT | |

## Investigations

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| Empty Property Relief Proactive Exercise | Resources | WIP | |
| National Fraud Initiative Data Matching | Cross Cutting | WIP | |

## Achieving for Children

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| AfC Buildings & Facilities Management | Children's Services | FINAL | 2 |
| AfC Information Governance | Children's Services | FINAL | 2 |
| AfC Leaving Care | Children's Services | FINAL | 2 |

## 2020/21 Audits Completed in 2021/22

| Audit title | Directorate | Status | Final audit report opinion |
|---|---|---|---|
| Payroll | Resources | FINAL | 2 |
| AfC Payroll | Resources | FINAL | 2 |
| Creditors | Resources | FINAL | 1 |
| General Ledger | Resources | FINAL | 1 |
| Treasury Management | Resources | FINAL | 1 |
| Pensions Payroll & Administration | Resources | FINAL | 1 |

**Audit Opinion Definitions**

1 Complete and Effective
2 Substantially Complete and Generally Effective
3 Range of Risk Mitigation Controls is incomplete, and risks are not effectively mitigated
4 There is no effective Risk Management process in place

**Legend**

C - Certification
E - Exempt

# Agenda Item 7

| | |
|---|---|
| Report Title: | **Provision of Internal Audit Services** |
| Contains Confidential or Exempt Information | No - Part I |
| Cabinet Member: | Councillor Hilton, Cabinet Member for Finance and Ascot |
| Meeting and Date: | Audit and Governance Committee - 21 October 2021 |
| Responsible Officer(s): | Adele Taylor, Director of Resources & Section 151 Officer |
| Wards affected: | All |

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Royal Borough of Windsor & Maidenhead

***REPORT SUMMARY***

This report recommends that the Council joins the South West Audit Partnership (SWAP).

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION: That Audit and Governance Committee notes the report and recommends to Cabinet that:**

**i) The Council becomes a member of South West Audit Partnership for the delivery of internal audit services from 1st April 2022.**

## 2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

### Background

2.1 Internal audit represents a key source of assurance for the Council and is essential in ensuring that officers and Members are provided with a clear and independent assessment of the effectiveness of the Council's risk, control and governance processes. The provision of internal audit services to the public sector, including local authorities, is required to comply with the provisions of the Public Sector Internal Audit Standards (PSIAS).

2.2 The Council currently receives its internal audit service through the Shared Audit and Investigation Service with Wokingham Borough Council. All current staff are employed by Wokingham. Wokingham have struggled to resource the shared team so the Council served the required one year's notice on Wokingham BC and the shared service will terminate on 31st March 2022.

2.3 A comprehensive evaluation of all options for future service delivery was undertaken by the Head of Finance. Headlines from the options appraisal are attached as Appendix A.

2.4 A partnership arrangement is the preferred option and has the following benefits:

- Easier to recruit and retain skilled and experienced staff

- Shared knowledge, ideas and expertise
- Resilience
- Improved quality
- Flexibility
- Access to specialist expertise
- Promotes independence
- New ways of doing things
- Deep public sector knowledge base
- Collaborative approach

2.5 From a KPMG study it is pertinent to note that only 28% of councils retain a purely in-house internal audit service, 19% have fully outsourced their service, 14% have a mix of in-house and co-sourced resources and 39% use some form of shared service or consortium arrangement with partner authorities (source: KPMG Redefining Internal Audit, September 2016).

2.6 Following identification of the preferred option, the Head of Finance worked to identify a suitable internal audit partnership arrangement. It is important to note that the aim was not to create a service contract with an internal audit partnership, which would require a competitive tendering process to be undertaken under the Public Contract Regulations 2015. Rather, the aim was to join an existing partnership arrangement with equivalent rights to other partners so that the Council could exercise control over the services provided to it. This type of arrangement can be exempt from competitive tendering regulations under the “Teckal” exemption. In simple terms, if a contracting authority for the purposes of procurement law exercises the same control over a company as it exercises over its own departments, the company is considered in procurement terms to be an extension of the contracting authority. This means that the contracting authority does not need to follow a procurement process to legitimately obtain services from the company and it would be “Teckal compliant”. “Teckal” is the name of the case which established this principle and which is now codified in the Public Contract Regulations 2015.

2.7 A number of partnerships were approached to see if they would be interested in providing internal audit services to RBWM. After extensive discussions, only SWAP put forward a proposal that meets the Council’s needs, improves the service and saves money.

**Proposals**

2.8 The SWAP offer includes provision of a full-time Chief Auditor and a team of Principal and Senior Auditors, to be recruited by them. No staff will transfer under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE), as no staff are wholly or predominantly engaged in undertaking the work that is transferring. Indeed, only 4.5 of the 12 posts in the shared service are currently occupied by permanent staff.

2.9 SWAP will meet all ongoing costs of service provision including provision of ICT and recruitment and development of staff. Most of the staff will work remotely for most of the time, enabling greater flexible use of staff resources across the wider partnership..

2.10 The Executive Director of Resources, as Chief Financial Officer, will continue to be responsible for ensuring that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control, as required by professional standards and in line with CIPFA Code of Practice. To this end she will retain direct access to the Council's internal audit function and the ability to control and influence both the work programme of internal audit to support her statutory duties and the quantity and quality of staff available to undertake the relevant internal audit projects, as set out in the Council's Constitution.

2.11 SWAP is a company limited by guarantee. Its owners wholly consist of public authorities that receive internal audit services from the company. The governance of SWAP is split between three separate groups: the Owners' Board, the Board of Directors and the Senior Leadership Team. RBWM would join the Owners' Board, where partner authorities retain control over strategic matters or important issues of policy and exercise autonomous control over the company.

2.12 The Owners' Board consists of councillors nominated by each partner. It is suggested RBWM nominates the Chairman of this committee as its representative. RBWM could nominate candidates for the Board of Directors and would have the same voting rights as other partner authorities.

2.13 SWAP won the Innovation in Internal Audit award at the Public Finance Innovation Awards 2017. It was nominated again this year.

**Next Steps**

2.14 Once RBWM has joined SWAP, the partnership will appoint the Chief Auditor. The RBWM Head of Finance will take part in this process. The team will be recruited from within SWAP or externally.

2.15 Arrangements will be put in place to ensure a smooth handover from Wokingham BC to SWAP on 1st April 2022.

2.16 SWAP will also build close working relations with our external auditors.

## 3. KEY IMPLICATIONS

**Table 2: Key Implications**

| Outcome | Unmet | Met | Exceeded | Significantly Exceeded | Date of delivery |
|---|---|---|---|---|---|
| Provision of new Internal Audit Service | Fails to meet Council objectives and service needs | Meets Council objectives and service needs | n/a | n/a | 1 April 2022 |

## 4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 The 2021/22 budget for internal audit services is £385,000. The exact cost of the proposed arrangement will not be known until the recruitment exercise is undertaken, but it is expected that there will be a saving of at least £35,000 per year.

4.2 This will deliver the current number of days in the annual audit plan, plus enhanced services, particularly an improved counter-fraud service.

## 5. LEGAL IMPLICATIONS

5.1 SWAP is Teckal compliant so a tendering exercise is not required.

## 6. RISK MANAGEMENT

6.1 An effective and efficient internal audit service is vital to managing and assessing the Council's risks.

## 7. POTENTIAL IMPACTS

**7.1 Equalities**. No change.

**7.2 Climate change/sustainability** Not applicable

**7.3 Data Protection/GDPR**. Not applicable.

## 8 APPENDICES

8.1 The table below details the Appendix to this report

| Appendix | |
|---|---|
| A | Options Appraisal |

## 9 BACKGROUND DOCUMENTS

9.1 SWAP Members Agreement
SWAP Partnership Agreement
SWAP Governance Handbook
SWAP Articles of Association
Comprehensive Options Appraisal

## 10 CONSULTATION (MANDATORY)

| **Name of consultee** | **Post held** | **Date sent** | **Date returned** |
|---|---|---|---|
| *Mandatory:* | *Statutory Officers (or deputy)* | | |
| Adele Taylor | Executive Director of Resources/S151 Officer | 12.10.21 | 12.10.21 |
| Emma Duncan | Deputy Director of Law and Strategy / Monitoring Officer | 12.10.21 | 13.10.21 |
| *Deputies:* | | | |
| Andrew Vallance | Head of Finance (Deputy S151 Officer) | **Report Author** | |
| Elaine Browne | Head of Law (Deputy Monitoring Officer) | 12.10.21 | 13.10.21 |
| Karen Shepherd | Head of Governance (Deputy Monitoring Officer) | 12.10.21 | |
| *Other consultees:* | | | |
| Duncan Sharkey | Chief Executive | 12.10.21 | 12.10.21 |
| Cllr Hilton | Cabinet Member for Finance and Ascot | 12.10.21 | 13.10.21 |
| Andrew Durrant | Executive Director of Place | 12.10.21 | |
| Kevin McDaniel | Executive Director of Children's Services | 12.10.21 | 13.10.21 |
| Hilary Hall | Executive Director of Adults, Commissioning & Health | 12.10.21 | 13.10.21 |

## 12 REPORT HISTORY

| **Decision type:** Audit and Governance Committee for recommendation | **Urgency item?** No | **To Follow item?** Not applicable |
|---|---|---|
| Report Author: Andrew Vallance, Head of Finance | | |

**Option 1**

**Externalise/outsource the internal audit function**

**Pros**

Promotes independence

Potential to bring ideas from different places

Potential to access specialist expertise

Off the shelf solution – easy to implement

**Cons**

Cost – higher rates

Lack of responsiveness, remote

Little flexibility if need something outside of specification

May need to pay for extras – RBWM may then be less keen to ask for work

One dimensional support – no 'business partner' role, no added value

Standardised delivery, not bespoke

Profit element

No public sector ethos

Risk of poor quality

Lack of knowledge of public sector

May have conflicting priorities

**Option 2**

**Partnership/Consortium**

**Pros**

Promotes independence

Brings ideas from different places – new ways of doing things

Potential to access external expertise

Off the shelf solution – easy to implement

Lower cost than option 1 – at cost rate with potential for reducing costs as more organisations join

Reduces need for supervision from HoS compared to in-house option

Mitigates risk of not being able to recruit

Ability to negotiate; have input

Deep knowledge base and knowledge sharing

More flexibility than option 1

Maintain public sector ethic/ethos

More training and development opportunities for staff

More resilience in terms of resource

Specialist expertise available

**Cons**

Less responsive than in-house team?

Risk of partnership failing

Not available for other Council activities

May have conflicting priorities

Staff may be remote (less of an issue these days!)

**Option 3**

**Bring the service back in-house**

**Pros**

In depth knowledge of RBWM

Public sector ethos/ethics

Ability to fulfil other corporate functions

Certainty over budget

More responsive

More local staff

**Cons**

Lack of resilience

Difficulties recruiting and retaining staff in high cost area

Not independent

Reduced training

Reduced career opportunities

Lack of specialist expertise

Lack of flexibility

| | |
|---|---|
| Report Title: | **Treasury Management Mid-Year Review 2021/22** |
| Contains Confidential or Exempt Information | No - Part I |
| Cabinet Member: | Councillor Hilton, Cabinet Member for Finance and Ascot |
| Meeting and Date: | Audit and Governance Committee – 21 October 2021 |
| Responsible Officer(s): | Adele Taylor, Executive Director of Resources (s151 Officer) |
| Wards affected: | All |

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Royal Borough of Windsor & Maidenhead

***REPORT SUMMARY***

1. The purpose of this report is to:

   a) Update Members on the delivery of the Treasury Management Strategy approved by Council on 23rd February 2021 and allow for any changes to be made depending on market conditions;

   b) This report forms part of the monitoring of the treasury management function as recommended in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice which requires that the Council receives a report on its treasury management activity at least twice a year;

   Specifically this report includes:

   i. a review of the Council's borrowing strategy in 2021/22;

   ii. a review of the Council's financial investment portfolio for 2021/22 as at 30th September 2021;

   iii. a review of compliance with the Council's Treasury and Prudential limits for the first 6 months of 2021/22; and

   iv. an economic update for the financial year is included as Appendix A.

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:**

**That the Audit and Governance Committee notes and approves the mid-year Treasury Management Mid-Year Review Report 2021/22.**

## 2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management mid-year and annual reports.

2.2 The Council's treasury management strategy for 2021/22 was approved at the Council meeting on 23rd February 2021. When borrowing and investing money the Council is exposed to financial risks including the loss of invested funds and the revenue impact of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

## 3. KEY IMPLICATIONS

3.1 A successful treasury management approach will ensure the security of the Council's assets whilst meeting the liquidity requirements of the Council.

**Table 1: Key Implications**

| Outcome | Unmet | Met | Exceeded | Significantly Exceeded | 2021/22 Actual |
|---|---|---|---|---|---|
| No. of days that counterpart limits are exceeded | >0 | <=0 | N/A | N/A | 0 |
| No of days that the operational boundary for long-term debt is exceeded | >0 | <=0 | N/A | N/A | 0 |

## 4. FINANCIAL DETAILS / VALUE FOR MONEY

### MID-YEAR REVIEW OF TREASURY MANAGEMENT ACTIVITY

4.1 The treasury management position on 30th September 2021 and the change during the year to this date is shown in Table 2 below.

**Table 2: Treasury Management Summary**

| | 31.3.21 Balance £m | Movement £m | 30.9.21 Balance £m | 30.9.21 Average Interest Rate |
|---|---|---|---|---|
| Long-term borrowing | 57.0 | 4.3 | 61.3 | 4.40% |
| Short-term borrowing | 134.2 | (34.3) | 99.9 | 0.05% |
| **Total borrowing** | **191.2** | **(30.0)** | **161.2** | |
| Long-term investments | 1.3 | 0.0 | 1.3 | 4.35% |
| Short-term investments | 8.9 | (4.1) | 4.8 | 0.60% |
| Cash and cash equivalents | 13.7 | (10.5) | 3.2 | 0.01% |
| **Total investments** | **23.9** | **(14.6)** | **9.3** | |
| **Net borrowing** | **167.3** | **(15.4)** | **151.9** | |

## BORROWING UPDATE

4.2 Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

4.3 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

4.4 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 may prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

4.5 The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

4.6 Revised PWLB Guidance

HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an ‘investment asset primarily for yield’.

- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.

- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.

- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.

- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

4.7 Changes to PWLB Terms and Conditions from 8th September 2021

The settlement time for a PWLB loan has been extended from two working days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

4.8 Municipal Bonds Agency (MBA)

The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.

4.9 If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

4.10 UK Infrastructure Bank

£4bn has been earmarked for lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.

## BORROWING STRATEGY

4.11 At 30th September 2021 the Authority's total borrowing was £161.2m, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

**Table 3: Borrowing Position**

| | **31.3.21 Balance £m** | **Net Movement £m** | **31.9.21 Balance £m** | **31.9.21 Weighted Average Rate %** |
|---|---|---|---|---|
| Public Works Loan Board | 44 | (1) | 43 | 4.9 |
| Banks (LOBO) | 13 | 0 | 13 | 4.2 |
| Local authorities (long-term) | 0 | 5 | 5 | 0.6 |
| Local authorities (short-term) | 114 | (38) | 76 | 0.1 |
| Funds held on behalf of LEP | 21 | 3 | 24 | 0.1 |
| **Total borrowing** | **192** | **(31)** | **161** | |

4.12 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

4.13 With short-term interest rates remaining much lower than long-term rates and with surplus of liquidity continuing to feature in the LA to LA market during the period, the Authority considered it to be more cost effective in the near term to take out most of the new borrowing it required as short-term loans.

4.14 The total of short-term borrowing is currently lower than at the end of the previous financial year due to timing differences in its cashflows, with income received in advance of expenditure used in place of taking out new borrowing.

4.15 Although the majority of new borrowing required during the period has been obtained as short-term loans to take advantage of cheaper borrowing rates, in line with advice from its treasury management advisors the Authority decided to increase its level of long-term borrowing by £20m to reduce some of its exposure to future interest rate rises. It has decided to obtain this financing from the LA market as this is currently the cheapest source of long-term funding available to the Authority for the length of loans required. £5m of this funding was received during the period, with a further £10m so far arranged to be received in October.

4.16 The Council continues to hold £13m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the period.

## TREASURY INVESTMENT ACTIVITY

4.17 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period, the Authority's investment balances ranged between £8.1m and £47.9m due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

**Table 4: Treasury Investment Position**

| | 31.3.21 Balance £m | Net Movement £m | 31.9.21 Balance £m | 31.9.21 Income Return % |
|---|---|---|---|---|
| **Banks** | **3.2** | **(2.5)** | **0.7** | **0** |
| **Money Market Funds** | **10.5** | **(8)** | **2.5** | **0.01** |
| **Loans to Associates** | **10.2** | **(4.1)** | **6.1** | **1.38** |
| **Total investments** | **23.9** | **(14.6)** | **9.3** | |

4.18 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority'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.

4.19 Very low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.

4.20 Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are also largely around zero.

4.21 The Authority maintains low levels of investments seeking to keep balances of cash and cash equivalents as low as possible while maintaining a sufficient balance to cover its working capital requirements.

## NON-TREASURY INVESTMENTS

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. As at 30/09/2021 the Council held £94.8m of such investments in investment properties. These investments generated £1.427m of investment income for the Authority during the period after taking account of direct costs, representing a rate of return of 1.5%.

## COMPLIANCE

4.22 The Executive Director of Resources (S151 Officer) reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

4.23 The performance against debt and counterparty limits is shown in Tables 5 and 6 below.

**Table 5: Debt Limits**

| | 2021/22 Maximum | 31.9.21 Actual | 2021/22 Operational Boundary | 2021/22 Authorised Limit | Complied? |
|---|---|---|---|---|---|
| Borrowing | £200m | £161m | £266m | £291m | Yes |

**Table 6: Counterparty Limits**

| | 2021/22 Actual | 2021/22 Target | Complied? |
|---|---|---|---|
| No. of days that counterpart limits are exceeded | 0 | 0 | Yes |

4.24 The Authority's interest rate exposure limit is set to control its exposure to interest rate rises by limiting the amount of short-term borrowing that it holds. The Authority complied with this limit as shown in Table 7 below:

**Table 7: Interest Rate Risk Indicator**

| | 30.9.21 Actual | 2021/22 Limit | Complied? |
|---|---|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | £0.98m | £2.25m | Yes |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £0.07m | £2.80m | Yes |

4.25 The maturity structure of borrowing indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing and compliance against these are shown in Table 8 below:

**Table 8: Maturity Structure of Borrowing**

| | 30.9.21 Actual | Upper Limit | Lower Limit | Complied? |
|---|---|---|---|---|
| **Under 12 months** | **62%** | **80%** | **0%** | **Yes** |
| **12 months and within 24 months** | **5%** | **80%** | **0%** | **Yes** |
| **24 months and within 5 years** | **3%** | **100%** | **0%** | **Yes** |
| **5 years and within 10 years** | **0%** | **100%** | **0%** | **Yes** |
| **10 years and above** | **30%** | **100%** | **0%** | **Yes** |

4.26 Table 9 shows the Authority's compliance with its limits for the amount of principal invested beyond year end. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

**Table 9: Principal sums invested beyond year end**

| | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|
| **Actual principal invested beyond year end** | £1.3m | £0m | £0m |
| **Limit on principal invested beyond year end** | £25m | £25m | £25m |
| **Complied?** | Yes | Yes | Yes |

**<u>OTHER</u>**

4.27 **CIPFA consultations:** In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation.

4.28 In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes. The main changes include:

Prudential Code

- Clarification that (a) local authorities must not borrow to invest primarily for financial return; (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.

- Categorising investments as those (a) for treasury management purposes and (b) for commercial purposes.

- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.

- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

- New indicator for net income from commercial and service investments to the budgeted net revenue stream.

Treasury Management Code

- Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.

- Implementation of a treasury management knowledge and skills framework.

- Incorporating Environmental Social & Governance issues as a consideration within TMP 1 Risk Management.

## 5. LEGAL IMPLICATIONS

5.1 In producing and reviewing this report the Council is meeting legal obligations to properly manage its funds.

## 6. RISK MANAGEMENT

6.1 **Table 8: Impact of risk and mitigation**

| Risk | Level of uncontrolled risk | Controls | Level of controlled risk |
|---|---|---|---|
| That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council | MEDIUM | Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on the lending list are monitored regularly<br>Counterparty limits reviewed and reduced to limit individual exposure. | LOW |
| That funds are invested in fixed-term deposits and are not available to meet the council's commitment to pay suppliers and payroll. | MEDIUM | A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the council's commitment to pay suppliers and payroll. | LOW |

## 7. POTENTIAL IMPACTS

7.1 Equalities. None identified.

7.2 Climate change/sustainability. None identified.

7.3 Data Protection/GDPR. None identified.

## 8. CONSULTATION

8.1 This section is not applicable.

## 9. TIMETABLE FOR IMPLEMENTATION

This section is not applicable.

## 10. BACKGROUND DOCUMENTS

10.1 This report is supported by 1 Appendix:

- Appendix A – Economic Update

## 11. CONSULTATION (MANDATORY)

| **Name of consultee** | **Post held** | **Date sent** | **Date returned** |
|---|---|---|---|
| *Mandatory:* | *Statutory Officers (or deputy)* | | |
| Adele Taylor | Executive Director of Resources/S151 Officer | 8/10/21 | 12/10/21 |
| Emma Duncan | Deputy Director of Law and Strategy / Monitoring Officer | 8/10/21 | 13/10/21 |
| *Deputies:* | | | |
| Andrew Vallance | Head of Finance (Deputy S151 Officer) | Report Author | |
| Elaine Browne | Head of Law (Deputy Monitoring Officer) | 8/10/21 | |
| Karen Shepherd | Head of Governance (Deputy Monitoring Officer) | 8/10/21 | |
| *Other consultees:* | | | |
| Duncan Sharkey | Chief Executive | 8/10/21 | |
| Cllr Hilton | Cabinet Member for Finance and Ascot | 12/10/21 | 13/12/21 |

### REPORT HISTORY

| **Decision type:** | **Urgency item?** | **To follow item?** |
|---|---|---|
| Key decision | No | No |

| |
|---|
| Report Author: Andrew Vallance, Head of Finance |

**Arlingclose - Economic background**

The economic recovery from the coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1 million plus workers on the furlough scheme or make them redundant.

The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to base effects from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The ONS' preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of the calendar year, helping push GDP up by 4.8% q/q. Household consumption was the largest contributor. Within the sector breakdown production contributed 0.5% q/q, construction 3.3% q/q and services 5.7% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made a suggestion that monetary policy may start to be tightened soon.

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

**Financial markets:** Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, leading to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.60% by 27th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 0.95% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.27%.

The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

**Credit review:** Credit default swap spreads were flat over most of the period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the time of writing (28th September), Santander UK was trading the highest at 52bps and Lloyds Banks Plc the lowest at 32bps. The other ringfenced banks were trading between 36 and 38bps while Nationwide Building Society was 39bps.

Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

## Arlingclose's Outlook for the remainder of 2021/22

| | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.15 | 0.15 | 0.15 | 0.15 | 0.30 | 0.30 | 0.30 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| Arlingclose Central Case | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Downside risk | 0.10 | 0.10 | 0.10 | 0.10 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |

The medium-term global economic recovery has continued with the reopening of economies and most look set to grow at a decent pace. Recovery in world demand has been more highly concentrated in goods than in services. The UK has continued to benefit from its initial rapid vaccine rollout, which appears to have weakened the link between infections and hospitalisations.

The re-opening of the UK economy will result in improved GDP in Q3, the 'pingdemic' in June and July having restrained activity a little and exacerbated labour shortages. The more upbeat assessment is that GDP will return to its pre-Covid peak by the end of 2021 but will be predicated on the extent and speed with which households and businesses normalise their spending and activity during the remainder of the year.

Alongside the increase in commodity and energy prices, supply and transportation bottlenecks and the boost in prices from the lifting of restrictions, the MPC has acknowledged the potential of CPI rising to around 4% in Q4 2021.

There is uncertainty over the size and pace of change in the labour market as companies adjust their staffing levels and new hires to post-Covid demand and working arrangements. The number of furloughed jobs has declined and the scheme ends in September.

Arlingclose expects the Bank Rate to remain at the current 0.10% level. The risk of movement in Bank Rate in the immediate term is low although the risks over the MPC's 3-year horizon have increased and are leaning to the upside.

Gilt yields volatility is likely given the uncertainties over the economic outlook and central bank asset purchase programmes. Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.

Downside risks remain – the risk of further virus mutations including the Delta variant could destabilise the recovery. Downside risks also arise from potential future vaccine shortages as the demand for vaccines increases.

| | |
|---|---|
| Report Title: | Draft Treasury Management Strategy & Prudential Indicator Report 2022/23 |
| Contains Confidential or Exempt Information | No - Part I |
| Cabinet Member: | Councillor Hilton, Cabinet Member for Finance and Ascot |
| Meeting and Date: | Audit and Governance Committee – 21st October 2021 |
| Responsible Officer(s): | Adele Taylor – Executive Director of Resources & Section 151 Officer |
| Wards affected: | All |

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Royal Borough of Windsor & Maidenhead

***REPORT SUMMARY***


1. In accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 and the CIPFA Prudential Code, the Council is required to approve a Treasury Management Strategy before the start of each financial year. The final report to Full Council in February 2022 alongside the budget will fulfil that obligation.

2. The draft Treasury Management Strategy 2022/23 as set out in section 4 of this report has been written to comply with the CIPFA Code of Practice. It sets out the parameters for the Council's planned treasury activity.

3. The Council's self-imposed limits on sustainable, affordable and prudent borrowing and investment, the Prudential Indicators that need to be approved by Full Council, are set out in Appendix B.


## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION: That Audit and Governance Committee notes and comments on:**

**i) The Council's draft Treasury Management Strategy for 2022/23 as set out in section 4 of this report.**

**ii) The Council's draft Prudential Indicators set out in Appendix B.**

## 2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of the financial year.

## 3. KEY IMPLICATIONS

**Table 1: Key Implications**

| Outcome | Unmet | Met | Exceeded | Significantly Exceeded | Date of delivery |
|---|---|---|---|---|---|
| No. of days that counterpart limits are exceeded | >0 | <=0 | N/A | N/A | March 2023 |
| No of days that the operational boundary for long-term debt is exceeded | >0 | <=0 | N/A | N/A | May 2023 |

## 4. FINANCIAL DETAILS / VALUE FOR MONEY

**Treasury Management Strategy 2022/23**

**Introduction**

4.1 Treasury management is how the Authority's cash flows, borrowing and investments, and the associated risks are both monitored and actively controlled. The Authority borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue impact of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

4.2 Treasury risk management at the Authority 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 Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

**Local Context**

4.3 On 31st March 2022 the Authority is projected to hold £212m of borrowing and £13.1m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in table 2 below.

*Table 2: Treasury balances summary and forecast*

| | 31.3.21 Actual £m | 31.3.22 Estimate £m | 31.3.23 Forecast £m | 31.3.24 Forecast £m | 31.3.25 Forecast £m |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | **214.4** | **246.0** | **264.9** | **281.1** | **281.5** |
| Long term borrowing | 57.0 | 81.3 | 81.3 | 81.3 | 81.3 |
| Short term borrowing | 134.7 | 131.0 | 131.4 | 143.6 | 138.6 |
| **Gross borrowing** | **191.7** | **212.3** | **212.7** | **224.9** | **219.9** |
| Working capital | (13.7) | (7.0) | (7.0) | (7.0) | (7.0) |
| Loans to partners* | (10.2) | (6.1) | (7.3) | (7.3) | (7.3) |
| **Net borrowing** | **167.8** | **199.2** | **198.4** | **210.6** | **205.6** |

*loans to Achieving for Children and RBWM Property Company

4.4 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The Authority has an increasing CFR due to the capital programme but has minimal investments. Gross borrowing is expected to increase up to £224.9m over the forecast period, in line with forecasts in the Council's medium term financial plans over a number of years. Revenue funding for this borrowing has been built into those plans. The Authority's forecast of its capital cashflow that will determine its CFR is shown in Appendix C.

4.5 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2022/23.

**Borrowing Strategy**

4.6 Table 2 above shows at the end of 2021/22 the Authority is forecast to hold £212.3 million of loans, an increase of £20.6 million on the previous year. A small increase in total borrowing to £212.7 million is projected at the end of 2022/23.

**Objectives:**

4.7 The Authority's chief objective when borrowing money 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 Authority's long-term plans change is a secondary objective.

**Strategy:**

4.8 The Authority's borrowing strategy continues to 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 loans instead.

4.9 The Authority will keep borrowing costs down by using short-term money instead of long-term loans. Arlingclose (our financial advisors) continue to l assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority swop borrowing from short term to long term.

4.10 The Authority will consider obtaining further long-term loans from the PWLB and other sources including banks, pensions and local authorities. It will also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority's planned capital expenditure does not include this activity and so is able to retain its access to PWLB loans.

4.11

**Sources of borrowing:**

4.12 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- 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
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

**Other sources of debt finance:**

4.13 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

**Municipal Bonds Agency:**

4.14 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

**LOBOs:**

4.15 The Authority holds £13m LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The lenders of the LOBO loans are Barclays (£5m) and Dexia (£8m). Barclays have withdrawn their option to change the rate so this is now effectively a fixed rate loan. Dexia have retained their option which can be taken every 5 years on 25th January, with the next option date being 25 January 2023. Although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to this existing £13m.

**Short-term and variable rate loans**:

4.16 These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

**Debt rescheduling:**

4.17 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

**Treasury Investment Strategy**

4.18 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £3.2 and £27.3 million.

**Objectives:**

4.19 The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority'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 Authority 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.

**Negative interest rates:**

4.20 If the Bank of England set its Bank Rate at or below zero, this would likely feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates would be applied by reducing the value of investments. 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.

**Strategy:**

4.21 In conjunction with its treasury advisors the Authority will continue to regularly review its approved counterparties and limits to ensure they allow the appropriate balance between risk and return.

**Business models:**

4.22 Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

**Approved counterparties:**

4.23 The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

*Table 3: Treasury investment counterparties and limits*

| Sector | Time limit | Counterparty limit | Sector limit |
|---|---|---|---|
| The UK Government | 50 years | Unlimited | n/a |
| Local authorities & other government entities | 25 years | £5m | Unlimited |
| Secured investments * | 25 years | £5m | Unlimited |
| Lloyds Bank – (the Council's bankers) | 13 months | £7.5m | £7.5m |
| Other Banks (unsecured) * | 13 months | £5m | Unlimited |
| Building societies (unsecured) * | 13 months | £5m | Unlimited |

| | | | |
|---|---|---|---|
| Money market funds * | n/a | £5m | Unlimited |
| Achieving for Children | n/a | £11.7m | £11.7m |
| Aegon (previously Kames Capital) | n/a | £1m | £1m |
| Legal and General Trust | n/a | £1.5m | £1.5m |
| Flexible Home Improvement Loans Ltd | n/a | £0.5m | £0.5m |
| RBWM Property Company | n/a | £1.5m | £1.5m |
| Leisure Focus Trust | n/a | £0.35m | £0.35m |

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

**Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. 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 Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

**Banks and building societies (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.

**Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Operational bank accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £7.5m per bank. 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 Authority maintaining operational continuity. The Authority's current bank account provider is Lloyds Bank.

**Risk assessment and credit ratings**:

4.24 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify 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.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day 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.

**Other information on the security of investments**:

4.25 The Authority 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 the Authority's treasury management adviser. 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.

4.26 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. 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 Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

**Liquidity management**:

4.28 The Authority produces a detailed 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 the Authority being forced to borrow on unfavourable terms to meet its financial commitments. The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## Treasury Management Indicators

**Interest rate exposures**:

4.29 This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

| **Interest rate risk indicator** | **Limit** |
|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | £2.58m |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £0.50m |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

**Maturity structure of borrowing:**

4.30 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

| **Refinancing rate risk indicator** | **Upper limit** | **Lower limit** |
|---|---|---|
| Under 12 months | 80% | 0% |
| 12 months and within 24 months | 80% | 0% |
| 24 months and within 5 years | 100% | 0% |

| | | |
|---|---|---|
| 5 years and within 10 years | 100% | 0% |
| 10 years and above | 100% | 0% |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal sums invested for periods longer than a year:**

4.31 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| Price risk indicator | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| Limit on principal invested beyond year end | £25m | £25m | £25m |

**Related Matters**

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

**Financial derivatives:**

4.32 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 at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority 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 Authority 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.
Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit. In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

**External Funds:**

4.33 The Authority holds funds on behalf of the Local Enterprise Partnership and a number of small trusts. It pays these organisations interest at the Bank of England base rate on the balance of their funds that it holds.

**Markets in Financial Instruments Directive**:

4.34 The Authority has opted up to professional client status with some of its providers of financial services, including its Money Market Funds and brokers, allowing it 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 Authority's treasury management activities with these organisations the Executive Director of Resources believes this to be the most appropriate status.

## Financial Implications

4.35 The forecast for investment income in 2022/23 is £92,000, based on an average investment portfolio of £17.258 million at an interest rate of 0.1%. The forecast for debt interest paid in 2022/23 is £3.46 million, based on an average debt portfolio of £212.5 million at an average interest rate of 1.63%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

## Capital Financing Strategy

4.36 The current ("Prudential") System of capital controls allows the Council to determine its own level of capital investment. However, the Council must demonstrate that its capital programme is affordable, prudent and sustainable. In the short-term the proposed capital programme will be financed from external borrowing. Any delays in receiving cash from anticipated receipts will be covered through the temporary use of unsupported short-term borrowing.

4.37 Although the capital programme is planned with reference to the total level of resources available to finance capital expenditure, the method of financing individual capital schemes will be determined by the s151 Officer at the end of the financial year. The order of use of sources of finance for the capital programme is:

1. Capital Grants
2. Capital Contributions from outside bodies e.g. Section 106 / CIL
3. Capital Receipts
4. Direct Revenue Contributions – mainly for short life assets
5. Draw down from accumulated investments (set aside to repay debt)
6. Prudential Borrowing (unsupported) to finance 'invest to save' schemes and pending the arrival of future known capital receipts
7. Leasing will also be considered if more cost effective.

4.38 Capital Grants and external contributions are likely to have been received for specific schemes and therefore cannot be used for any other purpose. For other schemes, capital receipts are to be used in preference to revenue contributions or borrowing.

4.39 Capital Receipts will be fully applied in the year in which they are received if possible, to reduce the level of Minimum Revenue Provision (MRP), i.e. the monies that the Council sets aside for debt repayment.

4.40 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 available for investment. The Authority's main objective when borrowing is to strike a balance between securing low interest rates and achieving cost certainty over the period for which funds are required. This position provides short-term savings with the flexibility to secure longer dated loans as and when financial forecasts indicate that external borrowing rates may increase.

**Minimum Revenue Provision (MRP) Policy**

4.41 Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.

4.42 Setting aside MRP is sometimes referred to as setting aside monies for borrowing, implying that this is setting aside money for repaying external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the council's own cash resources and no external borrowing or new credit arrangement has been entered into.

4.43 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.

4.44 In setting a prudent level of MRP local authorities are required to "have regard" to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance (version four) was issued by the Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.

4.45 In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

4.46 The Guidance sets out four “possible” options for calculating MRP, as set out below:

| Option | Calculation method | Applies to |
|---|---|---|
| 1: Regulatory method | Formulae set out in 2003 Regulations (later revoked) | Expenditure incurred before 1 April 2008 |
| 2: CFR method | 4% of Capital Financing Requirement | Expenditure incurred before 1 April 2008 |
| 3: Asset life method | Amortises MRP over the expected life of the asset | Expenditure incurred after 1 April 2008 |
| 4: Depreciation method | Charge MRP on the same basis as depreciation | Expenditure incurred after 1 April 2008 |

4.47 Two main variants of Option 3 are set out in the Guidance: (i) the equal instalment method and (ii) the annuity method. The annuity method weights the MRP charge towards the later part of the asset’s expected useful life and is increasingly becoming the most common MRP method for local authorities.

4.48 The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include: capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies.

4.49 Other approaches are not ruled out however they must meet the statutory duty to make prudent provision each financial year.

4.50 Having regard to current Guidance on MRP issued by MHCLG and the “options” outlined in that Guidance and to even out the financing costs of assets over their anticipated life, on 3rd December 2019 Full Council approved the following MRP Statement to take effect from 1 April 2019:

- for all capital expenditure, MRP will be based on expected useful asset lives (Option 3 – asset life), calculated using the annuity method;
- asset lives will be arrived at after discussion with valuers, but on a basis consistent with depreciation policies set out in the Council’s annual Statement of Accounts, and will be kept under regular review;

4.51 The annuity method is a similar approach to a repayment mortgage where the principal repayments increase through the life of the asset in comparison to a straight-line method which repays the same amount of principal each year. This will result in the Council paying less for its capital financing costs over the medium-term than it otherwise would have under the old methodology, although principal repayments will increase as interest rate payments reduce over the life of the asset. An approach now being taken by most large authorities as more accurately reflecting the value of the asset.

4.52 MRP for finance leases and service concession contracts shall be charged over the primary period of the lease, in line with the Guidance,

4.53 For expenditure capitalised by virtue of a capitalisation direction under section 16(2)(b) of the Local Government Act 2003 or Regulation 25(1) of the 2003 regulations, the ‘asset’ life should equate to the value specified in the statutory Guidance.

In applying ‘Option 3’:

- MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational;
- the estimated useful lives of assets used to calculate MRP should not exceed a maximum of 50 years except as otherwise permitted by the guidance (and supported by valuer’s advice);
- if no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life should be taken to be a maximum of 50 years;

## 5. LEGAL IMPLICATIONS

5.1 This report assists the Council in fulfilling its statutory obligation to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy for the coming year setting out the Council’s policies for managing its borrowing and investments and giving priority to the security and liquidity of those investments.

## 6. RISK MANAGEMENT

| Risks | Uncontrolled Risk | Controls | Controlled Risk |
|---|---|---|---|
| That a counterparty defaults on repayment of a loan resulting in a loss of capital for the Council | MEDIUM | Loans are only made to counterparties on the approved lending list. The credit ratings of counterparties on | LOW |

| Risks | Uncontrolled Risk | Controls | Controlled Risk |
|---|---|---|---|
| | | the lending list are monitored regularly Counterparty limits reviewed and reduced to limit individual exposure. | |
| That funds are invested in fixed-term deposits and are not available to meet the council's commitment to pay suppliers and payroll. | MEDIUM | A cashflow forecast is maintained and referred to when investment decisions are made to ensure that funds are available to meet the council's commitment to pay suppliers and payroll. | LOW |

## 7. POTENTIAL IMPACTS

7.1 Equalities. None identified.

7.2 Climate change/sustainability.  None identified

7.3 Data Protection/GDPR. None identified.

## 8. CONSULTATION

8.1 Not applicable

## 9. TIMETABLE FOR IMPLEMENTATION

9.1 The strategy will be used from 1 April 2022 in line with the commencement of the 2022/23 budget.

## 10. APPENDICES

10.1 This report is supported by four appendices:

- Appendix A Treasury Management Policies
- Appendix B Prudential Indicators
- Appendix C Capital Cashflow

## 11. BACKGROUND DOCUMENTS

11.1 None

## 12. CONSULTATION (MANDATORY)

| Name of consultee | Post held | Date sent | Date returned |
|---|---|---|---|
| *Mandatory:* | *Statutory Officers (or deputy)* | | |
| Adele Taylor | Executive Director of Resources/S151 Officer | 8/10/21 | 13/10/21 |
| Emma Duncan | Deputy Director of Law and Strategy / Monitoring Officer | 8/10/21 | 13/10/21 |
| *Deputies:* | | | |
| Andrew Vallance | Head of Finance (Deputy S151 Officer) | **Report Author** | |
| Elaine Browne | Head of Law (Deputy Monitoring Officer) | 8/10/21 | |
| Karen Shepherd | Head of Governance (Deputy Monitoring Officer) | 8/10/21 | |
| *Other consultees:* | | | |
| Duncan Sharkey | Chief Executive | 8/10/21 | 13/10/21 |
| Cllr Hilton | Cabinet Member for Finance and Ascot | 12/10/21 | 13/10/21 |

## REPORT HISTORY

| **Decision type:** Council decision | **Urgency item?** No | **To Follow item?** Not applicable |
|---|---|---|
| Report Author: Andrew Vallance, Head of Finance. | | |

# APPENDIX A - TREASURY MANAGEMENT POLICIES

## 1. INTRODUCTION

1.1. In the preparation of this Treasury Management Strategy a number of key areas are considered to be fundamental to our treasury management activity. They are listed below and covered in more detail in the body of this strategy.

- Risk Management
- Performance Measurement
- Decision-making and analysis
- Approved instruments, methods and techniques
- Organisation, clarity and segregation of responsibilities, and dealing arrangements
- Reporting requirements and management information arrangements
- Budgeting, accounting and audit arrangements
- Cash and cash flow management
- Money laundering
- Training and qualifications
- Use of external service providers
- Corporate governance

2.1. General Statement

2.1.1. The S151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report annually to Cabinet on their adequacy and suitability. Any actual or likely difficulty in achieving the organisation's objectives will be reported to Cabinet in accordance with the procedures set out in Section 7: *Reporting Requirements and Management Information Arrangements*.

2.2. Credit and Counter Party Risk Management

2.2.1. The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counter party limits reflect a prudent attitude towards organisations with whom it trades. It also recognises the need to have and maintain a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

2.3. Liquidity Risk Management

2.3.1. The Council will ensure it has adequate cash resources, borrowing arrangements, overdraft or standby facilities to enable it to have the necessary level of funds available for the achievement of its business / service objectives.

2.3.2. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current Capital Programme or to finance future debt maturities.

2.4. Interest Rate Risk Management

2.4.1. The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, in line with the amounts provided in its budget.

2.4.2. It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues. At the same time retaining a degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

2.4.3. Any decision will be subject to the consideration of this strategy and, if required, approval of Cabinet or Council.

2.5. Exchange Rate Risk Management

2.5.1. The Council will manage any exposure to fluctuations in exchange rates, in order to minimise any detrimental impact on its budgeted income/ expenditure levels.

2.6. Refinancing Risk Management

2.6.1. The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. The maturity profile of the monies raised will be managed with a view to obtaining terms for refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

2.6.2. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

2.7. Legal and Regulatory Risk Management

2.7.1. The Council will ensure that all of its treasury management activities comply with its statutory powers. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

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

2.8. Fraud, Error and Corruption, and Contingency Management

2.8.1. The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

2.9. Market Risk Management

2.9.1. The Council will seek to ensure that its stated Treasury Management Policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

3.1. The Council is committed to the pursuit of value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Council's Treasury Management Strategy.

3.2. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

4.1. The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

5.1. The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy.

6.1. The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

6.2. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

6.3. If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the S151 Officer will ensure that the reasons are properly reported in accordance with Section 7 Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.

6.4. The S151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The S151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

6.5. The S151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

6.6. The S151 Officer will fulfil all such responsibilities in accordance with the policy statement.

7.1. The Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

7.2. As a minimum Audit and Governance Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year;
- Mid-year and annual reports on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed, and on any circumstances of non-compliance with the organisation’s Treasury Management Policy Statement.

8.1. The S151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *Sections 2 Risk management, 3 Performance measurement, and 5 Approved Instruments, Methods and Techniques.* The S151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *Section 7 Reporting requirements and management information arrangements*.

8.2. The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

9.1. Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the S151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the S151 Officer will ensure that these are adequate for the purposes of monitoring compliance with Section 2 Liquidity Risk Management.

10.1. The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

11.1. The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The S151 Officer will recommend and implement the necessary arrangements.

11.2. The S151 Officer will ensure that members of the Audit and Governance Committee have access to training relevant to their needs and responsibilities

11.3. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

12.1. The Council recognises that the responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure that it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

13.1. The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

13.2. The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the Treasury Management Strategy, are considered vital to the achievement of proper corporate governance in treasury management, and the S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

**PRUDENTIAL INDICATORS 2020/21 TO 2024/25**

The actual figures for 2020/21 and the estimates for four further years are shown below. These prudential indicators are prepared in accordance with the CIPFA Prudential Code for Capital Financing in Local Authorities

The figures set out below include this council's share of the old Berkshire County Council debt that is now managed by the Royal Borough.

| | 2020/21 Actual | 2021/22 Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|
| ***Capital Expenditure (£m)*** | £27.2m | £57.8m | £36.8m | £34.3m | £18.9m |
| ***Ratio of financing costs to net revenue stream*** | | | | | |
| *- Non-loan financed* | 20.5% | 22.0% | 15.3% | 15.2% | 14.7% |
| *- Loan financed* | 5.4% | 5.5% | 6.2% | 6.6% | 8.0% |
| ***Capital Financing Requirement (£m)*** | 214.4 | 246.0 | 264.9 | 281.1 | 281.5 |

In respect of its external debt, the Council approves the following authorised limits for its external debt gross of investments for the next three financial years.

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|
| ***Authorised limit for external debt (£m)*** | £284m | £291m | £323m | £344m | £379m |

The Council also approves the following boundary for external debt for the same period.

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|
| ***Operational boundary for external debt (£m)*** | £261m | £266m | £298m | £317m | £334m |

The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worse case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. It include both long and short term (i.e. less than 365 day) borrowing.

# Appendix C - Major Capital Cashflows - Proposed & Agreed

**Based on a Short term interest rate of 0.09%**

| | | STATUS<br>Green - Planning obtained, project proceeding, On Site or transaction Complete<br>Amber - In Progress, still subject to planning, will happen but high chance of delays<br>Red - Subject to Planning & chance of not proceeding. | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Year 12 | Year 13 | Year 14 | Year 15 | Year 16 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 | 2033/34 | 2034/35 | 2035/36 | 2036/37 | Total |
| | | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| | **Capital Receipts** | | **0.09%** | **0.50%** | **0.80%** | **1.30%** | **1.50%** | **2.00%** | **2.00%** | **2.00%** | **2.00%** | **2.00%** | **2.00%** | **2.00%** | **2.00%** | **2.00%** | **2.00%** | **2.00%** | |
| 1 | CIL - Projections | | 6,536 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | 3,200 | | | | 44,936 |
| 2 | Use of s106 | | 2,490 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | | | | 8,490 |
| 3 | Use of capital receipts carried forward | | 1,347 | | | | | | | | | | | | | | | | 1,347 |
| 4 | Use of Capital Fund | | 400 | | | | | | | | | | | | | | | | 400 |
| 5 | Capital Receipt - Ray Mill Road East | | - | 8,050 | - | - | - | - | - | - | - | - | - | - | - | - | - | | 8,050 |
| 6 | Ray Mill Road East CALA shared ownership receipts | | | | 258 | 2,062 | | | | | | | | | | | | | 2,320 |
| 7 | Capital Receipt Golf Course Framework Fee | | | | | | 3,000 | 750 | 750 | 750 | 750 | 750 | 750 | 750 | | | | | 8,250 |
| 8 | Capital Receipt - Golf Course | | - | - | | | 1,226 | 17,085 | 20,403 | 31,411 | 23,418 | 19,562 | 20,705 | 19,943 | 19,562 | 24,381 | 19,169 | 10,136 | 227,000 |
| 9 | JV - York Road Phase One (units 85 private) | | 3,879 | 2,990 | - | - | - | - | - | - | - | - | - | - | - | - | - | | 6,869 |
| 10 | JV - York Road Phase Two (units 34 private) | | 589 | - | 5,305 | - | - | - | - | - | - | - | - | - | - | - | - | | 5,895 |
| 11 | JV - York Road Phase Three (units 22 private) | | - | - | 173 | 623 | 934 | - | - | - | - | - | - | - | - | - | - | | 1,730 |
| 12 | JV - West Street (97 units) | | - | - | - | - | 12,766 | - | - | - | - | - | - | - | - | - | - | | 12,766 |
| 13 | JV - St Cloud Way Phase One (units 131 private) | | 162 | 1,873 | 1,727 | 6,280 | 3,297 | 3,061 | 3,218 | - | - | - | - | - | - | - | - | | 19,618 |
| 14 | JV - St Cloud Way Phase Two (units 166 private) | | - | - | | 1,498 | 1,727 | 2,198 | 863 | - | - | - | - | - | - | - | - | | 6,286 |
| 15 | JV - St Cloud Way - Framework Fee | | 200 | 200 | 200 | 200 | | | | | | | | | | | | | 800 |
| 16 | JV - St Cloud Way - Management Fee | | | 300 | 300 | 300 | 300 | 300 | | | | | | | | | | | 1,500 |
| 17 | JV - Windsor site | | - | - | 3,000 | - | 27,000 | - | - | - | - | - | - | - | - | - | - | | 30,000 |
| 18 | Nicholsons Walk Shopping Centre | | - | 1,000 | - | - | - | - | - | - | - | - | - | - | - | - | - | | 1,000 |
| 19 | Central House | | - | 5,000 | - | - | - | - | - | - | - | - | - | - | - | - | - | | 5,000 |
| 20 | Sienna House | | - | 7,950 | - | - | - | - | - | - | - | - | - | - | - | - | - | | 7,950 |
| 21 | Sierra House disposal | | 525 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 525 |
| 22 | St Edmunds House - shared ownership receipts | | | 350 | 1,050 | | | | | | | | | | | | | | 1,400 |
| 23 | 18 Ray Mill Rd East sale | | 625 | | | | | | | | | | | | | | | | 625 |
| 24 | Land north of Ransworth, Oakley Green Road, Windsor | | | | | 500 | | | | | | | | | | | | | 500 |
| | **Total Capital Receipts** | | **16,753** | **31,413** | **15,713** | **15,163** | **53,950** | **27,094** | **28,935** | **35,861** | **27,868** | **24,012** | **25,155** | **24,393** | **23,262** | **24,381** | **19,169** | **10,136** | **403,257** |
| | **Capital Expenditure** | | | | | | | | | | | | | | | | | | |
| 25 | Broadway Car Park expansion | | 3,541 | 13,756 | 10,231 | - | - | - | - | - | - | - | - | - | - | - | - | | 27,528 |
| 26 | Nicholsons shopping centre | | 132 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 132 |
| 27 | Braywick Leisure Centre | | 46 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 46 |
| 28 | Maidenhead Golf Club - Lease Surrender Purchase | | 15,950 | | - | - | - | - | - | - | - | - | - | - | - | - | - | | 15,950 |
| 29 | LEP Front of Maidenhead Station | | 1,770 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 1,770 |
| 30 | Annual Capital Programme | | 2,560 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | | 72,560 |
| 31 | RBWM affordable housing development St Edmunds | | 140 | 1,793 | 1,200 | - | - | - | - | - | - | - | - | - | - | - | - | | 3,134 |
| 32 | Affordable Key Worker Housing School House | | 52 | 843 | 9 | | | | | | | | | | | | | | 904 |
| 33 | Maidenhead Golf Course Framework Fee | | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | | | | | 6,000 |
| 34 | St Cloud Way - Framework Fee | | 213 | 200 | 200 | 200 | 200 | | | | | | | | | | | | 1,013 |
| 35 | York Road - RVS/MCC | | 365 | - | - | | | | | | | | | | | | | | 365 |
| 36 | 106 Westborough Road | | 21 | 2 | - | | | | | | | | | | | | | | 23 |
| 37 | Land at Ray Mill Road East (CALA) | | 1,500 | 2,734 | 735 | | | | | | | | | | | | | | 4,969 |
| 38 | Family Centre relocation | | 264 | 7 | - | | | | | | | | | | | | | | 271 |
| 39 | Vicus Way Car Park | | 7,766 | 2,824 | - | - | - | - | - | - | - | - | - | - | - | - | - | | 10,590 |
| 40 | River Thames Scheme | | 450 | 450 | 8,650 | | | | | | | | | | | - | - | | 9,550 |
| 41 | Investment need - Education primary and secondary | | - | - | - | | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | - | | 50,000 |
| 42 | LEP Maidenhead Local Plan Housing Site Enabling Works | | 5,185 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 5,185 |
| 43 | LEP Windsor Town Centre Package | | 1,428 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 1,428 |
| 44 | St Peters Middle | | 684 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 684 |
| 45 | Regen Improvement Projects | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - |
| 46 | Legal & Consultancy fees | | 500 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 500 |
| 47 | York Rd Ph 2 - Access rights | | 100 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 100 |
| 48 | Modern Workplace Project | | 90 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 90 |
| 49 | Braywick Pedestrian crossing | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | - |
| 50 | LEP Missing links | | 1,966 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 1,966 |
| 51 | Hostile vehicle mitigation measures for Windsor | | 481 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | 481 |
| 52 | Capitalised debt charges | | 231 | 248 | 413 | - | - | - | - | - | - | - | - | - | - | - | - | | 892 |
| 53 | Capital Programme slippage in | | 11,169 | 11,421 | 7,956 | 6,979 | 2,536 | 2,647 | 2,629 | 2,626 | 2,625 | 2,625 | 2,625 | 2,625 | 2,625 | 2,525 | 2,505 | | 66,118 |
| 54 | Capital Programme slippage out | | (11,421) | (7,956) | (6,979) | (2,536) | (2,647) | (2,629) | (2,626) | (2,625) | (2,625) | (2,625) | (2,625) | (2,625) | (2,525) | (2,505) | (1,501) | - | 56,450 |
| | **Total Capital Expenditure** | | **45,683** | **31,822** | **27,915** | **10,143** | **10,589** | **10,518** | **10,504** | **10,501** | **10,500** | **10,500** | **10,500** | **10,500** | **10,100** | **10,020** | **6,004** | **0** | **225,798** |

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| | |
|---|---|
| Report Title: | **Draft Capital Strategy 2022/23 – 2026/27** |
| Contains Confidential or Exempt Information | No - Part I |
| Cabinet Member: | Councillor Hilton, Cabinet Member for Finance and Ascot |
| Meeting and Date: | Audit and Governance Committee - 21 October 2021 |
| Responsible Officer(s): | Adele Taylor, Director of Resources & Section 151 Officer |
| Wards affected: | All |

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Royal Borough of Windsor & Maidenhead

***REPORT SUMMARY***

This report sets out the Council's proposed capital strategy for 2022/23- 2026/27.

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION: That Audit and Governance Committee notes the report and comments on:**

**i) The draft Capital Strategy set out in Appendix A.**

## 2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 This report sets out the draft Capital Strategy for the Royal Borough of Windsor and Maidenhead

2.2 The final Capital Strategy will be approved as part of the Budget in February 2022. It should be noted that this will be updated to reflect the Corporate Plan once that is finalised.

2.3 The Committee is invited to comment on the draft strategy.

## 3. KEY IMPLICATIONS

**Table 2: Key Implications**

| Outcome | Unmet | Met | Exceeded | Significantly Exceeded | Date of delivery |
|---|---|---|---|---|---|
| Capital expenditure is agreed within an approved strategy | Fails to meet Council objectives and service needs | Meets Council objectives and service needs | n/a | n/a | 1 April 2022 |

## 4. FINANCIAL DETAILS / VALUE FOR MONEY

**Capital Strategy**

4.1 The draft Capital Strategy for 2022/23 to 2026/27 is attached as **Appendix A**.

4.2 The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.3 It should align with the Council's corporate strategy, medium-term financial strategy and treasury management strategy.

## 5. LEGAL IMPLICATIONS

5.1 None.

## 6. RISK MANAGEMENT

6.1 Failure to adopt a Capital Strategy linked to the Medium Term Financial Strategy and the Treasury Management Strategy could lead to poor investment decisions, failure to deliver services and Council policies, and unforeseen revenue consequences.

## 7. POTENTIAL IMPACTS

**7.1** **Equalities**. A full EQIA will be undertaken on the final budget and capital strategy submitted to Council in February 2022.

**7.2** **Climate change/sustainability**. The potential impact of capital expenditure recommendations will be considered once details of budget submissions are published.

**7.3** **Data Protection/GDPR**. Not applicable.

## 8. CONSULTATION

8.1 The draft budget, including capital expenditure plans, approved by Cabinet in November 2021 will be fully consulted on before final proposals are made to Cabinet and Council in February 2022. All Scrutiny committees will consider the areas relevant to their remits.

## 9 APPENDICES

9.1 The table below details the Appendix to this report

| Appendix | |
|---|---|
| A | Draft Capital Strategy 2022/23 – 2026/27 |
| | |
| | |

## 10 BACKGROUND DOCUMENTS

10.1 None

## 11 CONSULTATION (MANDATORY)

| Name of consultee | Post held | Date sent | Date returned |
|---|---|---|---|
| *Mandatory:* | *Statutory Officers (or deputy)* | | |
| Adele Taylor | Executive Director of Resources/S151 Officer | 12/10/21 | 13/10/21 |
| Emma Duncan | Deputy Director of Law and Strategy / Monitoring Officer | 12/10/21 | 13/10/21 |
| *Deputies:* | | | |
| Andrew Vallance | Head of Finance (Deputy S151 Officer) | Report Author | |
| Elaine Browne | Head of Law (Deputy Monitoring Officer) | 12/10/21 | |
| Karen Shepherd | Head of Governance (Deputy Monitoring Officer) | 12/10/21 | |
| *Other consultees:* | | | |
| Duncan Sharkey | Chief Executive | 12/10/21 | |
| Cllr Hilton | Cabinet Member for Finance and Ascot | 12/10/21 | 13/10/21 |
| Andrew Durrant | Executive Director of Place | 12/10/21 | 13/10/21 |
| Kevin McDaniel | Executive Director of Children's Services | 12/10/21 | 13/10/21 |
| Hilary Hall | Executive Director of Adults, Commissioning & Health | 12/10/21 | 13/10/21 |

## 12 REPORT HISTORY

| **Decision type:** Audit and Governance Committee for recommendation to Council | **Urgency item?** No | **To Follow item?** Not applicable |
|---|---|---|
| Report Author: Andrew Vallance, Head of Finance | | |

# CAPITAL STRATEGY 2022/23 – 2026/27

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Royal Borough of Windsor & Maidenhead

**CONTENTS**

# 1 EXECUTIVE SUMMARY

1.1 RBWM’s capital strategy forms the basis for long-term planning of capital investment. It builds upon processes implemented for the delivery of the Council’s varied and aspiring capital programme. Thorough asset and resource planning has further facilitated the making of informed decisions.

1.2 Local authorities continue to face financial pressures and the impact of Covid-19 has exacerbated the situation. With this in mind, a balanced approach must be taken when assessing affordability and service needs.

1.3 Looking ahead, together with our partners, we will continue to improve our Borough’s infrastructure with ambitious regeneration planned in the forthcoming years.

1.4 We will ensure that the Council employs sufficiently qualified and experienced staff to be able to deliver our Capital Strategy, including asset managers, development managers, legal and accountancy support staff.

1.5 Through our draft Corporate Plan, we have identified a number of priorities for the Borough, These will be built into the capital programme as the years proceed and funding streams become available.

1.6 In conjunction with the Medium Term Financial Plan, Treasury Management Policy and the Borough’s Strategic plans, the Capital Strategy paves the way for making infrastructure improvements across the Borough.

# 2 BACKGROUD AND KEY FACTS

2.1 The Royal Borough of Windsor and Maidenhead covers an area of 76.6 square miles. Situated in Berkshire at the heart of the Thames Valley, it is less than 30 miles west of central London and is one of the most affluent areas in the country. It comprises three main settlements: Ascot, Maidenhead and Windsor; and enjoys a predominantly rural setting, including Green Belt, Crown Estate and National Trust land, with 60 parks and open spaces.

2.2 The estimated population of the Borough is 151,422 in 2019. Based on the Index of Multiple Deprivation 2019, the borough is ranked 304 out of 317 local authorities. Although no wards within the borough fall within the 10% most deprived wards nationally, there are areas of relative deprivation, such as Clewer East**. Table 1** provides further data.

2.3 Table 1

| **At a glance:** | |
|---|---|
| **Population:** | 151,422, expected to rise to 159,700 by 2041. (ONS Population Estimates) |
| **Size:** | 76.6 square miles |
| **Qualifications and training:** | 53.1% of population qualified to and above degree-level or equivalent (compared to South East 37.6% and England 35.8%)<br>2.9% with no qualifications (GCSE) (compared to South East 4.9% and England 6.3%) (ONS APS Dec-2020) |
| **Employment:** | Unemployment rate 2.8% compared to South East 4.0%, and England 4.8% (ONS APS, Dec-2020) |
| **Ethnicity:** | 13.9% non-white British (ONS Census 2011) |
| **Median house price:** | £499,475 compared to South East £327,500 and England £249,000. (year ending Sep-2020, ONS House Price Statistics for Small Areas) |

2.4 The Royal Borough delivers essential services to the community: the residents, businesses and partners of Windsor and Maidenhead every day. Services range from those that the Royal Borough is required to carry out by law (statutory duties) such as street cleaning, waste collection, planning and building control, education and social care, through to discretionary services, such as sport and leisure, tailored to local priorities and needs.

2.5 Adults and Children's services are managed on behalf of the Borough by Optalis Ltd and Achieving for Children (AFC) respectively. The Council shares ownership of these organisations with other partner authorities and group accounts are prepared annually including the Council's equity share of these associates.

2.6 As a council we measure how well we are performing through a range of indicators as well as our residents' survey. Everything we do has to be provided within the challenge of reduced central grant to local government and increasing demand on service areas as the population grows and ages.



2.7 The Royal Borough is committed to providing high quality services that offer value for money. Our corporate priorities guide our spending, alongside our statutory roles looking after the most vulnerable people in society and protecting the environment. Our capital strategy must balance the growing demands for services such as adult social care and children's services with our commitment to protect the environment and promote a buoyant and diverse economy.

2.8 An increasing proportion of our expenditure is being spent on services that support individual and vulnerable people. In all the services we either commission or deliver we will strive to achieve the best outcomes for our residents achieving the best value for money.

2.9 Our low council tax means our expenditure spent on all services, but in particular non-statutory services provided to our community, is under particular pressure. The Royal Borough has committed to a significant savings programme and is continually working to ensure that the services it delivers are subjected to rigorous value for money testing. We will continue to seek out opportunities to deliver efficiencies, savings and ways to increase our income.

2.10 The Royal Borough has an on-going transformation plan, which will aid delivery of the increased efficiencies and savings requirement.

2.11 Our commitment to delivering high quality services is rooted in our commitment to providing value for money. Outside of London the Royal Borough has the lowest level of Council Tax in England.



# 3 WHAT IS CAPITAL INVESTMENT?

3.1 Capital investment can be categorised into the following:

- **Major Projects** – After option appraisal; this can include the provision of a new school, library or leisure centre, or major highways investment.

- **Invest to Save Schemes –** where the Council invests in a project on the understanding that it will pay for itself over a reasonable period of time.

- **Equipment Replacement –** where the Council is required to replace certain equipment e.g. IT assets when they become obsolete.

3.2 In some cases, projects may be fully funded by Government Grants or partner contributions.

3.3 The main sources of capital funding are:

- **Capital Grants** – either general grants or specific grants towards specific projects e.g. highways and schools.

- **Developer Contributions** – towards the costs of local infrastructure stemming from new development. This includes S106 & Community Infrastructure Levy (CIL).

- **Partner Contributions** – Council partners may make a contribution towards the cost of capital projects.

- **Revenue Contributions** – where the revenue budget meets the cost of ongoing capital spending e.g. maintenance of buildings etc.

- **Capital Receipts** – from the disposal of council assets.

- **Prudential Borrowing** – this enables councils to borrow to fund capital investment provided that it is affordable. This is largely undertaken through the Public Works Loan Board (PWLB). The debt financing costs are also met by the Revenue Budget.

3.4 There is a fine dividing line when deciding whether spending should be charged as day-to-day revenue spending or included within the Capital Programme:

- **Spending less than £20,000** is considered as revenue spending. This is the de minimis level that the Council sets.
- **Annual maintenance** is considered to be revenue spending

3.5 Ideally, RBWM aims to cover recurring spending from its Revenue Budget and fund short life assets from external income sources. Borrowing is used to fund spending on longer life assets e.g. buildings and infrastructure.

# 4 NATIONAL FINANCIAL CONTEXT

4.1 Over recent years all unitary authorities have faced significant cuts as a result of austerity. This has had a significant impact on major investment decisions. The impact of Covid-19 has further impacted councils at unprecedented levels and continues to be experienced in a number of areas of the Council's operations



4.2 Government capital grants for funding capital projects have been cut significantly.

4.3 Material pressures on revenue budgets mean that councils are finding it harder to meet significant borrowing costs stemming from capital investment.

4.4 Council budgets have come under significant pressure resulting in some councils capitalising certain spending. This has allowed them to borrow to spread the cost of this spending over a number of years and ease the immediate pressure on the revenue budget e.g. capitalising debt interest.

4.5 Some councils have taken a more commercial approach to their assets. For example, building or expanding car parking to generate additional ongoing income to support the council budget or purchased property for a purely financial return.

4.6 Unprecedented low interest rates have enabled councils to borrow cheaply to fund new capital investment. To address the issue of councils borrowing purely for commercial investment, PWLB lending terms have been modified in relation to that.

4.7 Many councils have also benefited from capital receipts from asset sales to offset the cost of new capital investment and this is an option open to RBWM.



## 5 RBWM FINANCIAL CONTEXT

5.1 RBWM has the advantage of substantial and valuable land and buildings holdings. In compliance with its asset management plan, the Borough continues to be pro-active and innovative in using these holdings to generate capital receipts for new investment.

5.2 As a general principle, land no longer required for its existing use is declared surplus so that options for its future use or sale can be considered by the Property Services team and members of the Capital Review Board prior to proceeding for a formal decision.

5.3 Capital receipts are used to finance capital expenditure. In future, capital receipts will also be utilised for debt redemption in accordance with the Council's Minimum Revenue Provision (MRP) Policy.

5.4 Where appropriate, the Council has used the capital receipts generated from the closure of a facility to largely fund its replacement. Disposals can only take place once the new facility is built, which means that

- The Council needs to borrow to fund the new facility initially
- The Council carries the risk of holding and disposing of the previous asset.

5.5 In other cases, RBWM has been able to use s106 & CIL contributions to offset the cost of certain capital investment, where this is consistent with the terms of the development agreement.



5.6 RBWM has also invested in its assets to generate income to support its Revenue Budget. This has included:

- Converting and investing in council land to generate additional income from car parking provision.
- Modest investment in commercial property to maintain a revenue income stream.

5.7 This has resulted in significant capital investment in recent years. Council borrowing is projected at £213,000,000 for 2022/23.

5.8 When building the Capital Programme for 2022/23 the cost of borrowing has been kept as low as possible by investing in essential schemes only. This is in addition to the schemes approved in previous years by Council. For 2022/23 debt financing costs, including MRP, are estimated at £6.2m. This will reduce in future years as disposals of council assets are used to repay short term debt. At the same time the investment will also have generated considerable income that will help the Council repay this debt.

5.9 Overall, RBWM has sought to keep Council tax levels to a minimum. This has meant that it has tightly controlled spending within its Revenue Budget, which in turn has had consequences for its capital budget, such as needing to:

- Fund significant spending on maintaining assets from borrowing rather than funding this from within its Revenue Budget
- Use capital to fund a number of short-term asset replacements.
- Prioritise spending that generates future income to contribute to its Revenue Budget.

5.10 In the short term this has helped to spread the cost of this investment over a number of years and reduce the impact on the Revenue Budget.

5.11 However, in the longer term as borrowing increases, this places more and more pressure on the Revenue Budget, through increasing the level of debt financing costs. For 2022/23 it is estimated that for every £1,000,000 borrowed MRP & debt costs are in the region of £30,000.

# 6 DEVELOPING CAPITAL PLANS

6.1 Decisions around future capital investment should not be taken lightly as it often involves significant sums of money, which has a significant future impact on council finances.

6.2 The Council faces some tough choices against competing priorities and therefore always needs to balance the immediate benefit of investing in a new capital asset against the future financial sustainability of council finances. One of these tough choices will be whether to borrow to develop council assets to create long term revenue streams or whether to dispose of assets to help to reduce borrowing costs.

6.3 To strike this tough balance the Council will:

- **Have clear capital investment priorities for all of its key services** – this will allow it to balance the needs of individual services against one another.

- **Develop clear business cases for major projects** – so that there is a clear understanding about the benefits that the project will deliver and whether these are worth the level of investment required.

- **Set clear objectives –** for example it needs to be clear about the payback period it expects from commercial invest to save schemes.

- **Develop a pipeline of projects** that fit in with the longer term plan for capital investment.

6.4 This prioritisation will be assisted by having:

- **Surveys of all council assets** that set out maintenance requirements over time

- **Clear replacement strategies** – that show when assets need to be replaced and updated e.g. IT equipment and systems.

6.5 Given the long-term nature of capital investment, the Council should be able to plan ahead effectively and avoid the need for capital schemes to emerge at the last minute.

6.6 Above all, there is a need for an effective process to assess competing capital priorities and develop more long-term capital plans.

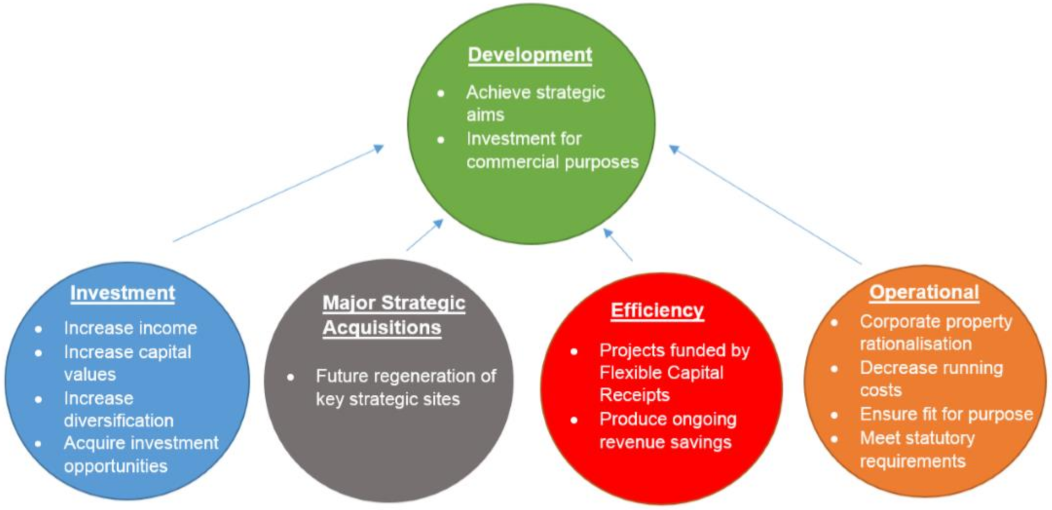
# 7 RBWM'S PRIORITIES

7.1 The Council's priorities are paramount to the capital strategy. A new Corporate Plan is currently under development, but this strategy reflects the draft objectives of the plan. This strategy will be updated to reflect any changes to the plan.

7.2 Finance is both the enabler that allows the Council to deliver these key priorities and the constraint that the Council needs to work within as it makes tough decisions between those priorities.

7.3 The Council's capital programme is prioritised into five key areas: Development, Investment, Major Strategic Acquisitions, Efficiency and Operational.





# 8 DRAFT CORPORATE PLAN

8.1 The Draft Corporate Plan articulates the Council's priorities for the period 2021-2026 and sets the strategic direction in order to ensure efforts and resources are directed to the right areas. This is particularly important given the scale of financial challenge and resource constraint, and in the face of challenges facing the borough, including: climate change; the recovery from the COVID-19 pandemic and wider changes in the shape of the economy; a growing and ageing population; persistent pockets of deprivation and inequalities; and the high costs of housing in the borough. In addition, to setting out what we aim to achieve, the Plan also sets out the Council's approach to achieving change – how it will work as well as what it will focus on.

8.2 Corporate plan objectives that impact the Capital Strategy and will be taken into consideration when prioritising future year capital projects are:

8.3 Thriving Communities

- Improvement in outcomes for children leaving our care – increased proportions supported to live locally (at least 95%) and in education, training or employment (at least 75%), supported by a Corporate Parenting service, judged good or better.

- An increase in the number of adults undertaking activity in line with the UK Chief Medical Officer's physical activity guidelines, particularly in those groups where current activity is likely to be lower; linking in to Leisure Centre provision.

- A minimum of three pilots of new Technology Enabled Care (TEC) delivered within 12 months.

8.4 A ladder of **housing opportunity**, to support better life chances for all.

- Enable over 3,000 new homes by 2026, of which at least 1,000 will be affordable housing (of mixed tenures and affordable housing types).

- 2,000 households helped into new and existing affordable homes, prioritising social and affordable rent.

- More people with learning disabilities to live in their own homes or with their families, increasing the proportion by 10 percent points by 2025.

- A decrease in the number of households living in temporary accommodation to less than 100 by April 2025 with 80% or more living in the borough.

- Ensure that no one sleeps rough in the borough through necessity.

## 8.5 Inspiring Places

- Supporting the borough's future prosperity and sustainability

- An increase in the number of new and surviving businesses within the borough, including the expansion of Creative industries.

- An increase in footfall in Windsor between 2021-2026, and in Maidenhead, following its regeneration.

- An increase in the proportion of women and girls who feel safe in the Borough, including through a safe, thriving night time economy.

- Undertake a master planning exercise for central Windsor by 2023 and submit a business case for Government funding for identified improvements along Ascot High Street.

- Quality infrastructure that connects neighbourhoods and businesses and allows them to prosper

- Deliver new transport infrastructure to support growth, including completing Phase 1 of Maidenhead Housing Enabling works and the remaining junction improvements.

- Investment along the A308 corridor to deliver on the recommendations of the corridor study.

- An increase in full fibre to 95% of properties by 2025; eliminate 4G “not-spots” in rural areas; and establish a test-bed and small cell roll out for 5G.

- Deliver new and enhanced community and youth facilities, including at Blackamoor Lane, Larchfield and Windsor.

- Increase cycling by 50% by 2025, including investing in new cycle infrastructure through the North-South Green Spine in Maidenhead, and improved cycle ways in Ascot, Sunningdale, Sunninghill and Windsor.

- Deliver the Windsor Public Realm project, transforming Castle Hill into a pedestrian first zone, and growing the local economy and increasing numbers of local jobs.

- Increase the passenger satisfaction and the number of bus journeys per head of population to close the gap with neighbouring Berkshire authorities as well as establishing trials to deliver better rural bus service connectivity.

- Enable delivery of the key social, physical and green infrastructure to support new development at the Desborough / South West Maidenhead site (AL13 in the BLP), including strategic highway improvements, public transport, cycling and walking infrastructure, new primary and secondary schools, community facilities and open space.

- Review the collection of Community Infrastructure Levy and Section 106 funding, in order to increase developer investment in sustainable, community infrastructure.

8.6 Taking action to tackle climate change and its consequences, and improving our natural environment.

- A decrease in the borough and council's own emissions by 50% by 2025 – and net zero by 2050, at the latest.

- The Council commits to spend £1 million on reducing emissions through energy efficiency improvements over the period, and will seek external funding to accelerate the plans.

- Drive energy efficiency improvements through our social housing providers, increasing the proportion of homes at EPC rating C to 100% by 2030.

- Adopt a new, best practice Supplementary Planning Document (SPD) to drive forward our climate and environmental goals in all new developments.

- Enable an increase in renewable energy generation in the Borough, by 10 fold by 2026 (from a baseline of 13,067 MWh in 2018).

- Enable the delivery of electric vehicle charging infrastructure to meet growing demand through a new EV implementation plan.

- Increase biodiversity across the borough, supporting the Berks, Bucks and Oxfordshire Wildlife Trust vision for 30% of land for nature by 2030. We will ensure a minimum of 10% biodiversity net gain through the planning system and new Suitable Alternative Natural Greenspaces (SANGs) to mitigate the impact of new developments on the Thames Basin Heath Special Protected Area (SPA).

- Increase recycling to 50% of waste by 2025, and to 65% by 2035, with an overall reduction in waste generated.

- Invest £10m on flooding prevention within Datchet, Horton and Wraysbury, and Old Windsor wards, working in partnership with the Environment Agency. Alongside further investment, borough-wide, in protection against surface water flooding as part of delivering our climate adaptation plan.

# 9 SERVICE PRIORITIES FOR INVESTMENT

9.1 The Council’s service priorities for investment over the lifetime of this strategy are set out by directorate for ease of reference, see **Table 2.**

Table 2

| Directorate | Service priorities | Link to statutory or other plan | Link to Council priority/Corporate Plan |
| --- | --- | --- | --- |
| **Chief Executive** | Maintenance and improvement of existing accommodation provision for the Council and its tenants to ensure statutory requirements met and rental income is maintained and enhanced.<br>Improvement in energy efficiency to reduce environmental impact. | Asset Management Plan | Climate Strategy<br>Values<br>Safe Places |
| **Resources** | Continued investment in use of mobile technologies to enabling the workforce to deliver in efficient and effective ways | IT strategy | Make most effective use of resources |
| | Investment in telephony solutions that realise benefits of mobile devices. | | |
| | Investment in network redesign and replacement. | | |
| | Investment for improvements in library buildings and facilities to support a sustainable and resilient Library Service | Library transformation strategy | Inspiring Places |

| | | | |
|---|---|---|---|
| **Place** | Investment in essential highways infrastructure, including bridges and footpaths | Local Transport Plan | Safe and vibrant communities |
| | Investment in “Active Travel” and alternative transport linked to climate change | Bus Service Improvement Plan | |
| | Investment in road safety, where clear evidence identifies intervention required | | |
| | One off pump priming investment in digital and communications infrastructure. | | |
| | Maintain & improve accessibility to our community assets that have a measurable and direct positive impact on residents Health & Wellbeing | | Attractive, well connected borough |
| | Town Centre enhancements as part of local master planning exercises that supports vision charters across Maidenhead & Windsor, with a business case developed for identified improvements along Ascot High Street, which leverage external investment | Local cycling and walking plan<br>Climate Strategy | |
| **Adults, Health & Housing** | New accommodation provision for vulnerable people. | Adult Social Care Transformation Programme | |
| **Children’s Services** | Education: Mainstream and SEND capacity to keep up with growth in population in partnership with all state schools. | Inclusion Strategy | Healthy, skilled and independent residents |

| | | | |
|---|---|---|---|
| | Education: maintenance of community and voluntary controlled school buildings, including investment in carbon reductions. | Council Transformation Strategy<br><br>Sufficiency Strategy | Well managed resources, delivering value for money |
| | Social Care: 18-25 supported accommodation for care leavers and those with additional needs. | | |
| | Social Care: 5-10 residential children's home places to challenge the marketplace. | | |
| | Office accommodation for services. | | |
| | Modern technology platform for mobile and partnership working. | | |



9.2 The Council also needs to be flexible enough to respond to opportunities to lever in additional external funding or grant that could partially fund an additional project alongside some capital investment from the Council.

## 10 DELIVERING CAPITAL PROJECTS

10.1 All capital projects over £100,000 are subject to a gateway process that requires them to set out:

- A procurement Strategy for the project
- A project timetable and delivery plan
- An updated financial assessment including the revenue implications
- A clear assessment of project benefits and how these will be delivered and assessed.

10.2 The Council has established a Capital Review Board (CRB) which oversees the delivery of the capital programme. CRB is an officer working group. It is an advisory / monitoring body and takes any decision-making power from the delegated authority of officers attending as set out in the scheme of delegation and the financial procedure rules within the Council's Constitution. It makes decisions where priorities and budgets are already agreed within the Council's Policy and Budget Framework. Any proposal that is outside the approved Policy and Budget framework will be referred to Cabinet and/or Council in accordance with the Constitution. The following summarises the terms of reference of the board:

**Membership**

- Executive Director of Place
- Head of Finance (chair)
- Head of HR, Corporate Projects and IT
- Head of Infrastructure, Sustainability and Economic Growth
- Head of Neighbourhood Services
- Head of Capital Projects and Asset Management, RBWM Property Company Limited
- School Places and Capital Team Leader
- Corporate Accountant (Capital)

10.3 **Support to the Board**

- Project Manager – Corporate Projects
- Executive Assistant to Executive Director of Place

10.4 **Frequency**

CRB normally meets every 2 months but more frequently as required e.g. in the lead up to budget setting.

10.5 **Overall Responsibilities**

- Advise on the Council’s Capital Strategy in line with the Council’s priorities.
- Ensure the effective development and delivery of the Capital Programme in line with the Council’s Capital Strategy and Council priorities.
- Identify and monitor the resources available to fund the Capital Programme in the most efficient way.
- Oversee the gateway process for the Capital Programme.
- Monitor the progress of the Capital programme and key variances between plans and performance.
- Encourage and enable the development of learning, skills and capacity in the management of capital projects across the organisation.

10.6 **Priority Outcomes**

- An effective Capital Strategy and Capital Programme that optimises the resources available to deliver the Council’s priorities.

- Continuous improvement in the development and delivery of the capital programme and that strategic capital investment is planned and delivered in the most efficient and effective way.

- Review completed of the previously approved Capital Programme in light of the ‘new normal’ environment the Council will operate in.

- Better management of capital projects, in line with best practice, ensuring benefits are realised.

- Effective bidding for external capital funding.

- Enhanced cross-service strategic working and partnerships with other organisations on the development and management of capital projects.

- That the Capital Strategy and Programme is funded in the most efficient way and fully integrated into the Medium-Term Financial Strategy of the Council.

- That lessons are learnt from capital projects undertaken by the Council.

10.7 The Working Group is able to approve the delivery of all projects up to £250,000, while projects above this level will be approved by Cabinet.

10.8 Cabinet receives a report on the delivery of capital schemes which is included within the regular Financial Update.

# 11 FINANCIAL RISKS

11.1 Planning for the future can never be an exact science.  There are many factors that the Council cannot control completely, Covid-19 being a prime example, which can have a significant impact on the viability of future capital plans.



- **Revenue Budget –** ultimately the cost of borrowing to fund capital investment has to be met by the revenue budget.  This means that the sustainability of the revenue budget as set out within the Budget Strategy is a key risk factor that impacts on the affordability of capital spending.

- **Government Grants**– although Government Grants have reduced over time this still makes a significant contribution towards the cost and viability of major schools and highways schemes. This may improve further should the government award additional capital grant for infrastructure in future years.

- **Interest Rates –** although currently at a very low level, any rise in interest rates will impact on the affordability and viability of key future capital projects.

- **Project Creep -** projects delivered over a period of time are inherently risky.  Tight cost control is needed to ensure that the project keeps within the spending envelope.

- **Contractual Risk –** the cost of major projects can be heavily dependent on the level of competition that influences bids to deliver the scheme.

11.2 Capital Projects are inherently risky.  There are significant risks that the costs of capital schemes can exceed the original capital programme allocation.  There is also a delivery risk that projects can be late.  Effective project planning and due diligence, project management and budget control is essential in mitigating delivery risks along with the selection of skilled delivery partners.



11.3 Funding capital investment represents a significant pressure on the Revenue Budget.  It is essential that the Council understands fully the revenue impact of capital investment and the extent to which the project:

- Meets the Council's objectives

- Is self-funding

- Delivers a realistic pay back in the case of invest to save schemes

# 12 SUMMARY AND CONCLUSION

12.1 Capital investment decisions involve substantial sums of money and represent a long-term plan, which can extend well beyond the term of the existing Council.

12.2 Decisions on future capital investment therefore need to balance a range of different long-term priorities, often within tight financial constraints.

12.3 The strategy sets out some clear criteria for determining capital spending and deciding on the competing priorities.

12.4 The strategy also sets out a key delivery mechanism designed to deliver effective implementation of capital plans.

# WORK PROGRAMME – AUDIT AND GOVERNANCE COMMITTEE

| | |
|---|---|
| **DIRECTORS** | • Duncan Sharkey (Chief Executive)<br>• Adele Taylor (Executive Director of Resources and S151 Officer)<br>• Emma Duncan (Deputy Director of Law and Strategy) |
| **LINK OFFICERS & HEADS OF SERVICES** | • Catherine Hickman (Lead Specialist Audit and Investigation)<br>• Steve Mappley (Insurance and Risk Manager)<br>• Andrew Vallance (Head of Finance)<br>• Karen Shepherd (Head of Governance) |

**MEETING: 17th FEBRUARY 2022**

| ITEM | RESPONSIBLE OFFICER |
|---|---|
| 2022/23 Internal Audit Plan | **TBC** |
| Work Programme | Panel clerk |

**MEETING: 19th MAY 2022**

| ITEM | RESPONSIBLE OFFICER |
|---|---|
| 2021/22 Annual Audit and Investigation Report | **TBC** |
| Work Programme | Panel clerk |

**ITEMS SUGGESTED BUT NOT YET PROGRAMMED**

| ITEM | RESPONSIBLE OFFICER |
|---|---|
| | |
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