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AGENDA PAPERS FOR

ACCOUNTS AND AUDIT COMMITTEE

Date: Wednesday, 3 February 2021

Time: 6.30 p.m.

Place: Virtual meeting

PLEASE NOTE: A link to the virtual meeting can be found below:
https://www.youtube.com/channel/UCjwbIOW5x0NSe38sgFU8bKg

	A G E N D A	**PART I**	**Pages**

1. **ATTENDANCES**

To note attendances, including Officers and any apologies for absence.

2. **QUESTIONS FROM MEMBERS OF THE PUBLIC**

A maximum of 15 minutes will be allocated to public questions submitted in writing to Democratic Services (democratic.services@trafford.gov.uk) by 4 p.m. on the working day prior to the meeting. Questions must be relevant to items appearing on the agenda and will be submitted in the order in which they were received.

3. **MINUTES** 1 - 6

To receive and if so determined, to approve as a correct record the Minutes of the meeting held on 26th November 2020.

4. **STRATEGIC RISK UPDATE - CYBER SECURITY**

To receive a presentation from the Chief Digital Officer.
NOTE: Now to be considered in Part II of this agenda.

5. **EXTERNAL AUDIT PROGRESS REPORT**

To consider an oral update report from the Council's External Auditor.

SARA TODD
Chief Executive

Membership of the Committee

Councillors B. Brotherton (Chair), C. Boyes, G. Coggins, J. Dillon, N. Evans, J. Lloyd (Vice-Chair), A. Mitchell, R. Thompson and B.G. Winstanley; and Mrs. J. Platt.

Further Information
For help, advice and information about this meeting please contact:

Joseph Maloney, Governance Officer,
Email: joseph.maloney@trafford.gov.uk

This agenda was issued on **Tuesday, 26 January 2021** by the Legal and Democratic Services Section, Trafford Council, Trafford Town Hall; Talbot Road, Stretford, Manchester, M32 0TH.

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ACCOUNTS AND AUDIT COMMITTEE – VIRTUAL MEETING

26 NOVEMBER 2020

MEMBERS PARTICIPATING

Councillor B. Brotherton (in the Chair).
Councillors C. Boyes, G. Coggins, J. Lloyd (Vice-Chair), A. Mitchell, R. Thompson and B.G. Winstanley; and Mrs. J. Platt.

In attendance

Director of Finance (Mr. G. Bentley),
Head of Governance (Ms. D. Sykes),
Head of Financial Management (Mr. D. Muggeridge) (part only),
Audit and Assurance Manager (Mr. M. Foster),
Counter-Fraud and Enforcement Manager (Mr. D. Wright) (part only),
Governance Officer (Mr. J.M.J. Maloney).

Also in attendance

Ms. K. Murray and Mr. T. Rooney (Mazars).

1. ATTENDANCES

It was noted that apologies had been received from Councillors Dillon and Evans.

2. COMMITTEE'S MEMBERSHIP

The Committee noted its membership for the remainder of the municipal year, it being reported that, following the Annual Meeting of Council held on 25th November 2020, Councillor Thompson had replaced Councillor Duffield, and that the vacancy in the Committee's membership had been filled by Councillor Evans.

RESOLVED – That the Committee's membership for the remainder of the municipal year 2020 /21 be noted.

3. COMMITTEE'S TERMS OF REFERENCE

The Committee received for information its Terms of Reference for the municipal year, it being noted that these were unchanged.

RESOLVED – That the Committee's Terms of Reference be noted.

4. QUESTIONS FROM MEMBERS OF THE PUBLIC

It was reported that no questions had been received for consideration at the current meeting.

5. MINUTES

RESOLVED – That the Minutes of the meeting held on 15th July 2020 be approved as a correct record and signed by the Chair.

6. COUNTER FRAUD AND ENFORCEMENT TEAM UPDATE REPORT

The Counter Fraud & Enforcement Manager was in attendance to introduce a report which outlined the Council's fraud prevention and detection performance and activities in 2019/20 and the team's plans for 2020/21. Attention was drawn to the extent to which the team's activities had safeguarded public funds across the range of its activities, and its significant involvement in issues arising from the emergency Covid-related business grants which had been paid through the Council. An opportunity was provided to raise questions on the report's content, which centred on the scope of the team's activities and triggers for initiating counter-fraud and enforcement investigations.

RESOLVED – That the content of the report be noted.

7. 2019/20 AUDIT COMPLETION REPORT

On behalf of the Council's External Auditor (Mazars) Ms. K. Murray and Mr. T. Rooney were in attendance to introduce their Audit Completion Report on the Council for the year ending 31st March 2020, which summarised the conclusions arising from the auditor's work for the year in question. The difficulties were acknowledged of the Covid pandemic for the preparation and audit of accounts; it was noted that the national deadline for completion of the audit had been extended to 30th November 2020; and the auditors' thanks were accorded to the Council's finance team for the quality of working papers and for their assistance during the course of the audit. Ms. Murray highlighted the principal findings from the audit, and a small number of matters still outstanding; and it was anticipated that an unqualified opinion on the financial statements would in due course be issued. Members discussed a range of issues arising from the report, including the question of uncertainty in valuations; and Ms. Murray set out broad details of expected audit activity, and ongoing financial challenges, for the coming year.

RESOLVED – That the content of the report be noted.

8. 2019/20 ANNUAL GOVERNANCE STATEMENT

The Head of Governance was in attendance to introduce a report of the Corporate Director, Governance and Community Strategy which presented the final version of the 2019/20 Annual Governance Statement (AGS), whose preparation and publication is necessary to meet the statutory requirement set out in the Accounts and Audit Regulations 2015. It was noted that the Committee had previously received a report setting out the Draft AGS, of which versions had also previously been shared and reviewed by the Corporate Leadership Team. Members were advised that since the draft version was presented on 15th July 2020 a number of significant issues for 2020/21 had been updated, as highlighted within the document. Any further issues arising in 2020/21 impacting on governance and

developments in relation to governance issues reported to date would be considered as part of the process for compiling the 2021/22 AGS.

In response to issues raised in the Committee's previous consideration of the draft Statement, the Head of Governance provided Members with a summary update on current issues in the area of information governance, and measures in place or planned to address them. It was agreed that, in developing further training, the specific needs of elected Members would be taken into account; and that a summary note on data breaches would be circulated to this Committee's Members after the meeting.

RESOLVED – That the 2019/20 Annual Governance Statement be approved.

9. 2019/20 ACCOUNTS

The Director of Finance was in attendance to introduce a report of the Corporate Director of Finance and Systems which presented the redrafted Final Accounts for 2019/20, as they currently stood at the time that the report was issued with the Committee's agenda and pending any changes prior to the completion of the audit, envisaged by 30th November 2020. It was noted that amendments had been made to the draft accounts to accommodate changes currently agreed with the Council's external auditor during their audit. These closely reflected the issues highlighted and discussed in consideration of the Audit Completion Report earlier in the agenda.

In introducing the report the Director of Finance highlighted some of the most notable features of the Accounts, including in respect of their extent and complexity, and, in particular, levels of reserves, a significant increase in assets disclosed on the balance sheet, and various aspects of the Collection Fund.

As discussed earlier on the agenda, it was noted that there was a possibility that a small number of outstanding issues might delay the anticipated completion of the accounts by 30th November. In this light it was agreed that the proposed delegation arrangement in relation to the formal approval of the accounts should remain open ended.

RESOLVED –

(1) That the Accounts as they currently stand, having been reviewed by the Committee, be noted.

(2) That authority be delegated to the Chair of the Accounts and Audit Committee and the Corporate Director of Finance and Systems to approve the Final Accounts for 2019/20.

10. INSURANCE PERFORMANCE REPORT 2019/20

The Head of Financial Management was in attendance to introduce a report of the Corporate Director, Finance and Systems which provided a summary of insurance performance for 2019/20, across a range of insurance activities, and which looked forward to expected market conditions in the coming year. An opportunity was provided for Members to raise issues in relation to the report's content; these centred on the possible implications of widespread working from home on employer's liability, claims arising from highway trees, and the potential benefits which might accrue in future from the LGA Mutual organisation, which had not been operational when the Council had last needed to issue a tender for insurance.

RESOLVED – That the content of the report be noted.

11. TREASURY MANAGEMENT 2020/21 MID-YEAR PERFORMANCE REPORT

The Director of Finance introduced a report of the Executive Member for Finance and Investment and the Corporate Director, Finance and Systems which provided Members with a summary of the Treasury Management activities undertaken for the first half of 2020/21, including in relation to Debt Activity, Investment Activity and Prudential indicators. In discussion it was acknowledged that the impact of the Covid-19 pandemic on the Council's treasury management function had been significant, notably in respect of the performance of the wider economy, interest base rates and investment income. The Council's priority was always to seek security and liquidity as priorities ahead of rate of return. Members were advised that none of the Council's Prudential Indicators in relation to Treasury activities had been breached in the first half of the year.

RESOLVED – That the Treasury Management activities undertaken in the first half of 2020/21 be noted.

12. BUDGET MONITORING REPORT 2020/21 PERIOD 6

The Executive Member for Finance and Investment and the Corporate Director, Finance and Systems submitted a report which informed Members of the current 2020/21 forecast outturn figures relating to both Revenue and Capital budgets. It also summarised the latest forecast position for Council Tax and Business Rates within the Collection Fund. In introducing the report the Director of Finance drew attention to the impact of the Covid-19 pandemic on the Council's finances, and reminded Members that, especially in a volatile situation, any projections at the mid-year point required a degree of caution. It was noted that 2021-22 was expected to be a challenging year; though the recent spending round announcement had suggested a possible minor improvement in the position, compared to what had previously been expected. An opportunity was provided for Members' questions, which centred on estimates of the Covid-related budget variance and the impact of vacancy factors.

RESOLVED –

(1) That it be noted that the Executive had recommended that Council approve an increase to the net Revenue Budget of £261k to £175.52m as detailed in paragraph 2 of the report.

(2) That the updated positions on the revenue budget, collection fund and capital programme be noted.

13. 2020/21 AUDIT AND ASSURANCE SERVICE UPDATE REPORT, APRIL TO SEPTEMBER 2020

[NOTE: Councillor Brotherton declared a Personal Interest in this item in relation to his Governorship of Worthington Primary School.]

The Audit and Assurance Manager submitted a report which provided a summary of the work of Audit and Assurance during the period April to September 2020 and provided ongoing assurance to the Council on the adequacy of its control environment. It was noted that, notwithstanding some impact on working arrangements arising from the Covid-19 pandemic, work had been completed broadly in line with the audit plan. Members would be provided at their next meeting with an updated summary of progress and an analysis of accepted and implemented recommendations arising from completed audits.

RESOLVED – That the content of the report be noted.

14. STRATEGIC RISK REGISTER - NOVEMBER 2020 UPDATE

The Audit and Assurance Manager submitted a report which requested Members to consider the current update on the strategic risk environment, setting out developments relating to the management of each of the Council's strategic risks. Members' attention was drawn to the incorporation of an additional risk in relation to the climate emergency, and to the amendment of a number of aspects of the report's formatting and presentation in response to Members' previous comments. It was noted that a query regarding the impact of the climate emergency risk could be taken up in ongoing review discussions with the Corporate Leadership Team, along with any other issues notified by Members outside the meeting.

RESOLVED – That the content of the report be noted.

15. ACCOUNTS AND AUDIT COMMITTEE WORK PROGRAMME 2020/21

The Audit and Assurance Manager submitted a report which set out the current position in relation to the work plan for the Committee for the 2020/21 municipal year. Members noted the position, including the expectation that an update on cyber security would be brought to the Committee before the end of the municipal year.

RESOLVED – That the position on the 2020/21 work programme be noted.

The meeting commenced at 4.00 p.m. and finished at 6.07 p.m.

TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee 3 February 2021** **Executive and Council 17 February 2021**
Report for:	**Decision**
Report of:	**The Executive Member for Finance and Governance and the Corporate Director of Finance and Systems**

Report Title

TREASURY MANAGEMENT STRATEGY 2021/22 – 2023/24

Summary

This report outlines the:-

- strategy to be implemented during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision (MRP) and
- Prudential Indicators.

Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.

That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2021/22 – 2023/24 including the:
- policy on debt strategy as set out in section 3;
- investment strategy as set out in section 5;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Contact person for access to background papers and further information:

Name: Graham Perkins
Extension: 4017

Background papers: None

Relationship to Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The treasury management strategy will aim to minimise risk to the Council whilst maximising investment interest. The Council's debt position will be administered effectively and any new loans taken will be in-line with that provided for within the Medium Term Financial Plan and Prudential Indicators.
Legal Implications:	Actions being taken are in accordance with legislation, Ministry of Housing, Communities & Local Government (MHCLG) guidance, Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury activity is without risk and the Council's in-house treasury management team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Executive Summary

This report has been prepared in accordance with the Council's Financial Procedure Rules number 8 and outlines the forecasted treasury management activities for the forthcoming three years. Additional reports are produced during the course of the year notifying Members of the preceding financial year actual activities together with a current mid-year update.

Economic position (Appendix 2)

The coronavirus pandemic dominated the headlines in 2020 and aside from the tragic loss of lives caused by this virus, it also had a negative impact on the world economy with a significant downturn in growth being incurred. An agreement on Brexit trade negotiations was reached in December 2020 and both of these events look certain to dominate the headlines again during 2021. A return to positive growth across the world economy in 2021 is expected however this is currently forecasted to be a slow and gradual recovery.

Debt (Section 3)

Borrowing interest rates are forecasted not to move significantly from their current levels. The outcome of the Public Works Loan Board (PWLB) consultation was announced in November 2020 with the main points from this being:

- the removal of the additional 1% applied to borrowing rates in October 2019 and
- no longer able to borrow for a scheme purely to generate a financial benefit.

Any new external borrowing the Council undertakes will be taken to assist in financing the capital borrowing requirement as outlined in the 2021/24 Capital Programme report with all associated costs being contained within the Medium Term Financial Plan.

Debt restructuring exercises will only be undertaken in order to produce revenue savings or reduce overall treasury risk.

Investments (See Section 5 and Appendix 3)

The Council's investment criteria remains unchanged from that previously adopted of SLY, **S**ecurity of capital first, then **L**iquidity of its cash flows and finally **Y**ields.

Council is required to agree the lending criteria and this is set out for Member approval at Appendix 3.

Prudential Indicators and limits (Section 7 and Appendix 3)

Council is required to approve a set of Prudential Indicators and limits ensuring its capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 3 for Member approval.

Medium Term Financial Plan (See Appendix 7)

The current forecasted financial requirements of the Council's treasury management functions during this reporting period are shown for Members reference at Appendix 7.

Background

1.1 The Council is required to operate a balanced budget with cash raised during the year being used to pay for expenditure incurred. A primary part of the treasury management operation is to ensure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity with any temporary surplus monies being invested in low risk institutions.

1.2 Another function of this service is to ensure that the Council's capital borrowing requirement, the longer-term cash flow planning, is provided for which may involve arranging long or short-term loans or using longer-term cash flow surpluses. In addition to this and when it is financially prudent to do so, any debt previously obtained may be restructured.

1.3 Treasury management as defined by the Chartered Institute of Public Finance Accountancy (CIPFA) is:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions as covered by this report), and more commercial type investments, such as regeneration properties. In order to assist with this activity the Council uses a specialist external advisor.

1.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are classed as non-treasury activities, (arising from capital expenditure) and are separate from the day to day treasury management activities. Details of these transactions are shown in Appendix 8 for reference.

1.6 The contribution the treasury management function makes to the Council's overall financial position is significant as for example failure to ensure sufficient funding is available when payments are due to be made would generate a negative impact on the Council's reputation. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of all monies invested is achieved in order to avoid any potential loss of principal which in turn would result in a loss to the General Fund Balance.

1.7 Members are required to receive and approve, as a minimum, 3 reports annually which incorporate a variety of policies, forecasts and actuals as follows;

- **Annual treasury strategy** (issued February - is the most important report and includes);
  - A Minimum Revenue Provision (MRP) policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time),
  - The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits and
  - An investment strategy (the parameters on how investments are to be managed).
- **Mid-year update** – (issued November / December – this provides an);
  - update for members with the progress of the treasury management activities undertaken for the period April to September and

➢ opportunity for amending prudential indicators and any policies if necessary.

- **Annual outturn** – (issued June);
  ➢ this provides details of actual treasury operations undertaken in the previous financial year.

1.8 Each of the above 3 reports are scrutinised by the Council's Accounts & Audit Committee before being forwarded onto either Executive or Council for final approval.

1.9 The In-house treasury management team will ensure that all treasury management transactions undertaken comply with the statutory requirements as stipulated within the Local Government Act 2003, the CIPFA Prudential Code, Ministry for Housing Communities and Local Government (MHCLG), MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance. A brief outline of these frameworks is provided at Appendix 1.

1.10 This report which has been prepared in accordance with the required statutory regulations and guidance, includes;

- Economic & Interest Rate forecast (section 2)
- Debt Strategy (section 3)
- Minimum Revenue Provision (section 4)
- Investment Strategy (section 5)
- Investment Risk Benchmarking (section 6)
- Prudential Indicators (section 7)
- Related Treasury Issues (section 8)
- Medium Term Financial Plan (section 9)
- Recommendations (section 10)
- Appendices.

1.11 The Council uses Link Group (LG) as its external treasury management advisors who provide a range of services on treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in employing external providers for this service and this is subject to regular reviews.

1.12 Whilst the external advisors provide support to the in-house team, the Council will consider all available information when forming an opinion on matters concerning treasury management and acknowledges the final decision remains with it at all times.

1.13 The Council acknowledges the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are also fully equipped to undertake the duties and responsibilities allocated to them. This is further highlighted in the CIPFA Code which requires the responsible officer, Director of Finance and Systems, ensures that Members with responsibility for treasury management, receive adequate training in treasury management.

1.14 For reference a Member training event was provided on 21st January 2021 by the Council's in-house team and its external advisors LG. Officers will continue to attend relevant courses / seminars / webinars as presented by CIPFA, LG and other suitable professional organisations with additional training for Members being provided when required.

2. Economic & Interest Rate forecast

2.1 During 2020 the coronavirus pandemic had a devastating impact on both the health and welfare of the world's population together with the global economy. As a result of this, swift and decisive action on a scale never seen before saw Central

Banks and Governments being forced into implementing national lockdowns, cutting central lending interest rates to historic low levels and pumping vasts sums of monies into their respective national economies. In addition to this the ongoing trade war between China and USA and Brexit talks continued to take place in the background with a trade agreement being achieved between the European Union and the UK in December 2020.

2.2 Appendix 2 outlines further details of the major economic events which occurred during 2020 and also includes market forecasters' predictions for 2021 for reference.

2.3 LG produces interest rate projections periodically throughout the year and the latest forecasts (November 20) are shown below for reference;

Average rates	**2020-21 Forecast %**	**2021-22 Forecast %**	**2022-23 Forecast %**	**2023-24 Forecast %**
Bank Rate	0.10	0.10	0.10	0.10
Investment Rates				
3 month	0.10	0.10	0.10	0.10
1 Year	0.20	0.20	0.20	0.20
PWLB Loan Rates				
5 Year	1.60	0.80	0.90	1.00
25 Year	2.20	1.60	1.70	1.80
50 Year	2.00	1.40	1.50	1.60

2.4 Forecasters are currently suggesting that it is unlikely there will be any increase in Bank Rate and money market interest rates for some considerable time as demonstrated in the above table. This situation is in response to the damage the coronavirus pandemic has had on the economies around the world and whilst a recovery from the current position is expected this will now be gradual and prolonged. After the Monetary Policy Committee (MPC) took emergency action in March 2020 to cut the Bank Rate twice from 0.75% to 0.25% and then to 0.10%, it has at each subsequent meeting since then left this rate unchanged increasing the level of Quantitative Easing undertaken from £445bn in March 2020 to £895bn in November 2020. Whilst some forecasters still suggest that a cut into negative interest rate territory could happen, the Governor of the Bank of England has previously made it clear that such a move would do more damage than good. Despite this, money markets are seeing a few large institutions, including the Government's Debt Management Account Deposit Facility willing to take money in the short periods (up to 6 months) at nil or negative interest rates.

2.5 The Council will continue to adopt a cautious approach to its treasury management activities whilst utilising the information available from both LG and other external sources which may become available during this time.

3. Debt Strategy

3.1 The Council's capital expenditure plans are set out in the Capital Programme report and this provides details of the service activity. The treasury management function ensures in accordance with the relevant professional codes, that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and where capital plans require, the organisation of appropriate borrowing facilities.

3.2 The underlying need to borrow comes from the Capital Financing Requirement (CFR) which essentially is a measure of the Council's indebtedness. Any capital

expenditure not immediately paid for through a revenue or capital resource, will increase the CFR.

3.3 The Council needs to ensure that its debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates going out to 2023/24. Whilst this allows some flexibility for limited early borrowing for future years, it also ensures that borrowing is not undertaken for revenue or speculative purposes. The Corporate Director of Finance and Systems can confirm that the Council has not exceeded the CFR in the current year and does not envisage difficulties for the future.

3.4 The CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset with an annual revenue charge, the Minimum Revenue Provision (MRP) which reduces the CFR each year.

3.5 Included within the CFR are any other long-term liabilities such as Private Finance Initiative (PFI) schemes and finance leases. Whilst these increase the overall balance of the CFR, the Council's borrowing requirement is not increased as this type of liability includes a borrowing facility by the PFI or lease provider. The Council currently has £4.5m (31 March 2021) liability of such schemes within the CFR which is set to fall to £3.4m by 31 March 2024 as highlighted in the table below;

Other long-term liabilities	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Total at 1 April	4,759	4,453	4,126	3,776
Expected repayment	(306)	(327)	(350)	(374)
Total at 31 March	4,453	4,126	3,776	3,402

3.6 With effect from April 2021, the International Financial Reporting Standard 16 will require that all Council leases are also included with the CFR. Whilst the compliance of this new accounting requirement will impact on the Council's overall long term liabilities, it is deemed at this stage to be immaterial.

3.7 The total of the Council's loans outstanding as at 31 December 2020 totalled £395.8m and a breakdown of this debt is provided for reference at Appendix 6.

3.8 The Council holds, as mentioned above £67.5m of Market loans and of these £15.0m are held as variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. With regards to this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council can either accept the new rate or repay the loan at no additional cost. In accordance with the Director of Finance and Systems delegated authority, should an opportunity present itself to repay a LOBO loan then this option will be fully examined to determine whether any financial benefit could be obtained including taking a replacement loan from another lender.

3.9 In line with similar practices adopted by the majority of local authorities, this Council is currently maintaining an under-borrowed position (CFR balance being higher than the level of external debt). This position has arisen from previous and current years annual CFR (borrowing need), not being fully funded with new loans as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are set to remain at historically low levels for the foreseeable future, as highlighted at

paragraph 2.3, and counterparty risk still is an issue. For reference as at 31 March 2020 the Council's under borrowed position was £40m.

3.10 This policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years due to debt interest rates being consistently higher than investment returns, a situation which is forecasted to continue for the foreseeable future. This situation will continue to be carefully monitored to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

3.11 There is currently no budgetary provision included within the Council's MTFP to cover new associated borrowing costs therefore any new projects requiring borrowing will need to be self-financing.

3.12 The Director of Finance and Systems will continue to monitor interest rates and adopt a sensible approach to changing circumstances within the 2021/22 treasury operations before taking on any new debt to finance a proportion of the Council's capital projects or commercial regeneration programme.

3.13 Based on current commitments the table below reflects the level of external debt the Council is expected to have for the period 2020/21 to 2023/24 which is used to part fund its capital programme;

	2020/21 Estimate £000	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Commercial Regeneration programme				
Total at 1 April	217,900	254,816	377,253	446,612
Planned repayments	(103,833)	(137)	(141)	(145)
Potential New debt	140,749	122,574	69,500	53,333
Total at 31 March	254,816	377,253	446,612	500,000
General capital programme				
Total at 1 April	159,359	164,367	166,289	167,175
Planned repayments	(4,662)	(3,078)	(4,114)	(4,185)
Potential New debt	9,670	11,980	6,000	50
Total at 31 March	164,367	173,269	175,155	170,820

3.14 All interest incurred on the Council's external debt is charged directly to treasury management apart from where it has previously been agreed by Executive for interest incurred on major development schemes i.e. Brown Street Hale to be capitalised.

3.15 When however any form of borrowing, be this Long or Short term, is required, consideration is given to obtaining funds at the most advantegous rates possible at that time, from the following in order to finance the Council's capital expenditure:

- Other local authorities,
- The Government via the PWLB,
- Dedicated publicly funded companies e.g. Salix,
- Municipal Bond Agency, or

- Financial institutions within the money market (insurance companies, pension funds and banks).

3.16 In March 2020, the Government issued a consultation document which outlined several potential reforms which it intended to introduce on how the PWLB operated. This included implementing measures intended to prevent the trend, in a minority of local authorities of taking on debt to buy assets primarily for generating an income stream. On 25th November 2020 the Government announced the outcome of the consultation and as a result lowered the interest rate of PWLB lending by 1% bringing it back to the levels they were at before October 2019. Also included within these reforms was a prohibition to deny access to borrowing from the PWLB for any local authority which had within its three year capital programme, a facility to purchase assets purely for generating an income stream.

3.17 The uptake of new long term debt will be processed in accordance with the Council's approved scheme of delegation and reported to Members at the earliest opportunity. Action of this sort will be undertaken in accordance with a number of factors such as affordability, proposed life of the asset, current interest rate projections and advice obtained from the Council's external advisors.

3.18 Rescheduling any of the Council's current PWLB loans is unlikely to occur as a result of the high early repayment penalty (premium) which will be incurred. This situation will be monitored during the course of the year and in the event any debt rescheduling is done, it will be reported to the Members at the earliest meeting following its action.

3.19 Whilst the Council retains the flexibility to borrow funds in advance of requirement as a result of potential changes to market conditions i.e. a sharp rise in interest rates, it will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will ensure that funds are taken within the forward approved CFR estimates and that value for money can be demonstrated.

3.20 Any borrowing taken by the Director of Finance and Systems in advance of need will be done in accordance with delegated powers and within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period is to be obtained in this manner and
- the Council would not look to borrow more than 12 months in advance of need.

3.21 The Council's debt maturity profile is provided at Appendix 4 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for their respective market LOBO loans.

3.22 *The Council is required to approve;*

- *the above debt strategy and*
- *as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard to CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 3.*

4. Minimum Revenue Provision Strategy

4.1 The Council is required in accordance with MHCLG regulations to approve an MRP Statement in advance of each financial year. This Statement details how the Council will set aside annual amounts for the repayment of debt (by reducing the

CFR), through a revenue MRP charge and any additional Voluntary Revenue Payments (VRP).

4.2 *The Council is requested to approve the MRP Statement as detailed at Appendix 3.*

5. Investment Strategy

5.1 In accordance with both MHCLG and CIPFA guidelines, the term 'investments' now reflects both financial and non-financial investments. This report deals solely with financial investments, (as managed by the in-house treasury management team). Non-financial investments, essentially the Council's Asset Regeneration Investment Strategy, are covered in the Capital Strategy, (a separate report).

5.2 When the Council's in-house treasury management team places an investment, not only does it do so with regard to current legislation and guidance as highlighted below but also with regards to the outlook for short-term interest rates.

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

5.3 On each occasion when investments are made the primary principle will continue to be the same as that adopted in previous years of **SLY**, **S**ecurity of funds first, **L**iquidity second followed by **Y**ield.

5.4 Whilst the active use of Ethical investments is a topic of increasing interest to both members and officers, investment guidance, both statutory and from CIPFA, clearly states that all investing must follow the SLY principles with all ethical issues taking a subordinate role. The Council's in-house treasury management team will continue to both follow this principle and monitor the market in order to be able to take advantage of any new investment product which supports this aspect providing it complies with the current investment credit criteria.

5.5 The Council will aim to achieve the maximum return (yield) on its investments appropriate with proper levels of security and liquidity in line with the Council's risk appetite. In the current economic climate of low investment interest rates the Council is restricted in generating a significant return from its investments without exposing it to additional risk factors. It is easy to forget recent history of counterparties defaulting and ignore market warnings when searching for that extra return to ease revenue budget pressures. The Council will not undertake any investment transaction without thoroughly understanding the product and associated risks in full or in any institution which is paying considerably over and above market levels.

5.6 Funds making up the Council's investments derive from monies received in advance of spend requirement and from the balances and reserves which it holds. Whilst greater returns are usually obtainable by investing for longer periods, most cash balances are required to manage the ups and downs of the Council's day to day cash flows. Cash not required for immediate use may be invested for longer periods of time, however before doing so careful assessment to the value to be obtained from this is undertaken.

5.7 Guidance issued by both the MHCLG and CIPFA as identified at paragraph 5.2 places a high priority on the management of risk and whilst this will never completely be eliminated, it can be minimised. The Director of Finance and Systems will maintain a counterparty list with the assistance of LG specifying which institutions it can place funds with. By only placing funds with those institutions which appear on this list it reduces the risk of an institution defaulting, enables

diversification and avoids concentration risk. The key credit ratings used to monitor institutions are the short term and long-term ratings.

5.8 The Council will use UK institutions, including banks, building societies and local authorities together with banks located in a country which has a minimum Sovereign Long term credit rating of AA-. As well as detailing the criteria institutions must meet to enable them to be included onto the Council's approved lending list, within their respective category, Appendix 3 also specifies both the maximum value and duration funds can be placed at any one time.

5.9 Credit rating information is supplied by LG, the Council's treasury advisors, on all active counterparties that comply with the criteria above. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to an institution at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

5.10 This approach uses real time credit rating information provided by LG and enables an institution, should they meet or no longer meet the minimum credit criteria required to be immediately included on to or removed off the approved list.

5.11 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 5.

5.12 The Council's in-house treasury management team recognises ratings should not be the sole basis of determining the quality of an institution. It is important to continually assess and monitor institutions both on the economic and political environments in which they operate together with information that reflects the opinion of the markets. To achieve this, the Council will, with LG, monitor market pricing on additional factors such as "credit default swaps" (CDS) and overlay this information on top of the credit ratings. This additional market information is detailed for Members' reference at Appendix 5.

5.13 As a result of the current economic position, several of the banks the Council uses to place funds with, have either restricted the levels of funds permitted to be placed with them, are no longer in the market or have started to pay negative interest rates. In order to avoid a potential concentration of investments being placed in too few institutions, it is requested that the number of building societies permitted to be used within the Council's approved counterparty list be increased from 2 to 10. To facilitate this request it is proposed that building societies which have minimum net asset value of £2.5bln regardless of their credit ratings are added to the list of approved counterparties. The operation of building societies are greatly limited when compared to banks and therefore their inclusion onto the Council's approved list of counterparties will not have any adverse effect to the quality of institutions permitted to be used.

5.14 Investment instruments identified for use in the financial year together with institution limits are detailed in Appendix 3.

5.15 Members are asked to approve this base criteria, however the Director of Finance and Systems may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.

5.16 Investments will continue to be placed as follows;

- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same

period with bank call / notice accounts and money market funds being the main methods used for this purpose.

- Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and ultra-short dated bond funds.
- Long-term – cash not required to meet any immediate cash flow requirements and can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund.

5.17 Use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category and these will only be used where the Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator detailed at Appendix 3.

5.18 The level of the Council's investments together with the average interest rate, as at 31 December 2020, is provided for reference at Appendix 6.

5.19 *The Council is requested to approve the;*

- *adoption of the above Investment strategy and*
- *minimum criteria for providing a list of high quality investment institutions, instruments and limits to be applied as set out at Appendix 3.*

6. Investment Risk Benchmarking

6.1 The CIPFA Code of Practice and MHCLG Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to Members annually and details of these are provided in Appendix 5.

6.2 Benchmarks are simple guides (not limits) to maximum risk for use with cash deposits and so may be breached from time to time, depending on movements in interest rates and institution criteria. The purpose of the benchmark is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Members, with supporting reasons in the Mid-Year or Annual Report. For reference the benchmarks proposed are;

- Security -Each individual year the security benchmark is:

1 year investments	2 year investments	3 year investments
0.05%	**0.04%**	**0.09%**

Note - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment. At 31 December 2020 the Council's default rate of its investments placed was 0.008% which is 0.042% below the 1 year benchmark of 0.05%.

- Liquidity -Weighted Average Life (WAL) - benchmark for 2021/22 is set at 6 months, with a maximum of 3 years for cash time deposits;

  -Liquid short term deposits - at least £5m is available within a week's notice;

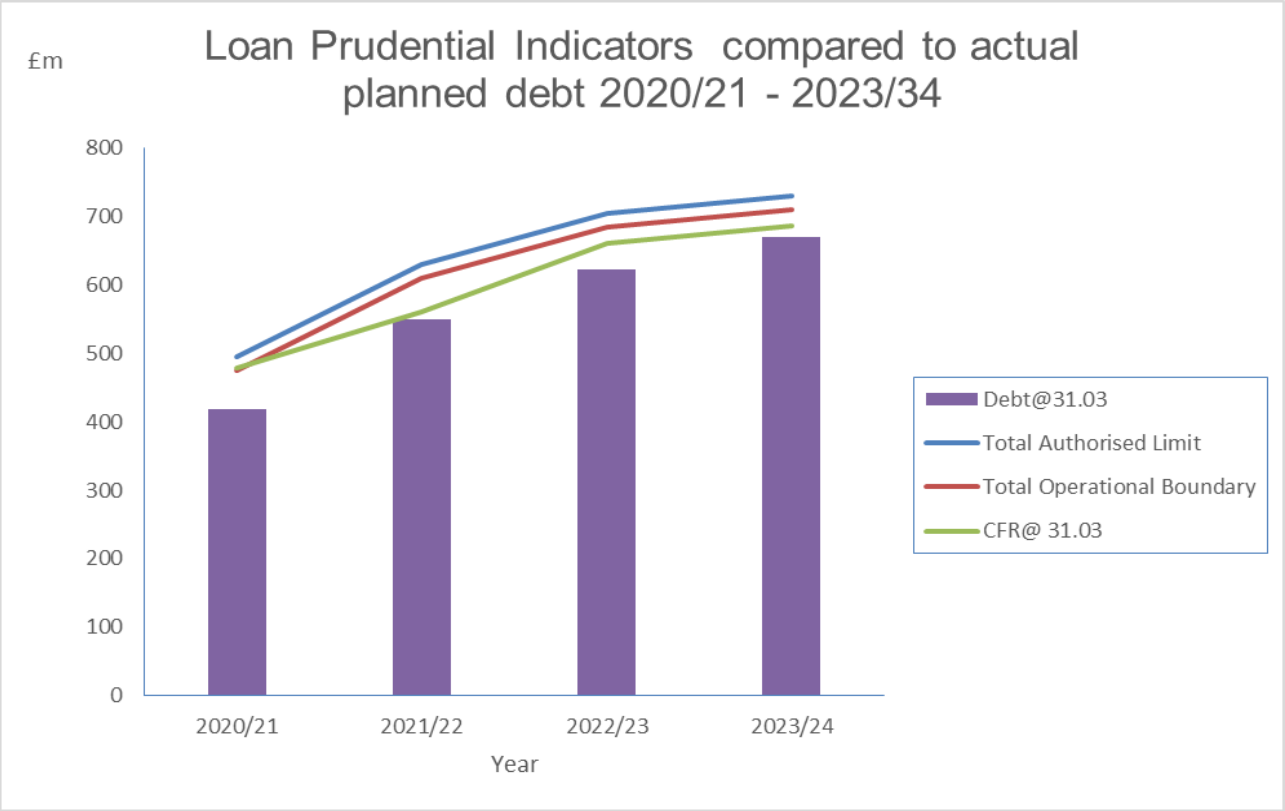
- Yield -Previously the Council aimed to achieve a return on its internally placed investments of greater than the 7 day London Interbank Deposit (LIBID) rate without sacrificing any security aspects. The Financial Conduct Authority (FCA) announced in July 2017 that it was to look at replacing this rate together with several other rates as they had become unreliable. It is expected that new replacement rates will

be in place by the end of 2021 and the Council will work with LG in determining a suitable replacement investment benchmark ahead of this and will inform members accordingly.

7. Prudential Indicators

7.1 A number of prudential indicators have been devised for the treasury management process and these have been prepared to assist managing risk and reduce the impact of an adverse movement in interest rate. These indicators have been set at levels which do not restrict day to day activities whilst at the same time ensure the Council's capital expenditure plans are prudent, affordable and sustainable.

7.2 The graph below shows how 2 of these prudential indicators (Authorised Limit and Operational Boundary) relate to potential levels of debt and *Members are requested to approve the full set of Prudential Indicators for the Council's treasury management activities as detailed at Appendix 3.*



8. Related Treasury Issues

8.1 Greater Manchester Pension Fund (GMPF). During April 2020, the Council along with several other Greater Manchester councils paid over to GMPF a discounted advance equivalent to 3 years' of employer pension contributions in order to take advantage of the pension fund's wider investment powers. This initial payment will have run its course by 31st March 2023.

8.2 Asset Investment Regeneration Strategy. During 2017/18 the Council introduced a programme to acquire suitable assets which will deliver significant regeneration benefits for the area and increase the Council's income generating capacity thereby enabling it to maintain the provision of services in future years.

8.3 Whilst investments under Asset Investment Regeneration strategy are made to support policy related activities and are therefore considered outside the treasury management of purely financial investments, their implementation will have an impact on the Council's cash flow and all such investments are therefore also

considered on each occasion in accordance with the principles set out in paragraphs 5.2 and 5.3 above.

8.4 International Financial Reporting Standards 9 (IFRS9). This was introduced in response to the 2008 financial crisis and is designed to generate transparency in the Council's accounts enabling the reader to fully assess the worth and risk of its financial instruments with any potential losses or profits being taken to the account in full in the year they occur. To mitigate against this MHCLG have issued a 5 year override expiring on 31 March 2023 which will enable councils to either arrange for a planned exit or for potential surpluses to be placed into an unusable reserve and applied to overcome those years when a downward revaluation occurs. Whilst IFRS 9 is primarily a re-classification not a re-valuation exercise, its introduction is not envisaged to have any major impact for the Council. Currently there is 1 investment which is effected by this re-classification and that is the CCLA transaction. Whilst this investment generates a return of approximately 4.5% to 5.0% per annum the Council's in-house team will;

- continue to monitor both the monthly valuations received for this investment and the quarterly market forecasts produced to ensure that any potential losses in valuation are kept to a minimum and
- consider setting aside a proportion of the annual interest received into a reserve for use to smooth out any potential losses.

9. Medium Term Financial Plan

9.1 Detailed for reference at Appendix 7 is a headline breakdown of the treasury management budgets for the period 2021/22 – 2023/24 split between Treasury and Non-Treasury activities. Whilst these budgets have been produced using the latest interest rate forecasts and predicted movements in the Council's income and expenditure plans, they will be subject to change due to factors beyond the Council's control i.e. interest rate movements.

10. Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.

That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2021/22 – 2023/24 including the:
- policy on debt strategy as set out in section 3;
- investment strategy as set out in section 5;

  Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Procedure Rules and relevant legislation. The MHCLG Guidance and CIPFA Code do not prescribe any particular treasury management strategy for Councils to adopt and there are an unlimited number of other options that the Council could consider as part of its treasury management activities. This report however outlines a clear and practical approach with an appropriate balance between risk management and cost effectiveness and is recommended by the Corporate Director of Finance and Systems.

Consultation

There are no applicable consultation requirements in respect of this report. Advice has been obtained from Link Group, the Council's external advisors.

Reasons for Recommendation

The Financial Procedure Rules, incorporating the requirements of the CIPFA Treasury Management Code of Practice requires that the annual strategy report is provided to the Council as an essential control over treasury management activities. In it the Council approves the parameters under which officers will operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and MHCLG Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

Key Decision

This will be a key decision likely to be taken in: February 2021

This is a key decision currently on the Forward Plan: Yes

Finance Officer Clearance **GB**

Legal Officer Clearance **JLF**

Corporate Director's Signature

APPENDIX 1

STATUTORY FRAMEWORK

Local Government Act 2003

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 3);
- The investment strategy in accordance with the MHCLG investment guidance (section 5);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). This Council adopted the Code of Practice on Treasury Management on 24 April 2002 and followed recommended practices by considering an annual Treasury Management Strategy before the commencement of each financial year. These Codes are revised from time to time and the Council complies with any revisions.

Investment Guidance

MHCLG issued Investment Guidance in 2018 and this forms the structure of the Council's Investment policy as set out below:

- The strategic guidelines for decision making on investments, particularly non-specified investments;
- Specified investments that the Council will use. These are high security (no guidelines are given defining what this should consist of and each individual Council is required to state what this should be i.e. high credit ratings), high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time;
- The principles to be used to determine the maximum periods for which funds can be committed.

APPENDIX 2

MAIN 2020 ECONOMIC HEADLINES

GLOBAL-

- A new worldwide pandemic caused by the spread of the coronavirus resulted not only in a large number of tragic deaths but also generated a downturn in the world economy as governments imposed lockdowns in order to try and reduce the spread of this new virus.
- Scientists have now developed successful vaccines to help combat the virus and these are now starting to be administered.
- The International Monetary Fund (IMF) predicts that the world economy will shrink by 4.4% in 2020 and expects the global growth to be slow and gradual.
- Extreme global poverty is set to rise for the first time in more than two decades.

UK-

- In order to restrict the spread of the coronavirus, an initial National lockdown in March 20 lasting to the beginning of July 20 was implemented by the Government. This was followed by local area lockdowns/restrictions and further national lockdowns were implemented in November 20 and January 21.
- News that safe and effective coronavirus vaccines had been developed were first announced in November and these started to be administered in December 20. Whilst a comprehensive roll-out of vaccines might take into late 2021 to fully complete, it is hoped that if these vaccines are successful current restrictions will begin to be relaxed enabling for an improved economic outlook. It should be noted that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.
- During the first half of 2020 the economy shrank by 21.8% and whilst a recovery was seen to be taking effect, the economy was down by 7.9% from the pre-pandemic level of February 2020. Overall, the pace of recovery is not expected to have a quick bounce back but a more elongated and prolonged one taking until the end of 2022 for it to fully recover to February 2020 levels.
- Public borrowing for 2020/21 is now forecast by the Office for Budget Responsibility (OBR) to reach £394bn by March 2021, the highest level ever in peace time and equivalent to 19% of GDP. In the current climate of low interest rates the Government is able to lock in at historic low levels enabling the interest paid by the Government to be manageable despite the huge increase in the total amount of debt which at the end of October 2020 was £2.08 trillion.
- Consumer Price Index (CPI) which started the year off at 0.8% in April reduced to 0.3% in November 2020 which is 1.7% below the Bank of England's target of 2%.
- The Monetary Policy Committee, (MPC) in response to the outbreak of the coronavirus reduced Bank Rate twice in March 2020 from 0.75% to 0.10% and increased Quantitative Easing from £445bn to £895bn in November 2020. It also squashed any idea of using negative interest rates, relying on other instruments it has available such as QE and the use of forward guidance.

- Unemployment rose from an opening position of 4.0% in April 2020 to 4.8% in September and is currently set to peak in the middle of 2021 at 8%. It is hoped that following a successful roll out of vaccines that activity in restaurants, travel and hotels will return to their pre-pandemic levels, which would help to bring the unemployment rate down.
- Brexit trade negotiations produced a successful outcome ahead of the 31 December 2020 deadline although it is too early to be sure how this will impact on the economies of both the UK and Eurozone.

Eurozone –

- The economy was recovering well towards the end of Quarter 2 and into Quarter 3 2020 after a sharp drop in GDP caused by the virus. However, growth is likely to stagnate during Quarter 4, and Quarter 1 of 2021, as further waves of the virus affects many countries, with those countries more dependent on tourism being likely to be hit the hardest.
- The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide an appreciable difference in the worst affected countries.
- Inflation is not expected to get much above 1% over the next two years and this is well below the European Central Bank target of 2%. It is currently unlikely that the ECB will cut its central rate even further into negative territory from its current level of -0.5%.

US –

- The outcome of the November 2020 Presidential elections resulted in Joe Biden, Democrat, being returned as the 46th President.
- The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%.

China-

- After an intensive effort by the Chinese Government to get on top of the coronavirus outbreak in Quarter 1, economic recovery was strong in both Quarter 2 and Quarter 3 thereby enabling China to recover all of the contraction it suffered in Quarter 1.
- Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets.

MAIN ECONOMIC FORECASTS FOR 2021

Producing accurate economic forecasts continues to be an extremely difficult task due to the many external factors which have an impact on them, particularly more so in the current pandemic climate. Forecasters are currently predicting the following levels of activity for the year ahead however these will be liable to change as the year progresses;

Indicator	UK	Eurozone	US	China
Gross Domestic Product	3.2%	4.0%	3.7%	5.6%
Consumer Price Index	1.9%	1.4%	1.5%	1.9%
Unemployment Rate	7.4%	8.8%	6.5%	5.4%
Bank Rate	0.10%	0.0%	0.25%	3.70%

Source - Trading Economics

ELEMENTS FOR COUNCIL APPROVAL

(including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with the current MHCLG Guidance, CIPFA Treasury Management Code of Practice, each council is required to set before the commencement of each financial year Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2021/22 – 2023/24 as detailed below.

TREASURY PRUDENTIAL INDICATORS AND LIMITS –

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the projected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and Council is required to approve the prudential indicators and limits affecting treasury management performance as shown below;

Authorised Limit for External debt	**2020/21 estimate £m**	**2021/22 estimate £m**	**2022/23 estimate £m**	**2023/24 estimate £m**
General capital programme	190.0	225.0	225.0	225.0
Regeneration projects	300.0	400.0	475.0	500.0
Other long term Liabilities (PFI)	4.5	4.5	4.0	3.5
Total	**494.5**	**629.5**	**704.0**	**728.5**

Authorised external debt limit - This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing "off balance sheet" leased assets onto the balance sheet in compliance with IFRS 16. This statutory limit as determined under section 3(1) of the Local Government Act 2003 needs to be approved by Council prior to the commencement of each financial year.

Operational Boundary for External debt	**2020/21 estimate £m**	**2021/22 estimate £m**	**2022/23 estimate £m**	**2023/24 estimate £m**
General capital	170.0	205.0	205.0	205.0
Regeneration projects	300.0	400.0	475.0	500.0
Other long term Liabilities (PFI)	4.5	4.5	4.0	3.5
Total	**474.5**	**609.5**	**684.0**	**708.5**

Operational boundary - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.

Upper limit for Principal sums invested over 1 Year	2020/21 estimate £m	2021/22 estimate £m	2022/23 estimate £m	2023/24 estimate £m
	100.0	**100.0**	**100.0**	**100.0**

Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements. Included within this limit are the Manchester Airport Shares which at 31 March 2020 were independently valued at £30.2m, the Church Commissioners Local Authorities Property Investment Fund investment of £5m and Commercial asset loan £17.6m.

Upper limits	2020/21 estimate £m	2021/22 estimate £m	2022/23 estimate £m	2023/24 estimate £m
Fixed interest rate exposure based on net debt	9.5	9.5	9.5	9.5
Variable interest rate exposure based on net debt	1.0	1.0	1.0	1.0

Upper Interest Limits – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council's debt position net of investments.

Maturity structure of all external loan debt – 2021/22 to 2023/24	Lower limit %	Upper limit %
Under 12 months	0	40
12 months to 2 years	0	40
2 years to 5 years	0	40
5 years to 10 years	0	40
10 years to 20 years	0	40
20 years to 30 years	0	40
30 years to 40 years	0	70
40 years and above	0	90

Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and reflect the next date on which the lending bank can amend the interest rate for any Lender Option Borrower Option loans the Council currently has.

Gross Debt and the Capital Financing Requirement – this reflects that over the medium term, debt will only be for capital purposes. The Director of Finance and Systems will ensure that:

- all external debt does not exceed the capital financing requirement with any exceptions being reported to Council and
- this requirement has been complied with in the current year and does not envisage difficulties for future years taking into account current commitments.

All the treasury prudential indicators and limits are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

MINIMUM REVENUE PROVISION - (no changes)

In accordance with the current MHCLG Guidance, the Council shall determine an amount of minimum revenue provision that it considers to be prudent and submit an MRP Statement setting out its policy for the annual MRP to Council for approval. The following MRP Statement has been prepared in accordance with the Council's accounting procedures and is recommended for approval:

- **Capital expenditure financed by Supported Borrowing:** MRP will be calculated on a straight line basis over the expected average useful life of the assets (50yrs);
- **Capital expenditure financed by Prudential Borrowing:** MRP will be based on the estimated life of the assets once operational and charged on a straight line or annuity basis in accordance with MHCLG guidance;
- **Asset Investment Strategy financed by Prudential Borrowing:** Voluntary Revenue Provision (VRP) using the periods stipulated within the MHCLG Guidance of up to 50 years will be applied. By adopting this approach it will enable the Council upon the sale of each asset, to either apply the capital receipt or use the VRP receipts to extinguish debt taken. If the capital receipt is applied then the VRP previously set-aside will have been undertaken for no purpose and therefore can be reclaimed. Annual reviews are undertaken to ensure that this policy remains prudent and as at 31 March 2020 the total VRP overpayments were £2.553m and are forecasted to total £4.670m by 31 March 2021.
- **PFI schemes and leases shown on the balance sheet:** MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure any final bullet payment can still be made in 2028/29;
- **Expenditure that does not create an asset:** this is where the Council through the Asset Investment Strategy has made equity investment with Joint Venture companies with VRP being provided and calculated on a straight line basis for periods up to 50 years. Whilst this is a departure from statutory guidance for equity it is equivalent to the period allowed for Investment Property;
- **Use of a Capitalisation Direction**: Expenditure incurred in response to the issuance of a Capitalisation Direction by Central Government, MRP will be made over a period not exceeding 20 years, in accordance with the 2018 Guidance;
- **Lending to a third party**: In instances where the Council lends funds to a third party and in accordance with the guidelines issued (February 2018) by the Secretary of State, MRP is required to be provided over the useful life of the asset created. The Council in this instance will not follow the guidance but rather treat any advance as "Serviced debt" and therefore no MRP will be set-aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.

INVESTMENT CRITERIA – (minor changes to policy as highlighted)

Counterparty Selection

- The Council will only use institutions which are located in the UK or from a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria, is highlighted below and where credit ratings have been issued, both the Long and Short term rating from 2 of the 3 main agencies will need to meet the minimum required. The requirements shown

below for categories 1 to 5 and 7 will be applied to both Specified and Non-specified investments. Category 6 applies only to The Church Commissioners Local Authorities Property Investment fund.

The limits shown in the table below are set at a contingency level and operationally monies will be placed with a number of institutions with a maximum 20% of the portfolio being placed with any one institution at the time each investment is made. This situation will be monitored during the course of the year with any corrective action being undertaken at the first opportunity without any financial penalty being incurred.

	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 1 – • UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), • UK Building Societies Institutions must also have an individual minimum short term credit rating of – Fitch F1 or equivalent.	AA to AAA A+ to AA- A- to A	£75m £25m £10m	3yrs 1yr 1yr
Category 2 – UK Building Societies which are unrated or do not meet the minimum ratings as per Category 1 with assets in excess of; ➢ £5bln+, ➢ £2.5bln - £4.99bln	- -	£5m £3m	1yr 1yr
Category 3 – UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.	-	£20m	1yr
Category 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria.	-	n/a	1day
Category 5 – • Pooled Investment Vehicles: ➢ Money Market Funds ➢ Ultra-Short Dated Bond Funds • Social & Ethical funds • UK Government (including treasury bills, gilts and the DMO) • Local Authorities • Supranational Institutions	AAA AA - - - -	(£20m per fund) (£15m per fund) (£5m per fund) (£20m) (£10m per LA) (£20m)	3yrs 3yrs 10yrs 3yrs 3yrs 1yrs
Category 6 – • Local Authority Property Investment fund	-	£10m	10yrs

Cont.	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 7 – • Support the Asset Investment Regeneration Strategy	-	£50m	5yrs

Specified and Non Specified Investments – (minor changes to policy as highlighted)

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- Specified investments are high security and liquid investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within one year if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small.
- Non specified investments are any other type of investment not defined as specified above. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity. A maximum of £100m is permitted to be held in this classification as detailed on page 21, Prudential Indicator Upper limit for sums invested over one year.

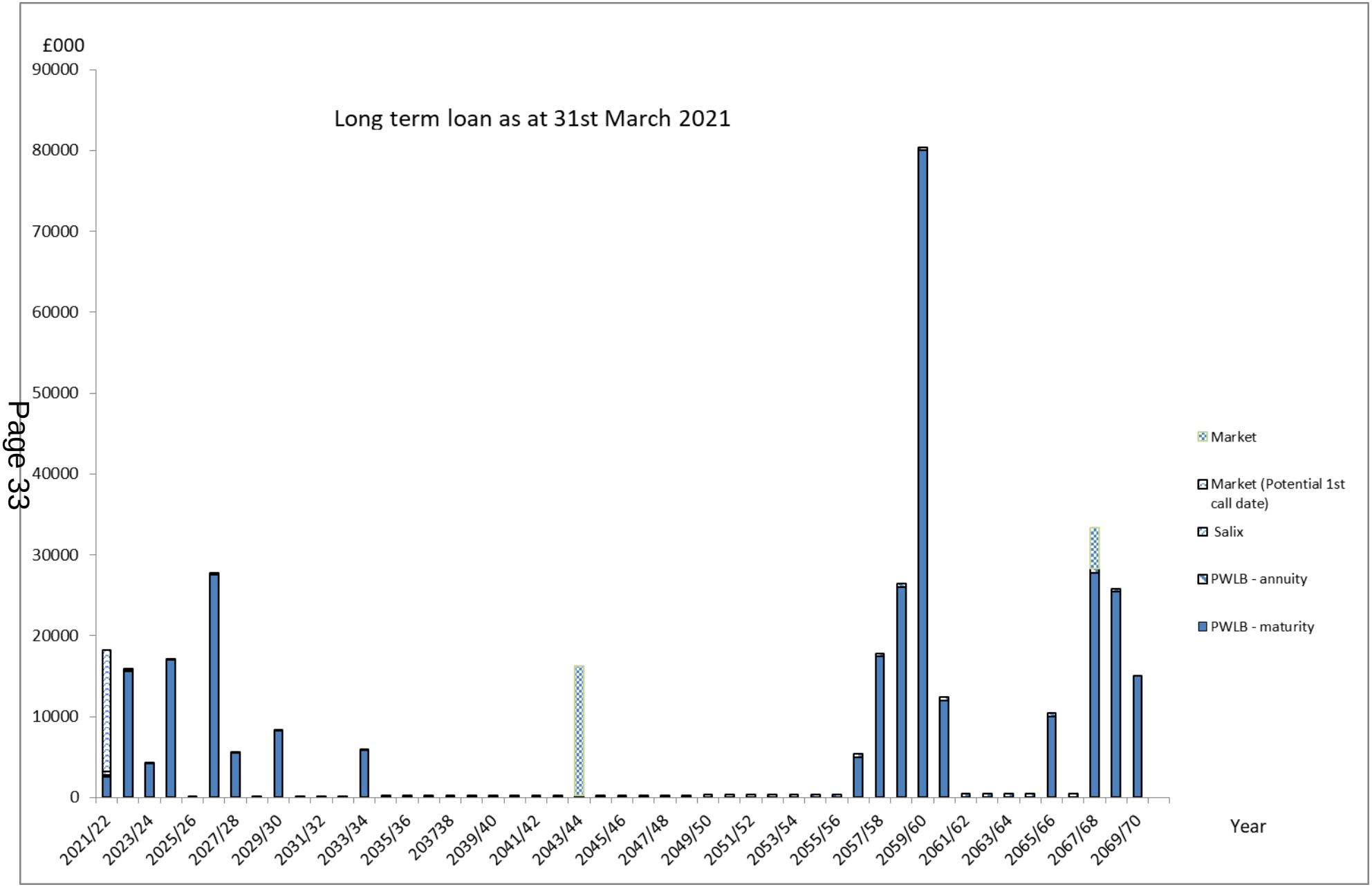
Instruments & Maximum period

All Investments will be undertaken in Sterling in the form of Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Bonds, Gilts or Certificates of Deposits unless otherwise stated below;

Specified Investments	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. International Monetary Fund)	1 Year
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	1 Year
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year

Non-Specified Investments	**Maximum Maturity**
Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. World Bank). The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall and losses may accrue if the bond is sold prematurely.	3 Years
Gilt edged securities. These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria for Category 1 institutions detailed on page 23 with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).	3 Years
Building societies The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £2.5bln but will restrict these type of investments as shown for Category 2 institutions on page 23.	1 Year
The UK Government including Local Authorities and Debt Management Office.	3 Years
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	10 Years
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £30.2m as reported in the 2019/20 Statement of Accounts. It is not envisaged that this type of investment will be undertaken in the future.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.	Term of loans

Non-Specified Investments cont.	**Maximum Maturity**
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years
Support the Asset Investment Regeneration Strategy - where external borrowing to support the investment would not be in accordance with the CIPFA Prudential Code.	5 Years


£000
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
Long term loan as at 31st March 2021
Market
Market (Potential 1st call date)
Salix
PWLB - annuity
PWLB - maturity
2021/22
2023/24
2025/26
2027/28
2029/30
2031/32
2033/34
2035/36
203738
2039/40
2041/42
2043/44
2045/46
2047/48
2049/50
2051/52
2053/54
2055/56
2057/58
2059/60
2061/62
2063/64
2065/66
2067/68
2069/70
Year

APPENDIX 4

APPENDIX 5

INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

The Council receives credit rating advice from its treasury management advisers as and when ratings change and institutions are checked promptly to ensure they comply with the Council's criteria. The criteria used are such that any minor downgrading should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately and if required new institutions which meet the criteria will be added.

		Credit Rating Agency		
Classification	**Description**	**Fitch (Minimum)**	**Moody's (Minimum)**	**Standard & Poors (Minimum)**
Short Term	Ensures that an institution is able to meet its financial obligations within 1 Year	F1 (Range **F1+, F2 A** to **D**)	P1 (Range **P1** to **P3**)	A1 (Range **A-1,** to **C**)
Long Term	Ensures that an institution is able to meet its financial obligations greater than 1 Year	A- (Range **AAA** to **D**)	A3 (Range **AAA** to **C**)	A- (Range **AAA** to **CC**)

The Council's list of Investment institutions is prepared primarily using credit rating information, full regard is also given to other available information on the credit quality of each institution in which it invests. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS were first created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the debt would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by management advisors – this may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

Investment Limits

In order to further safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

Investment Risk benchmarking

Security and liquidity benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

Security - A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows average defaults for differing periods of investment grade products for each of Fitch, Moody's and Standard and Poors long term rating category over the period 1981 to 2019. The Council can generally place investments up to a maximum period of 3 years and for this purpose will only use high rated institutions in order to ensure any potential risk in the form of defaults are kept to a minimum. Investments placed over 1 year but up to 3 years are placed with higher rated institutions in order to ensure that any potential risk of default as highlighted in the table below is kept to a minimum.

Long term rating	Average 1 yr default	Average 2 yr default	Average 3 yr default	Average 4 yr default	Average 5 yr default
AAA	0.04%	0.10%	0.17%	0.26%	0.35%
AA	0.02%	0.04%	0.09%	0.16%	0.24%
A	0.05%	0.15%	0.27%	0.40%	0.55%
BBB	0.15%	0.40%	0.70%	1.05%	1.41%
BB	0.65%	1.84%	3.22%	4.60%	5.84%
B	2.76%	6.66%	10.26%	13.35%	15.82%
CCC	18.96%	26.64%	31.60%	35.08%	37.88%

The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in an institution with a "A-" long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average as any specific institution loss is likely to be higher.

Liquidity – The current CIPFA Treasury Management Code of Practice defines this as "*having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business/service objectives"*.

The availability of liquidity and the period of risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio (shorter WAL would generally represent less risk).

APPENDIX 6

INVESTMENT & EXTERNAL DEBT POSITION – December 2020

	Principal £m	Average Rate %
DEBT		
Commercial Regeneration Programme		
Fixed rate:		
- PWLB	200.6	2.23
- Market	30.0	0.14
Total	***230.6***	***1.96***
General Capital Programme		
Fixed rate:		
- PWLB	127.7	2.87
- Salix	1.5	0.00
- Market	21.0	4.79
Sub-total	***150.2***	***3.11***
Variable rate:		
- PWLB	0.0	0.0
- Market	15.0	4.24
Sub-total	***15.0***	***4.24***
Total	**165.2**	**3.22**
Grand Total debt	**395.8**	**2.48**
INVESTMENTS		
Internally managed		
Fixed rate	(25.5)	0.37
Variable rate	(46.7)	0.04
Sub-total	**(72.2)**	**0.16**
Externally managed		
Church Commissioners Local Authority	(5.0)	4.52
Asset Investment Programme	(17.6)	n/a
Sub-total	**(22.6)**	**3.77**
Total Investments	**(94.8)**	**1.06**
NET ACTUAL DEBT	**301.0**	

APPENDIX 7

SUMMARY MEDIUM FINANCIAL PLAN 2021/22-2023/24

Non-Treasury items

	2021/22 £000	2022/23 £000	2023/24 £000
Loan Interest	4,654	4,156	3,432
Loss of Investment interest	51	51	51
VRP	2,124	2,128	2,132
TOTAL	6,829	6,335	5,615

Treasury items

	2021/22 £000	2022/23 £000	2023/24 £000
Net Interest payable	5,666	5,901	5,851
Net MRP payable	5,311	5,701	5,858
Net Interest receivable	(551)	(602)	(709)
Other Income - MAG	(3,528)	(3,528)	(6,625)
TOTAL	6,898	7,472	4,375

APPENDIX 8

NON-TREASURY INVESTMENT ACTIVITIES

Details of the actual spend and commitments on the Council's non-treasury activities are outlined below:

Description	£m	Purpose
General		
Manchester Airport Group	35.2	Regeneration – 4 Shareholder loans
Homestep	0.7	Regeneration – Capital loan monies advanced to assist first time buyers to acquire property within Trafford
Town Centre	0.2	Regeneration – Capital loan monies advanced to assist businesses occupy empty high street units within Trafford.
Sub-total	**36.1**	
Asset Regeneration Schemes		
Sonova House - Warrington	12.2	
DSG - Preston	17.4	
The Grafton Centre - Altrincham	10.8	
Magistrates Courts - Sale	4.1	
The Fort - Wigan	13.9	
Sainsbury's Altrincham	25.6	
Former Sorting Office - Stretford	0.9	
The Crescent - Salford	0.0	Loan of £44.3m is currently being repaid and is set to be completed this financial year
CIS - Manchester	60.0	
Altrincham & Stretford Shopping Malls - Equity contribution Trafford / Bruntwood loan	 25.5 25.6	
K Site Old Trafford - Equity contribution Trafford / Bruntwood loan	 12.3 12.3	
Brown Street Hale	7.5	
The Hut Group - Manchester	67.5	
Castle Irwell - Salford	19.0	
Various Development sites	0.5	
Sub-total	**315.1**	
TOTAL	**351.2**	

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TRAFFORD COUNCIL
Report to: Executive
Date: 25 January 2021
Report for: Information
Report of: The Executive Member for Finance and Governance and the Corporate Director of Finance and Systems

Report Title:

Budget Monitoring 2020/21 – Period 8 (April to November 2020).

Summary:

The purpose of this report is to inform Members of the current 2020/21 forecast outturn figures relating to both Revenue and Capital budgets. It also summarises the latest forecast position for Council Tax and Business Rates within the Collection Fund.

Recommendation(s)

It is recommended that the Executive:

a) note the updated positions on the revenue budget, collection fund and capital programme.

b) note the movements in earmarked reserves.

Contact person for access to background papers and further information:

David Muggeridge, Finance Manager, Financial Accounting Extension: 4534

Background Papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not Applicable
Financial	Revenue and Capital expenditure to be contained within available resources in 2020/21.
Legal Implications:	None arising out of this report
Equality/Diversity Implications	None arising out of this report
Sustainability Implications	None arising out of this report
Resource Implications e.g. Staffing / ICT / Assets	Not applicable
Risk Management Implications	Not applicable
Carbon Reduction	Not applicable
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Other Options

Not Applicable

Consultation

Not Applicable

Reasons for Recommendation

Not Applicable

Finance Officer Clearance *…GB……*
Legal Officer Clearance *……JLF……*

CORPORATE DIRECTOR'S SIGNATURE ……

EXECUTIVE SUMMARY

- The approved budget for 2020/21 is £175.52m; as at Period 8 an underspend of £2.108m is forecast (overspend £220k at Period 6). See Table 1.

- The positive movement since the last monitoring report of £2.328m mainly relates to the reforcasting of in-year demand on children's and adult placements and release of contingency budgets. (Table 2 provides detail of all the service variances).

- It is fair to say there still remains significant risk and therefore caution needs to be attached to these projections. At the time of drafting this report, the Government has just announced the latest national lockdown commencing on 5th January 2021. It is now likely that further pressures will be experienced, particularly regarding income from traded services. Some of these pressures will be offset by the various packages of Government support already in place, such as the Sales, Fees and Charges Compensation Scheme. In addition, as mentioned in the previous monitor, the Council received an additional £2.23m to accommodate winter pressures relating to COVID-19. Due to the uncertainty surrounding the increased costs related to this latest announcement, the full amount of the additional grant is held in a contingency reserve to cover the expected pressures.

- Gross Covid-19 financial pressures are estimated at £51.212m, representing a small reduction from period 6. The net impact after Government support and other contributions is £4.574m (See Para 28) which have been offset by other potential savings across other service and corporate contingency budgets, such as adult placement costs and staffing vacancies, which if fully realised should help mitigate the overall Covid-19 pressures to arrive at a net underspend of £2.108m.

- **Council Tax** - forecasting a deficit of £5.307m which is an adverse movement of £580k from Period 6. Improvements have been seen in collection rates, however this has been offset by pressures in our tax base due to an increase in discounts and reliefs. (See Para 8.)

- **Business Rates** continues to be a complex area and prone to variation which has been exacerbated by the impact of Covid-19. An in-year deficit of £3.5m is still forecast. (See Para 17).

- The Government has issued exceptional guidance duing the year which allows authorities to spread the full deficits on the collection fund balances for council tax and business rates over the next three financial years and will therefore have a neutral impact in the current year. Without this flexibility the pressure on the Council's budget in 2020/21 would have been a further £8.8m.

- **Reserves Movements** – Any final in-year underspend in 2020/21 will be transferred to the Budget Support Reserve; in addition work is continuing with GMCA over the release of other reserves. These will be used to mitigate the risks on the budget in future years. (See Para 4).

- **Capital Programme -** Minor rephasing to the general programme of £2.5m; projected capital expenditure is £40.3m in 2020/21 (See Para 33). At this stage of the year (97%) of the budget has now been committed or is programmed to start in the year. This is an improved position compared to previous years in part due to the approval of the full programme in February 2020, particularly on highways, corporate building repair and parks programmes.

REVENUE BUDGET

1. Detailed below in Table 1 is a summary breakdown of the service and funding variances against budget, with Table 2 providing an explanation of the variances:

Table 1: Budget Monitoring results by Service	**2020/21 Budget * (£000's)**	**Forecast Outturn (£000's)**	**Forecast Variance (£000's)**	**Percent-age**
Children's Services	42,095	41,477	(618)	(1.5)%
Adult Services	49,385	49,596	211	0.4%
Public Health	12,381	12,404	23	0.2%
Place	29,360	36,612	7,252	24.7%
Strategy and Resources	5,128	7,701	2,573	50.2%
Finance & Systems	7,900	7,673	(227)	(2.9)%
Governance & Community Strategy	6,518	6,689	171	2.6%
Total Directorate Budgets	**152,767**	**162,152**	**9,385**	**6.1%**
Council-wide budgets	22,755	15,984	(6,771)	(29.8)%
Net Service Expenditure variance	**175,522**	**178,136**	**2,614**	**1.5%**

Funding				
Business Rates	(65,792)	(65,792)		
Council Tax	(103,990)	(103,990)		
Reserves Budget Support	(4,524)	(4,524)		
Reserves to Support COVID-19		(4,722)	(4,722)	
Collection Fund surplus	(1,216)	(1,216)		
Funding variance	**(175,522)***	**(180,244)**	**(4,722)**	**(2.7)%**
Net Revenue Outturn variance	**0**	**(2,108)**	**(2,108)**	**(1.2)%**
Dedicated Schools Grant	**139,392**	**140,858**	**1,466**	**1.1%**

Budget Adjustments and Virements

* There have been a number of virements across Directorates since Period 6, as detailed in Appendix 1.

Main variances, changes to budget assumptions and key risks

2. The main variances contributing to the projected overspend in service budgets of £2.614m, any changes to budget assumptions and associated key risks are highlighted below:

Table 2: Main variances	**Forecast Variance (£000's)**	**Explanation/Risks**
Children's Services	(618)	**Projected outturn variance £618k favourable; a favourable movement of £1.316m since period 6.** The coronavirus pandemic continues to have an impact on the service both in terms of changes to its service delivery and finances. The estimated pressures are outlined below: • The overall savings target for the service of £1.611m, is anticipated to be achieved; • Anticipated increase in overall demand in placements/early support of £782k, a favourable movement of £1.024m (Note 1); • Underspend on staffing budgets of £1.724m, an adverse movement of £151k (Note 2); • Additional transport costs of £425k, a favourable movement of £214k (Note 3); • £321k under budget on other running costs and income across the service; a favourable movement of £159k (Note 3); • Loss of income due to COVID of £220k, a favourable movement of £70k, mainly seen at the two nurseries and those service areas unable to provide face to face training; **Note 1** Current projections indicate there is an estimated overspend of £782k on children's placements, a favourable movement of £1.024m; The service has not seen the increase in demand it had anticipated due to the Coronavirus pandemic and has therefore revised its projections this year. At this stage it is felt that the potential impact from the pandemic may fall into the following financial year and if this arose would need to be financed from contingency budgets. The numbers of children as at the end of November 2020 are as follows:- • children in care 391, an increase of 4; • child protection is 229, an increase of 11; • children in need 748, an increase of 76.

		The above position assumes that £1.611m of the original savings target will be achieved in full and as at the end of September 2020 £1.540m of this has been achieved. A contingency of £551k is also included to cover any further demand and potential timeline changes to the anticipated reductions mentioned above. **Note 2** There are underspends in staffing of £1.724m; this is an adverse movement of £151k which is mainly due to a temporary extension of agency staff. These staffing delays this year are one-off in nature as the service undertakes its service redesign which will be in place in 2021/22. **Note 3** The adverse variance in running costs across the service is £58k; a favourable movement of £396k. The reasons for this favourable movement are as follows:- • Home to School transport favourable movement of £214k. This includes a favourable movement of £200k on business as usual due to new contracts being negotiated in September, and a favourable movement of £14k for social distancing requirements which are less than originally anticipated. • Additional grant/income favourable movement of £144k • Minor variances favourable movement of £38k.
Adult Services	211	**Projected Outturn variance £211k adverse, a favourable movement of £649k since period 6.** The coronavirus pandemic is continuing to have a significant impact on the service both in terms of changes to its service delivery and finances. The areas of estimated pressures are outlined below: • The overall savings target for the service was £1.348m, of which £949k is not anticipated to be achieved, no movement; • Payments to care providers of £1.469m to meet additional costs, no movement; • £2.840m below budget on Adult clients; a favourable movement of £1.590m. (Note 1); • £407k below budget due to vacancies and one off savings, favourable movement of £59k (Note 2); • Additional Personal Protective Equipment £518k of which £478k is recovered from the CCG and £40k is met by the Council, no movement to the Council; • £1.0m support to the disabled facilities grant for 21/22 (Note 3).

		Note 1 Adult Clients currently projects a £2.840m favourable variance; £1.590m favourable movement since period 6. This budget has and continues to increase in both its complexity and volatility as a result of the coronavirus pandemic. The movement from P6 is due, in part (£590k), to the amount previously estimated from those packages of care that have either transferred to the CCG as continuing health care (CHC) or from client contributions, once financial assessments have been undertaken, is higher than anticipated. In addition to this the P6 monitoring report included provision for an anticipated increase in client demand of £1m following the isolation of many vulnerable people within the population both due to increased physical need and mental health support. The P8 monitoring has indicated that the anticipated pressure has not presented itself as early as was anticipated and it is now felt that the increased pressure will be realised over the medium term. The provision for this has therefore been removed. The current forecast cost for those care packages still awaiting determination as outlined above is £1.048m. At this stage an estimate has been included of £241k (just over 20%) as to the amount that will either transfer to the CCG as continuing health care (CHC) packages or from client contributions once financial assessments have been undertaken. It should be noted that this estimate again has the potential to vary due to the individual needs and financial circumstances of each client who has been in receipt of a COVID-19 funded care package which are not known at the time of calculating the estimate. Within the projection there is a contingency of £418k set aside for additional increases in demand/cost pressures throughout the rest of the financial year. **Note 2** The current forecasts indicate there is a favourable variance of £407k; a favourable movement of £59k. This is due to the following:- • £296k favourable variance on staffing due to vacancies; favourable movement of £33k; • £159k favourable variance on client equipment and maintenance due to the impact of COVID-19; favourable movement of £26k; • £48k adverse variance on contracts; no movement. In addition to this there are further estimated costs as outlined below:- • £9.188m which will be met by the CCG from their allocation given by NHSE for hospital discharges;

		• £4.246m for infection control for care providers which will be met by government grant; • £133k for the clinically extremely vulnerable which will be met by government grant. **Note 3** Due to an anticipated demand and therefore additional pressures on the capital budget for disabled facilities grants in 21/22, £1.0m of the adults underspend this year will be set aside in the capital reserve to support this budget in 21/22.
Public Health	23	**Projected Outturn variance £23k adverse, adverse movement of £1k from P6.** All of this variance, £23k, is projected as COVID-19 related council spend on staffing. An adverse movement of £1k from P6. Currently there is a projected underspend on business as usual of £393k which is as a result of a refund from the Pennine contract last year of £205k and a projected reduction in costs for activity based areas of £188k e.g. sexual health services. However, discussions with Manchester Foundation Trust on the community contract for 2021/22 have yet to take place and therefore this underspend is to be ring-fenced in a public health reserve until final contract negotiations have been finalised. In addition to this there are further estimated costs due to COVID-19 of £1.457m for the test and trace service which will be met by a specific government grant.
Place	7,252	**Projected outturn variance £7.252m adverse, an adverse movement of £430k since period 6.** **The forecast pressures include:** • COVID-19 related income losses are £5.863m, a reduction of £299k mainly related to Leisure. The overall loss includes Parking fees and fines £929k, property rentals £813k, outdoor media advertising £568k (reduction of £43k), planning fees £560k (increase of £2k), licencing fees £239k, building control fees £168k, highways permits and grants £161k (reduction of £3k), street trading £114k, pest control £33k (£5k reduction) and trade waste £117k. The figures also include the potential requirement to support Trafford Leisure which has estimated trading deficits for 2020/21 due to the various COVID-19 restrictions from the Government to date and assumed for the remainder of the year, as reported previously. Trafford Leisure are working closely with the Council to monitor finances and mitigate the budget pressures as far as possible within the various operational restrictions; • COVID-19 expenditure pressures are £1.139m and have increased by £31k overall. The overall pressure includes

		£555k in expected additional waste disposal costs based on latest tonnage estimates and £215k related to waste collection, £140k for rough sleepers, £50k for inclusive neighbourhoods, £50k for high street reopening, £35k traffic management, £22k play areas, £61k operational buildings (increase of £31k) and £11k staff overtime. There are also additional costs of £193k fully offset by additional specific COVID-19 grants of £107k for "COVID Marshals", £20k for Rough Sleepers and £66k for Public Protection. • Other non-COVID-19 forecast pressures include £262k relating to property costs, including those awaiting disposal or redevelopment, and also provides for £94k of aborted development costs relating to Altrincham and Stretford Leisure Centres. There is a shortfall in building control income £161k, following on from the end of 2019/20, and community safety CCTV £34k. These are offset by additional income above budget for Altair £120k and other rents £19k; • There is an overall staffing underspend of £546k relating to actual and forecast vacancies for the year (excluding the ring-fenced Planning account), which is approximately 8.5% of the staffing budget. This is £52k higher than last reported; • The Planning service is a ring-fenced account and has a forecast underspend of £238k in staffing and running costs which can be utilised to offset the COVID-19 income pressure for Planning application fees above. • The Strategic Investment Property Portfolio will deliver a net benefit to the revenue budget in 2020/21 of £6.71m. This is £721k lower than budgeted due to economic factors affecting some of the income particularly from the town centre investments (see paragraph 44 for further details).
Strategy and Resources	2,573	**Projected outturn variance £2.573m adverse, a favourable movement of £153k since period 6.** **This includes COVID-19 pressures of £2.680m, a favourable movement of £186k since period 6:** • Trading losses in the overall outturn includes £2.047m in Catering (reduction of £107k) and £15k in Cleaning (reduction of £35k) and £336k in the Music Service (reduction of £47k). The net loss of income from staff parking is now £185k (reduction of £21k) and there is also £6k loss of other SLA income (unchanged); • Cost pressures include £46k relating to Stop Gap staffing (increase of £26k) and £45k for COVID-19 related communications (reduced by £2k).

		Other Variances £107k favourable, an adverse movement of £33k since period 6 including: • Forecast staff costs are £155k below budget across the Directorate based on actual and projected vacancies across the year (2.4% of the staff budget), an adverse movement of £33k; • Bereavement Services net additional income after costs of £79k, favourable movement of £9k; These are offset by the budgeted Directorate-wide efficiency saving target of £126k, which is projected to be achieved in full.

Finance & Systems	(227)	**Projected outturn variance £227k favourable, a favourable movement of £24k since period 6.** **COVID-19 Forecast Pressures £153k, adverse movement of £16k since period 6:** This relates to additional unplanned ICT expenditure directly related to the COVID-19 pandemic. There are also additional costs funded by additional specific COVID-19 grants totalling £580k to date in both ICT and Exchequer Services. This includes £147k relating to ICT staff and equipment, Exchequer spend of £218k Emergency Assistance Grant, £118k Winter Grant scheme, £33k Self-isolation payments, £64k Local Housing Allowance. **Other Variances £380k favourable, a favourable movement of £29k** • Forecast staff costs are £333k less than budget across the Directorate based on actual and forecast vacancies across the whole year, which is 4.0% of the total staffing budget, and £23k higher than last reported. This includes £181k in Finance and Exchequer Services and £152k in ICT; • General running costs are forecast to be underspent by £219k, an increase of £15k. The underspend mainly relates to reduced ICT systems and maintenance costs pending major capital investment; • Other additional income is £16k above budget, favourable movement of £1k. These are offset by the budgeted Directorate-wide efficiency saving target of £188k, which is expected to be achieved in full.

Governance & Community Strategy	171	**Projected outturn variance £171k adverse, a favourable movement of £237k since period 6.** **COVID-19 Forecast Pressures £571k, a favourable movement of £68k since period 6** (losses of income £414k and additional unplanned expenditure £157k): • Forecast income losses include £178k relating to Sale Waterside Arts Centre and £65k for events including at Flixton House. Land charges income is projected to be £42k less than budget (reduced by £11k) and Registrar's £77k (increase of £47k). There is also a £53k loss of income expected from library lettings (increase of £17k); • Additional expenditure includes £307k of legal costs related to fees and additional agency staff required due to the increase in caseload, which has reduced by £121k due to difficulties in recruitment to increase capacity. This is offset by £150k saving from the local election being deferred until 2021 as previously reported. All forecasts reflect the latest COVID-19 restrictions, since last reported, and are now assumed to the end of the financial year. **Other Variances £400k favourable, favourable movement of £169k:** • Forecast staff costs are £672k below budget across the Directorate, an increase of £131k, based on actual and projected vacancies reviewed across the year (11.4% of the staff budget). This includes £231k in Legal Services, £187k in Access Trafford (contact centre), £215k in Partnerships and Communities and £39k in Arts and Culture; • General running costs are overspent by £12k, favourable movement of £27k, mainly due to reduced library ICT costs and legal court fees; • There is a shortfall in income of £67k compared to budget excluding the COVID-19 pressures above, a favourable movement of £11k. This includes a £37k shortfall in capital fee income which is related to staff vacancies, and a £27k reduced forecast of grants in Democratic Services. The net overall underspend of the above is offset by the reduced budgeted Directorate-wide efficiency saving target of £193k.
Council-wide budgets	(6,771)	**Projected outturn variance £6.771m favourable, a favourable movement of £236k since period 6** • COVID-19 Support Grant – favourable £10.587m, no change since period 6. The Government has announced various general packages to support the financial impact of COVID-19. All of these generic support grants have been

		accounted for in Council-wide as a centrally held resource for monitoring purposes; • COVID-19 Sales, Fees and Charges Compensation Scheme – £3.575m favourable - alongside the announcement of the 3rd COVID-19 support grant in July 2020, the Government announced a compensation scheme for lost income from Sales, Fees and Charges. Further details are shown in paragraph 30. It is now estimated £3.575m will be reimbursed by the Government, a £13k improvement since period 6; this has been accounted for in Council-wide in the same manner as the support grants. • Provision of £2.234m to accommodate winter pressures relating to COVID-19. Due to the uncertainty surrounding the financial impact of COVID-19 going forward, a contribution to a contingency reserve of £2.234m has been included in the Council-wide forecast; • £5.142m adverse variance on Treasury Management – due to the impact of COVID-19 on the economy the budgeted MAG Dividend of £5.597m is no longer expected. Also, there is a reduction in investment income due to lower interest rates of £169k, offset by additional income from strategic investments of £624k, no change since period 6; • The Housing Benefit budget - at period 8 there is a significant pressure on the net Housing Benefit budget (payments made, less subsidy, overpayment recovery and use of reserves) of £387k, • £203k relating to Trafford's share of the AGMA-wide Trafford Park Mortuary facility set up in response to the COVID-19 pandemic, no change; • £100k relating to Trafford's share of the increased costs of the South Manchester Coroners' service due to the COVID-19 pandemic, no change; • £50k saving relating to Members Allowances. • In addition, a number of Council-wide contingencies and provisions relating to service savings not being achieved and doubtful debts have been reviewed. It is considered appropriate at this stage of the year, after taking account of un-budgeted one-off costs to release £625k of these, an additional £250k since period 6. In addition the Council has received within its General Fund a Council Tax Hardship Grant of £1.56m. In previous monitors it had been anticipated that the full grant would be transferred to the Collection Fund to offset the costs of Hardship awards and Local Council Tax Support Scheme pressures. The rules allowing the transfer of the grant to the Collection Fund have been clarified and only the costs of

		Hardship awards can be met. To date the Hardship Awards are estimated at £815k, which will subsequently result in an undercomittment of £746k on the grant. This will be transferred to a Council Tax Risk Reserve to support potential ongoing pressures within the Collection Fund relating to Hardship awards.
Dedicated Schools Grant	1,466	**Projected outturn variance £1.466m adverse, an adverse movement of £368k since period 6.** DSG is expected to be £1.466m over spent, this is an adverse variance of £368k from period 6. Of this £1.525m is within the High Needs Block (HNB) offset by under spends in the Early Years & Central Schools Services Blocks. The HNB has seen an increase in demand for places and additional top-ups within Special Schools, increasing numbers and complexity of Education Health Care Plans and increasing costs and numbers of placements made out of borough. Although there are overall DSG reserves to cover this deficit, the HNB reserves on their own are not sufficient to cover their overspend. The HNB task and finish group has been re-established and is looking at how to manage the current deficit and also at the longer term strategies required to alleviate the pressures on this budget.

MTFP SAVINGS AND INCREASED INCOME

3. The 2020/21 budget is based on the achievement of permanent base budget savings and increased income of £10.055m. At this stage the latest forecast indicates that there is a projected shortfall in the savings programme of £1.72m, and this includes a number being affected by COVID-19. There has been no movement since period 6.

RESERVES

4. The balance brought forward as at 1 April 2020 of usable reserves was £91.35m, including schools and capital reserves. In February 2020, a figure of £4.53m was agreed to help support the 2020/21 revenue budget.

5. In light of the budget pressures stemming from the impact of the COVID-19 pandemic a full review of all reserves was undertaken with both service management and the Corporate Leadership Team as part of the preparation of the draft budget for 2021/22. This was done primarily to identify balances which could be used to support any longer term financial impacts of the pandemic. In undertaking the review, close consideration was given to the reasons the reserves are held and due regard has been placed on ensuring any remaining reserves remain sufficient to cover the range of risks faced by the Council. Full details of the review can be found in the draft budget report.

6. In addition to the review of reserves undertaken as part of the preparation of the draft budget, the following significant movements are also proposed as a result of the latest monitoring. Some of the figures will change depending on future monitors, however the principles surrounding the transfer will remain:-

   - The general underspend, currently estimated at £2.108m to go to Budget Support Reserve to provide a buffer against future budget uncertainty.
   - The positive General Fund components of the Business Rates budget of £1.75m (see para 35) be transferred to Business Rates Risk Reserve to provide a buffer against future rates volatility.
   - The Business Rates Growth Pilot/No Detriment Payment no longer required by Greater Manchester Combined Authority of £2.72m (para 36) be transferred to the Budget Support Reserve to resource an increase in the future general contingency budget for robustness purposed over the medium term.
   - The surplus of uncommitted Council Tax Hardship Grant of £746k (see Council Wide narrative) be transferred to a new Council Tax Hardship Reserve to be used for a potential increase in Hardship cases/ discretionary support.
   - £1.0m of the adults in-year underspend be transferred to the Capital Reserve to support anticipated demand and therefore additional pressures on the capital budget for disabled facilities adaptations in 2021/22.

- Application from the Major Projects Reserve of £292k to cover the accumulated deficit of St Antony's RC School which transferred to a sponsored academy.

7. Therefore based on the above there will be significant bolstering of reserves which will give the Council sufficient confidence in meeting its legal requirements in preparing a robust budget given the economic and financial volatility likely to be experienced over the short to medium term.

COLLECTION FUND

Council Tax

8. The table above summarises the pressures and movements on the Council Tax Collection Fund. The Fund is shared between the Council (82%), the Police & Crime Commissioner for GM (13%) and GM Fire & Rescue Authority (5%).

Table 3 **Summary of Council Tax Collection Fund Movements**	**Period 6 Full Collection Fund £000**	**Period 8 Full Collection Fund £000**	**Movement P8 to P6 (improvement) /deterioration £000**	**Period 8 Trafford Share £000**
(Surplus) Brought Forward	(1,121)	(1,121)	0	(931)
Distribution of estimated surplus	1,466	1,466	0	1,216
Over Distribution of Prior Year - Collected in 21/22 (Para 20)	**345**	**345**	**0**	**285**
In Year Position				
Shortfall in Tax Base (Para 23)	325	634	309	519
Reduction in Cash Collection (para 21)	3,948	3,718	(230)	3,041
Local Council Tax Support Scheme	563	620	57	507
Hardship Awards	1,107	816	(291)	667
Other Movements (Backdated discounts etc.)	0	(10)	(10)	(8)
Sub-total In Year Position before hardship grant (Para 21)	**5,943**	**5,778**	**(165)**	**4,726**
Contribution from Hardship Grant (Para 22)	(1,561)	(816)	745	(667)
Sub-Total In Year Position (Para 24)	**4,382**	**4,962**	**580**	**4,059**
Deficit Carried Forward	**4,728**	**5,307**	**580**	**4,344**

9. As reported in previous periods, there was an overpayment on the surplus brought forward as at 1 April 2020. This will be made good in 2021/22 by the three preceptors. Trafford's share is £285k and was set aside in 2019/20 in an earmarked reserve for this purpose.

10. During the first half of the year the challenges faced by COVID-19 have placed considerable pressure on the Council Tax Collection Fund, largely related to a reduction in collection rates and increase in Council Tax Support. In addition, an increasing trend in claims for discounts and reliefs (such as Single Person Discount) has placed further pressure on our business as usual activity. There is currently a forecast deficit of £5.778m. This is an improvement of £0.165m on the estimated deficit of £5.943m at period 6 largely due to continued improvements in collection rates and reductions in the our assumptions on the award of hardship support.

11. The Council has received within its General Fund a Government sponsored COVID-19 Council Tax Hardship Grant of £1.561m which can be used to compensate losses in the Collection Fund. In previous periods, it was anticipated that the full grant would be transferred to the Collection Fund, to meet pressures in our Local Council Tax Support Scheme and Hardship. However it has now been clarified that it can only be applied to meet Hardship Awards. Hardship awards relating to COVID-19 are estimated at £0.816m and application of the grant will be used to offset this pressure. This will reduce the in-year deficit to £4.962m, compared with £4.382m at Period 6. The remaining balance of the Hardship Grant is yet to be committed as reported in Council Wide and will be transferred to an earmarked reserve if this remains so at year end.

12. As mentioned in para 20, there is an underlying pressure included in the projections relating to an increasing trend of properties attracting single person discount. It is difficult to separate these pressures from other Council Tax base pressures, such a delays in new properties coming on line due to COVID-19, however it is becoming apparent that there is a recurrent pressure. As such, our assumptions on the tax base have been adjusted in future budget plans.

13. As highlighted in paragraph 8, the Government announced changes, enabling local authorities to spread their tax deficits over three years rather than the usual one. In the previous monitor, the deficit associated with COVID-19 was identified separately from the business as usual pressures. Details of the scheme have now been released and the total in year deficit of £4.962m (COVID-19 and business as usual) must now be treated as one and spread equally over three years.

14. In addition to spreading the deficit, the Government has also announced a Council Tax Income Compensation Scheme, where it will meet 75% of specific losses on the Collection Fund. This grant may be received in the current financial year, however will be transferred to a suitable reserve to be drawdown to meet the requirements assumed in the budget for 2021/22.

15. Although there has been an improvement in cash collection rates since period 6, there remains potential uncertainty in the projections due to the unknown impact any further lockdown, however the extension of the Government Job

Retention Scheme until April 2021 should provide some stability in the forecasts.

16. In summary, as at period 8 the forecast year-end balance on the Council Tax Collection Fund is a deficit of £5.31m (£4.73m at period 6), consisting of an overpayment of £345k in the brought forward balance plus an in year shortfall of £4.96m. The Council's share of this is £4.34m, of which £285k has been identified in an earmarked reserve leaving a balance of £4.06m. The new requirement for local authorities to spread their tax deficits over three years will reduce the financial impact of the full deficit, in 2020/21, to a neutral amount, however this will need to be recovered between the periods 2021 to 2023.

Business Rates

17. The 2020/21 budget included anticipated growth in retained business rates, related S31 grants and redistribution of prior year surpluses of £11.35m. Projecting business rates is by its nature complex and prone to variation, in addition the impact of COVID-19 has added further uncertainty to the accuracy of projections.

18. In order to support businesses with the impacts of COVID-19, the Government has provided various rate relief packages. The largest relief has been awarded to all retail and leisure sites who have been granted a 100% rates holiday until 31 March 2021. These reliefs, which are currently estimated at £90.79m, will result in an equivalent reduction in the rateable income paid into the Collection Fund and therefore a substantial deficit in the current year. However, this loss will be fully compensated via a Section 31 Grant paid into the Council's General Fund.

19. The level of reliefs represents approximately 50% of the total rateable income with the remaining 50% largely relating to non-retail sites. The ability of both retail and non-retail businesses weathering the impact of COVID-19 will be unknown for some time, adding to the uncertainty in forecasting rateable income for the year. As already mentioned, the Council is compensated for the Government sponsored 100% retail rates relief. However, if there is a fall in retail occupancy due to an economic downturn during the year this may lead to an increase in vacant properties/insolvencies and a requirement to repay the grant.

20. During the first quarter of the year, all recovery and billing activity was suspended, which added a further level of uncertainty in forecasting collection rates. Recovery activity has recommenced and is being used to inform collection rates over the remainder of the year. As the year has progressed, collection rates have improved over our initial assumptions.

21. In previous reporting periods, a broad estimate was made that there would be a reduction in income from non-retail businesses of 5% over the year, resulting in a shortfall of approximately £3.5m. A similar figure is also projected at Period 8, however there have been a number of significant

factors since Period 6 which are worthy of comment and are discussed in the following paragraphs.

22. **Underlying Rateable Value -** The underlying Rateable Value (RV) provides a useful indication of the health of the rates baseline. At period 6, the RV was showing a positive movement compared with budget, however an unexpected appeal relating to a large site retail store has recently been approved which resulted in a significant reduction in the RV at this one site by over £0.6m. Indications suggest that other large stores will also follow suit and the provision for appeals has been adjusted accordingly. This change not only affects the current year's outturn, but will have a recurring impact on future year's budget assumptions. There is also a high level of uncertainty regarding the impact on the long term RV as a result of COVID-19. This continues to highlight the level of risk associated with business rates and the need to maintain a suitable level of risk reserve.

23. **Appeals Provision** – Since period 6, a detailed review of our provision for appeals has taken place. This involved examining the rate of successful appeals compared with budget assumptions, the level of historic appeals set aside relating to major infrastructure schemes which have now been completed (e.g. metrolink/M60 roadworks disruption), the impact of the large stores appeals mentioned in the previous paragraph and ultimately business disruption caused by COVID-19. The net impact of the above has resulted in an increase in appeals provision of £1.05m from Period 6.

24. **Collection Rates -** Due to the impact of COVID-19, additional support measures were introduced by the Government in March 2020 to enable local authorities to offer financial support to local organisations to pay business rates. This included a 100% rates holiday to all retail and leisure sites until 31 March 2021 along with special payment arrangements to defer 2020/21 instalments for non-retail sites. This has had a direct impact on the collection rates for the first 6 months, however assumptions used in previous periods have been updated to reflect improved collection of non-retail income.

25. The overall impact of the above components is a shortfall in business rates income of £3.57m compared to £3.49m at Period 6. The shortfall consists of a deficit on the Collection Fund of £5.32m which is offset by various positive General Fund components (section 31 grants, GM Pilot payments) of £1.75m. The Government has announced changes, enabling local authorities to spread their tax deficits over three years rather than the usual one. This will reduce the financial impact of the collection fund deficit of £5.32m in 2020/21 to a neutral amount, however this will need to be recovered between the periods 2021 to 2023. In addition, the positive outturn within the General Fund of £1.75m is proposed to be transferred to the Business Rate Risk Reserve to help absorb any future business rates volatility.

26. Furthermore the above figures include a payment to Greater Manchester Combined Authority (GMCA) of £2.72m relating to the benefit of the Business Rates Growth Pilot sharing scheme. GMCA has recently clarified that due to COVID-19 pressures across GM Authorities, they now longer require the

payment. With this in mind and given, the volatility in the rates budgets, it is proposed to transfer this amount to the Budget Support Reserve.

27. In a similar manner to the Council Tax Income Compensation Scheme, the Government has also announced support of 75% of budgeted losses on business rates. This grant may be received in the current financial year, however will be transferred to a suitable reserve to be drawdown to meet the requirements assumed in the budget for 2021/22.

Impact of COVID-19

28. During the course of 2020/21 the implications of Covid-19 have had a major and unprecedented impact on the Council's finances. The net pressures being felt in 2020/21 have been detailed in the service narratives and a summary is shown in Table 4, along with the grant funding, CCG and earmarked reserves contributions, with the remaining balance being the subject of ongoing discussions with Government Departments in meeting the substantial and ongoing impact in 2020/21.

Table 4 – Impact of COVID-19 on Services	Period 6 2020/21 £000	Period 8 2020/21 £000	Change P6 to P8 £000
Estimated Gross Service Pressures	43,277	41,166	(2,111)
Estimated Funding Pressures (Council Tax and Rates)	8,205	10,046	1,841
Gross COVID-19 Pressures	**51,482**	**51,212**	**(270)**
CCG contribution – PPE – Adults Services	(435)	(478)	(43)
CCG contribution - Hospital Discharges	(8,883)	(9,188)	(305)
Infection Control (Care Homes) Grant	(4,246)	(4,246)	0
Public Health – Test and Trace Grant	(1,457)	(1,457)	0
Council Tax Hardship Grant	(1,277)	(667)	610
Total Specific Grants and Recharges to CCG	**(16,298)**	**(16,036)**	**262**
COVID-19 Support Grant 2nd Tranche	(6,539)	(6,539)	0
COVID-19 Support Grant 3rd Tranche	(1,814)	(1,814)	0
COVID-19 Support Grant 4th Tranche	(2,234)	(2,234)	0
Contain Management Outbreak Grant	(1,899)	(2,339)	(440)
COVID-19 Support SFC Income Loss Support	(3,562)	(3,575)	(13)
Total Government Support	**(16,048)**	**(16,501)**	**(453)**
COVID-19 Support Reserve (Bal of 1st Tranche held in reserve)	(4,722)	(4,722)	0
Strategic Investment Property Risk Reserve	(900)	0	900
Council Tax Deficit removed and recovered 2021 onwards	(3,440)	(4,059)	(619)
Business Rates Deficit removed and recovered 2021 onwards	(3,488)	(5,320)	(1,832)
Total Reserves and Funding Contribution	**(12,550)**	**(14,101)**	**(1,551)**
Net COVID-19 Pressures 2020/21	**6,586**	**4,574**	**(2,012)**

Net COVID-19 related pressures are estimated at £4.574m at period 8 (£6.586m at period 6), these have been offset to a degree by favourable movements across other services to arrive at a net underspend of £2.108m.

29. Since the period 6 monitor, the Government has announced a further details of COVID-19 support measures, including:

- A Contain Outbreak Management Fund – this scheme was announced at the time of drafting this period 6 monitoring report to support proactive

containment and intervention measures. To date the Council has received grant of £2.338m and plans are being developed how this resource will utilised. For the purposes of monitoring, this grant and the estimated additional costs are assumed to be neutral in the forecasts at this stage. Further instalments of funding are expected over the next few months.

- On 12 October 2020, the Government announced a further £900m of support to councils to meet additional COVID-19 related pressures over the winter period plus a further £100m support for Local Authority Leisure Centres. Trafford will receive a £2.234m share of the £900m allocation and will be used to contribute to a contingency reserve in the immediate term due to the uncertainty surrounding any potential increase in costs associated with a second wave. Details of the Leisure Centre support fund have also been released and the Council is in the process of developing a bid for submission in January 2021.
- The Government has also announced details of a Council Tax Income Compensation Scheme and Business Rates Income Compensation Scheme, where it will meet 75% of specific losses on the Collection Fund. These grants have an estimated value of £4.8m and will be used to meet the requirements assumed in the budget for 2021/22 to 2023/24. It is not clear if the grants will be received in the current financial year, however if so, they will be transferred into a suitable reserves to be drawn down over the next three years. They have been assumed as neutral impact in 2020/21.

30. At the time of the provisional settlement, the Government also announced additional COVID-19 support package for 2021/22. This covers the allocation of £1.55 billion of unringfenced grant; £670 million to enable councils to continue reducing council tax bills for those least able to pay; and an extension of the Sales, Fees and Charges income support scheme (SFC Scheme) on a pro-rata basis to June 2021. Our budget assumptions for 2021/2022 will be adjusted to reflect these resources.

31. At the time of writing this report, the Government has just announced a national lockdown with effect from 5th January 2021. The financial impact of the second wave is difficult to forecast and will depend on many variables such as the length of time of a local lock down, including the closure of schools, the sectors affected and the impact on the local economy and consequent job losses. It is likely that the Council will see further reductions in council tax collection rates, increases in applications under the Local Council Tax Support Scheme and additional impact on income from Sales, Fees and Charges as well as increased demand in services. The period 8 forecasts are largely based on assumptions made for Tier 3 restrictions before the latest restrictions were announced. It is anticipated that any new pressures can be met from the winter pressures contingency reserve (see para 39), however will be detailed further in the next monitor.

32. Whilst the Service Areas have reported their COVID-19 related pressures separately, the COVID-19 Support Grant (1st, 2nd, 3rd and 4th tranches) and Contain Management Outbreak Grant have been accounted for in Council-wide as a centrally held resource for monitoring purposes. Likewise, the estimated income of £3.562m from the Sales, Fees and Charges

compensation scheme will also be accounted for in Council-wide. The Council Tax Hardship Grant along with the Rates Relief Grants are also accounted for in Council-wide, however these will be utilised to offset pressures felt within Council Tax and Business Rates in the Collection Fund.

CAPITAL PROGRAMME

33. The revised programme for 2020/21 for the general Capital Programme and the Asset Investment Fund is £179.78m, a small net reduction of £1.30m since the last monitoring report.

Table 5 - Capital Investment Programme 2020/21	Approved Programme £m	Changes £m	Current Programme £m	Change in Period (P6-P8)
Service Analysis:				
Children's Services	8.64	(0.48)	8.16	(0.48)
Adult Social Care	1.84	(0.05)	1.79	0.00
Place	29.98	(1.28)	28.70	(0.12)
Governance & Community Strategy	0.08	-	0.08	0.00
Finance & Systems	2.26	(0.66)	1.60	(0.70)
General Programme Total	**42.80**	**(2.47)**	**40.33**	**(1.30)**
Asset Investment Fund	139.35	-	139.35	
Total Programme	**182.15**	**(2.47)**	**179.68**	**(1.30)**

34. **Amendments to General Capital Programme**

Re-profiling of Budgets to Future Years (£1.30m)

Children's Services

- Basic Needs (£480k) – This element of resources is held as a contingency for basic need issues needing immediate resources to resolve and to assist in any cost pressures on active schemes, It is envisaged that these resources will not be needed in this financial year and will be used to support the future basic need programme.

Place

- Parks Infrastructure (£29k) – A small number of schemes within park infrastructure are now planned on being delivered within the new financial year.
- Integrated Transport – (£93k) – There has been a number of small schemes that have now been delayed while consultation works take place to develop the schemes, with works expected to take place once this has been completed

Finance and Systems

- ICT Schemes – (£700k) there are a number of schemes where delivery has been limited as a result of ICT pressures across the Council due to new ways of working and the shifting environment around ICT needs as a result of the Covid-19 impact. The needs of ICT is continually under review with resources being utilised to best deliver the needs of the Council

35. Resourcing of the capital investment programme is made up of both internal and external funding. Details of this are shown in the table below.

Table 6 - Capital Investment Resources 2020/21	**Approved Programme £m**	**Changes £m**	**Current Programme £m**
External:			
Grants	17.27	0.05	17.32
Contributions	3.21	(1.12)	2.09
Sub-total	**20.48**	**(1.07)**	**19.41**
Internal:			
Receipts requirement	6.02	(1.12)	4.90
Borrowing	154.99	(0.20)	154.79
Reserves & revenue contributions	0.66	(0.08)	0.58
Sub-total	**161.67**	**(1.40)**	**160.27**
Total Resourcing	**182.15**	**(2.47)**	**179.68**
Forecast Capital Receipts	**1.91**	**-**	**1.91**
Shortfall in Capital Receipts	**(4.11)**	**(1.12)**	**(2.99)**

36. The land sales programme is under continuous review with an active programme of work to dispose of assets to realise receipts as soon as possible at an appropriate value to assist with the funding of the capital programme. Currently within the overall capital programme over the three year period until 2023/24 there is an anticipated deficit of £2.57m. This level has not changed since the P4 monitor but it is to be noted that there are a number of pressures on receipts from both straight forward disposals and self-development schemes that will continue to be monitored and will be reflected within the programme as more certainty is reached. Clearly a deficit of this level will factor into the assessment of the current bidding round for new capital programmes and also inform any level of short term borrowing required to maintain the current programme.

37. It is currently anticipated that the 2020/21 capital receipts will be £2.99m below those levels required within this financial year. The shortfall in capital receipts is partially due to the Council taking forward a number of proposals for the self-development of sites rather than a straightforward disposal, which had generally been the case previously. This is expected to generate an increase in the returns from the sites, however, their longer term nature will have an impact on the short term funding of the current capital programme.

38. If there is no re-phasing of schemes funded by receipts or capital receipts are not realised in advance of what is currently assumed, there will potentially be the requirement for short term borrowing to fund this deficit for the next two years. This would have an additional revenue costs of approximately £30k not currently budgeted for. This carries a risk that if receipts are not realised over the longer period, or at all, then borrowing will then need to be paid for on a longer or more permanent basis and will result in a revenue budget pressure in the Medium Term Financial Plan.

39. Work is currently being undertaken to see if any properties currently within the Land Sales Programme can be sold in advance of current assumptions. This is to assist with the current in year shortfall in receipts and reduce the need for short term borrowing.

Status and progress of projects

40. As part of the monitoring process a record of the "milestones" reached by each project is kept to show the progress of the scheme from inclusion in the Programme through to completion. The table below shows the value of the programme across the milestone categories.

Table 7 - Status on 2020/21 Projects	**Current Budget £m**	**Percentage of Budget**
Already complete	21.48	53%
On site	13.50	33%
Programmed to start later in year	4.30	11%
Not yet programmed	1.05	3%
Total	**40.33**	**100%**

41. The first three categories give a good indication as to the level of confirmed expenditure to be incurred during the year. As can be seen £39.28m (97%) of the budget has now been committed or is programmed to start in the year. This is an improved position compared to previous years in part due to the approval of the full programme in February 2020, particularly on highways, corporate building repair and parks programmes.

42. Currently within the main capital programme, there have not been any specific schemes identified that will have a significant impact on the forecast levels of delivery and the current capital receipts position. This is under constant review with service areas and any issue that a rise will be reported here.

ASSET INVESTMENT PROGRAMME

43. In February 2020 approval was given to increase the Asset Investment Fund to £500m, supported by prudential borrowing, to support the Council's Investment Strategy. The transactions that have been agreed by the Investment Management Board to date have a total committed cost of £376.99m. The facility agreement at The Crescent (£44.32m anticipated outlay) is due to be repaid this year, meaning the balance of the approved £500m which is available for further investment is £167.33m (table 8).

Table 8 : Asset Investment Fund	Prior Years £m	2020/21 £m	Commitment £m	Total £m
Total Investment Fund				***500.00***
Cost				
K Site, Stretford:-				
Equity in Trafford Bruntwood LLP	10.69	0.21	1.35	12.25
Development Loan to Bruntwood	10.69	0.21	1.35	12.25
Sonova House, Warrington	12.17			12.17
DSG, Preston	17.39			17.39
Grafton Centre incl. Travelodge Hotel, Altrincham	10.84			10.84
Trafford Magistrates Court	4.10	0.19		4.10
The Fort, Wigan	13.93			13.93
Sainsbury's, Altrincham	25.60			25.60
Brown Street, Hale	3.34	1.53	2.62	7.49
The Crescent, Salford (*)	39.67	4.65	(44.32)	0
CIS Building, Manchester	60.00			60.00
Stretford Mall & Stamford Qtr				
Stretford Mall, Equity	8.82			8.82
Stamford Quarter, Equity	16.69			16.69
Acquisition Loan to Bruntwood	25.57			25.57
The Hut Group		30.20	37.30	67.50
Former sorting office, Lacy Street, Stretford	0.86	0.01	0.09	0.96
Various Development Sites	0.29	0.20		0.49
Castle Irwell, Salford	0	3.89	15.11	19.00
Total Capital Investment	**260.65**	**41.08**	**13.59**	**315.05**
Albert Estate Treasury Investment	17.62			17.62
Total Investment	**278.27**	**41.08**	**13.59**	**332.67**
Balance available				**167.33**

44. These investments are forecast to generate a net benefit to the revenue budget this year of £6.71m, which is an adverse variance of £721k compared to the budgeted target of £7.43m. The key variances are made up by the below:

- The Strategic Investment Property Portfolio is being closely monitored and there are pressures forecast, due to COVID-19, in achieving the budgeted levels of income at the Streford Mall, Stamford Quarter and the Grafton Centre. These shortfalls are anticipated to be £707k in 2020/21.

- An equity investment is required to support the cash flow at the Lumina Village LLP (K Site) until new leases are agreed and land disposal start to take place in 2021. The cost of this investment is estimated to be £250k.
- The Council is currently carrying the cost of the former Sorting Office at Lacy St, Stretford, while the site awaits redevelopment. This is forecast to be £53k in 2020/21.
- Due to the current economic climates, there has been a reduction in the EU Reference Rate and UK LIBOR. This has impacted on the variable interest elements of the Council's loan facility at the CIS Tower and its corporate loan to Bruntwood. This is forecast to result in an income shortfall in 2020/21 of £149k. This shortfall will be met through a reduction in the forecast contribution to the Council's risk reserve from these assets.
- This year there are two new debt facilities, agreed at Investment Management Board; an early drawdown of the agreed debt facility for the Hut Group to support new regeneration, and a facility at Castle Irwell to support a residential development. This additional income, forecast to be a net £634k in 2020/21.

45. The Council has set aside a Risk Reserve to mitigate against potential unforeseen cost or income pressure and to finance future investment in the Council's assets. At the start of the financial year this reserve stood at £3.9m and is forecast to rise by £1.4m this year, giving a year-end balance of £5.3m.

46. There are a number of self-development schemes that are currently being undertaken to generate resources to support the capital programme. There is significant progress being made on these. Below is an update on the current schemes either currently on site or where progress has been significantly made;

- <u>Brown Street</u>
  This scheme is on site and is progressing well, it is still anticipated that completion of the 10 townhouse and 12 affordable apartments will be in June 2021. The townhouses are to be sold on the open market and current advice given from the development partner's in house sales and marketing team is that the properties will achieve the market values assumed with the financial model for the scheme. The 12 affordable are to be sold to a Housing Registered Provided (RP). A number of offers had been received from RP's through a formal tender process and a preferred partner had been identified. Unfortunately this RP has now withdrawn from the process sighting pressures and uncertainty within the market. The Council is reviewing the others bids received and also if a new bidding process will need to be undertaken. Currently the scheme is forecasting a return of £1.1m which is an IRR of £13%.
- <u>Sale Magistrates</u>
  A formal planning application has now been submitted with the Planning Authority and this process is now expected to be completed by March 2021. There has been a reduction of two properties within the scheme as a result of issues around building over a drainage systems which has recently been

identified. This will potentially have a slight impact on the anticipated return for the scheme but an exercise is underway to mitigate this as far as possible and it is still expected that this will still be delivered within the current assumptions in the capital programme, with a development return of £3.0m which is an IRR 13%.

- Jubilee Centre
  The architect has been appointed for this scheme and with the rest of the design team being appointed imminently it is anticipated that consultation will start on the scheme in the New Year.

Issues / Risks

47. The main risk in the area of the capital programme is the timely delivery of the programme and the timely generation of receipts. These will continually to be closely monitored and any issues will be reported as and when they arise.

48. Risk around the investment strategy is assessed when investment options are appraised and approved with appropriate provision being made to mitigate elements of risk, including through the use of the Council's Risk Reserve.

Recommendations

49. It is recommended that that the Executive:

    a) note the updated positions on the revenue budget, collection fund and capital programme.

    b) note the movements in earmarked reserves.

Appendix 1

Service Review/Virements	Children's (£000's)	Adults (£000's)	Place (£000's)	Strategy & Resources (was People & Traded Services) (£000's)	Finance & Systems (£000's)	Governance & Community Strategy (£000's)	Council -wide (£000's)	Total (£000's)
Period 6 Report	**42,142**	**61,774**	**29,340**	**5,105**	**7,900**	**6,458**	**22,803**	**175,522**
Virements:								
0.75% Pay Award adjustment	(47)	(8)		23	(23)		55	0
Re-align Political Assistants posts x 2						80	(80)	0
Re-align Making Tax Digital budget					23		(23)	0
0.25 FTE Sports relationship Manager post			14			(14)		0
Part fund a new Domestic Violence post in the Safer Communities team			6			(6)		0
Total movements	**(47)**	**(8)**	**20**	**23**	**0**	**60**	**(48)**	**0**
Period 8 Report	**42,095**	**61,766**	**29,360**	**5,128**	**7,900**	**6,518**	**22,755**	**175,522**

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TRAFFORD COUNCIL

Report to: **Accounts and Audit Committee**
Date: **3 February 2021**
Report for: **Discussion**
Report of: **Audit and Assurance Manager**

Report Title

Audit and Assurance Report for the Period October to December 2020.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period October to December 2020.**
- **To provide ongoing assurance to the Council on the adequacy of its control environment.**

Recommendation

The Accounts and Audit Committee is asked to note the report.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
Email: mark.foster@trafford.gov.uk

Background Papers: None

Background Information

Implications:

Relationship to Corporate Priorities	The scope of the work of Internal Audit may cover all of the Council's corporate priorities.
Relationship to GM Policy or Strategy Framework	Where appropriate, Internal Audit will liaise with GM partners and where applicable, undertake joint working in carrying out planned work.
Financial	In accordance with the Accounts and Audit Regulations 2015, it is a requirement that the Council "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." The Audit and Assurance Service must undertake its work in accordance with the Public Sector Internal Audit Standards (PSIAS). The work of internal audit may cover a diverse range of service areas, functions and areas of risk covering both financial controls and wider aspects of internal control, risk management and governance.
Legal Implications	See Financial Implications
Equality/Diversity Implications	*See above*
Sustainability Implications	See above
Carbon Reduction	*See above*
Staffing/E-Government/Asset Management Implications	*See Above*
Risk Management Implications	*See Above*
Health and Safety Implications	*See Above*

TRAFFORD
COUNCIL

Audit and Assurance Service Report October to December 2020

Date: **January 2021**

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between October and December 2020 and highlights progress against the 2020/21 Internal Audit Plan to date. At the end of the year, these update reports will be brought together in the Annual Head of Internal Audit Report which will give the opinion on the overall effectiveness of the Council's control environment during 2020/21.

2. Planned Assurance Work

It should be noted that the 2020/21 Internal Audit Plan was produced prior to the start of the COVID-19 pandemic lockdown in March 2020 and consequently, elements of the plan are subject to ongoing review and revision. This is reflected in Sections 3, 6 and 8 of this report.

Key elements of the 2020/21 Work Plan produced in March 2020 include:

- Fundamental Financial Systems reviews.
- Review work in relation to the 2019/20 Annual Governance Statement
- Continued input to and review of risk management arrangements and provision of guidance.
- Review of corporate procurement and value for money arrangements.
- Audit reviews in respect of ICT and information governance.
- Anti-fraud and corruption work, including the National Fraud Initiative.
- School audits and other establishment audit reviews.
- Grant claim certification work
- Audit reviews of other areas of business risk.
- Provision of guidance and advice to services across the Council.

3. Main areas of focus – October to December 2020

Work in this period has included progressing a number of planned internal audit reviews. There have been delays to progressing some of this work, both due to commitments of other services as well as Audit during this time given the COVID-19 response. All audit opinion reports produced or in progress are listed in Section 5 and other key areas of audit work undertaken are referred to in Section 6.

Significant time has continued to be spent in providing support to the Council's response to the COVID-19 pandemic. During November 2020, Audit and Assurance provided support to the Council's Exchequer Services in completing checks supporting the administration of the payments of COVID-19 Business Rates Grants in respect of the Local Restrictions Support Grant. During December 2020, Audit staff also provided assistance to the Strategic Growth team in completing checks to support the processing of applications for the payment of grants to local businesses in respect of the Additional Restrictions (Discretionary) Grant Scheme. This is also continuing during the final quarter of the year.

4. Summary of Assurances in October to December 2020

A number of audits were in progress during the period. 1 final report was issued with a Medium audit opinion. There were 4 other reports at draft stage as at 31 December 2020. Whilst overall opinions for these reports were yet to be confirmed, based on the work undertaken it is not expected that any opinions of less than "Medium" (Adequate) will be provided for these reviews. For these reviews, final reports will be issued in January to March 2021. There were 7 other audits in progress by the end of the quarter and it is expected that a number of audit reports relating to these reviews will be issued by the end of March 2021 (and reported in the Annual Head of Internal Audit Report 2020/21).

5. Summary of Audit & Assurance Opinions Issued – October to December 2020

(See Appendix 4 for definitions of opinion levels, report levels and report status)

REPORT NAME (DIRECTORATE) / (PORTFOLIO) by Coverage Level (1-4)	-OPINION -R/A/G -Date Issued	COMMENTS
FINAL REPORTS ISSUED		
Level 4 Reports :		
Cyber Security (Finance and Systems) / (Finance and Governance)	**Medium (GREEN)** (16/11/20)	The objective of the audit was to provide management with an evaluation of the council's cyber security arrangements. Reference was made to reviewing processes against the cyber security framework devised by the National Institute of Standards and Technology (NIST which includes a set of standards, guidelines and practices for protecting IT assets including data). The review concluded that most key risks are being managed. However, further work is required to ensure that the council is able to achieve a reasonable level of maturity against the NIST cybersecurity framework, particularly in relation to business continuity and disaster recovery.
REPORTS AT DRAFT STAGE		
Level 4 Reports:		
Corporate Complaints (Governance and Community Strategy) / (Finance and Governance)		A review of the adequacy and effectiveness of complaints processes across the Council was undertaken. A draft report was shared with management to provide a response to the findings and recommendations. A final report will be issued by the end of 2020/21.
Payroll (Strategy and Resources) / (Finance and Governance)		An audit review of payroll procedures was undertaken. At the request of the Greater Manchester Shared Services (GMSS), given current commitments, some planned audit coverage was rescheduled to 2021/22. It was agreed an interim report would be produced covering work completed to date and a further report, including an audit opinion, would be completed when work resumed later in 2021/22. A draft interim report was shared with management with a final interim report to be issued in January 2021.
Insurance (Finance and Systems) / (Finance and Governance)		A review was undertaken of the Council's insurance processes. A draft report was shared with management and a final report is to be issued before the end of 2020/21.
Level 1 Reports		
Urmston Primary School (Children's Services) / (Education)		An internal audit review was carried out at Urmston Primary School, using a remote working approach as part of changes to school audit procedures due to the COVID-19 pandemic. A draft report was produced and a final report will be issued by the end of 2020/21 to incorporate the management response.

6. Other Assurance Work

There is a significant amount of work undertaken by the Service that does not result in an audit opinion report being issued. Work in the period has included the following:

- As referred to in Section 3, supporting other services in administering the payment of COVID-19 grants to businesses.
- Working with CLT to update the strategic risk register with an update report shared with CLT and the Accounts and Audit Committee in November 2020.
- Following liaison with relevant services across the Council, co-ordinating the submission of data to the Cabinet Office as part of the 2020/21 National Fraud Initiative. Further detail is included in Appendix 3.
- Completing a number of checks as part of the process for certifying grant claims with work completed in relation to the 2019/20 Disabled Facilities Grant.
- Follow up of a number of previous school internal audit reviews as described in Section 7.
- Liaison with Human Resources and the Counter Fraud and Enforcement Team to introduce a new anti-fraud awareness e-learning package for new starters as part of the induction process.

7. Impact of Audit Work – Improvements to the Control Environment

Key indicators of the impact of Audit and Assurance are: (a) Acceptance of Recommendations (b) Implementation of them.

Acceptance of Recommendations

For the final internal audit opinion report issued by the Audit and Assurance Service during the period, all 23 recommendations were accepted. In the year to date all 78 recommendations have been accepted (100% compared to a service target of 95%).

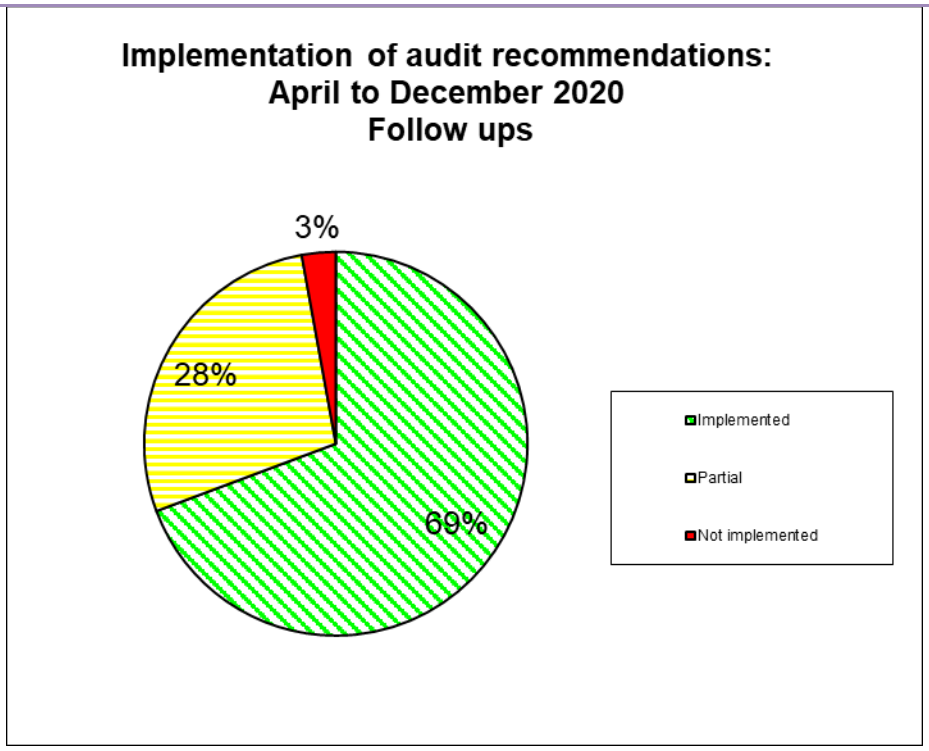
Implementation of Audit Recommendations

Final audit reports are followed up to assess progress in implementing improvement actions identified through audit recommendations. Recommendations made by the Audit and Assurance Service are followed up by a number of means.

A number of follow up audits were completed in April to September 2020 as reported in the previous Audit and Assurance update. During October to December, the focus was on obtaining updates from a number of schools to provide updates on progress made in implementing audit recommendations. Details reported were as follows:

- St. Hugh of Lincoln RC Primary School – All 11 of the previously agreed recommendations made had been fully implemented.
- Kings Road Primary School – 19 out of the 22 recommendations have been implemented or are no longer applicable, with the remaining 3 recommendations in progress.
- Heyes Lane Primary School – 19 out of the 20 recommendations have been implemented or are no longer applicable with the remaining recommendation to be considered later in the year.
- Stretford High School – All 10 recommendations have been implemented.
- Delamere School – 8 of the 9 recommendation were fully implemented and the remaining recommendation implemented in part.

An overall analysis of audit recommendations followed up in 2020/21 (up to 31 December 2020) is shown on the following chart.



8. Performance against Audit & Assurance Annual Work Plan

Appendix 1 shows an analysis of time spent to date against planned time for the 2020/21 Operational Internal Audit Plan

As at 31 December 2020, 706 audit days were spent against 700 planned allocated days (See Appendix 1). A further 70 contingency days were in the 2020/21 Internal Audit Plan but these will used to mitigate any loss of days from the decision not to fill a vacant post.

As reported in the previous Audit and Assurance update report, in terms of time spent on each category of audit work, there are some significant variations in certain areas as a result of the pandemic. As referred to in Section 3, there continues to be revision to planned internal audit work to support the Council's COVID-19 response. Further to details reported in the April to September update, significant time has been spent in November and December 2020 to provide support to the process of making grant payments to businesses – this fully accounts for the significant time variation in respect of time spent against planned on Grant Checks / Data Quality.

There has been a significant reduction in time spent on school audits with a number of reviews delayed. During the last quarter, assurance has been continued to be gathered through follow-up of previous school audits and also the commencement during the period of one school audit through a remote working approach. Planning has commenced to undertake further schools reviews during 2021. Similarly, a number of other planned audits across the Council are subject to delay and in some cases will be subject to review and where applicable, rescheduled to 2021/22. It is expected that further time will be required to support the Council in its response to the pandemic and the Audit Plan will be subject to ongoing review as a result. There will be liaison with relevant Corporate Directorates to agree priorities and the timing of planned work, which will inform plans for 2021/22.

As part of the Internal Audit Plan, a target of 38 audit opinion reports was set to be produced during 2020/21 to final or draft stage (excluding reports issued by other partner authorities in relation to STAR Procurement). The target was set prior to the lockdown in March 2020 and whilst a significant number of planned reports have continued to be issued during the period, it is envisaged that by year end the actual number will not reach the target, given new priorities arising during the year i.e. time spent that was not originally planned for in supporting the Council's COVID-19 response. As at 31 December 2020, 19 audit opinion reports were produced (with one other report produced in relation to STAR Procurement by another authority). By the end of December, a further 7 audit reviews were in progress with a number of opinion reports relating to

these reviews expected to be issued by March 2021. A number of other reviews are planned to commence between January and March 2021 across a range of areas included in the Plan to ensure adequate assurance can be provided to support the production of the 2020/21 Head of Internal Audit Opinion. (See Appendix 2 for a listings of reports issued and planned). Given the impact of the pandemic, guidance has recently been issued by the Chartered Institute of Public Finance and Accountancy (Cipfa) on providing the Audit Opinion for 2020/21, which will be taken into account when producing the Annual Head of Internal Audit report.

The next update on progress against the 2020/21 Internal Plan, including reports issued to date, will be provided in the 2020/21 Annual Head of Internal Audit Report.

9. Planned Work for January to March 2021

Areas of focus include :

- Progression of internal audit reviews as listed in Appendix 2.
- Consideration of timing of some existing planned audit reviews and production of the 2021/22 Internal Audit Plan (due to be presented to the Accounts an Audit Committee for approval at its March 2021 meeting).
- Commencement of the review of data matches from the latest National Fraud Initiative exercise, which are due to be released in early 2021 plus submission of further data in relation to COVID-19 business grant payments for subsequent review through 2021/22.
- Continuing to support CLT in updating the Strategic Risk Register with a report due to be shared with the Accounts and Audit Committee in March 2021.
- Completion of checks in order to assist in the certification of the 2019/20 grant claim in relation to the Basic Needs Grant by February 2021 (allocated to support the creation of new school places).
- Providing advice to Adult Services through the review of a new quality assurance and improvement framework in respect of supported accommodation.
- Continued support, as required, as part of the response to the COVID-19 pandemic.

APPENDIX 1

2020/21 Operational Plan: Planned against Actual Work (as at 31 December 2020)

Category	Details	Planned Allocated Days 2020/21	Planned Days (up to 31/12/20	Actual Days (as at 31/12/20)
Financial Systems	**Completion of fundamental financial systems audit reviews** See Appendix 2 for opinion reports issued and planned.	175	130	117
Governance	**Corporate Governance / AGS - to provide support and advice to Legal and Democratic Services. Complete a review of the content of the draft AGS with reference to the CIPFA/SOLACE Governance framework and guidance.** **Declaration of interests (Officers) review.** **Advice / assurance in respect of governance issues.** Work to date has included liaising with Democratic Services on the collation of the Draft AGS collated, including reviewing the content and feeding back to Legal and Democratic Services before the document was issued.	20	13	11
Corporate Risk Management	**Facilitating the updating of the Council's strategic risk register.** **Actions to support the Council's Risk Management Strategy including provision of guidance, independent review of existing risk management arrangements and, where applicable, recommend areas for development.** Strategic Risk update reports completed and reviewed by CLT and the Accounts and Audit Committee in July 2020 and November 2020. Also See Appendix 2 for opinion reports issued and planned.	40	32	39
Anti-Fraud and Corruption	**Co-ordinate the Council's activity in respect of the National Fraud Initiative ensuring work completed across services in investigating data matches is progressed in accordance with Cabinet Office requirements.** **Contributing to Investigations of referred cases of suspected theft, fraud or corruption.** **Other work to support the Anti-Fraud and Corruption Strategy, including where applicable working with other relevant services to review**	80	60	64

	existing policies and guidance supporting the overarching strategy. See Appendix 3 regards work completed to date supporting the National Fraud Initiative. Summary of work completed during the year to be set out in Annual Head of Internal Audit Report.			
Procurement / Contracts/ Value for money	**Review of procurement / contract management arrangements including systems in place and associated arrangements to secure value for money (Work will include liaison with the STAR Procurement Service and partner authority auditors).** See Appendix 2 for reports issued and planned.	70	35	34
ICT / Information Governance Audit	**ICT Audit reviews and advice, including reviews conducted by Salford Internal Audit Services.** **Information Governance audit reviews** See Appendix 2 for reports issued and planned.	100	65	44
Schools	**Providing assurance on the control environment within schools, supporting schools in ensuring awareness of requirements within the DfE Schools' Financial Value Standard.** **Audit reviews of schools – at least 14 school audit visits to be undertaken during the year.** See Appendix 2 for audit opinion reports issued and planned in 2020/21 and Section 7 regards school follow ups during October to December 2020. A number of planned school audits were postponed due to the COVID-19 pandemic and are to be rescheduled. To date, 2 final audit reports have been issued and 1 produced to draft stage.	170	120	40
Assurance – Other Business Risks	**Audits selected on the basis of risk from a number of sources including senior managers' recommendations, risk registers and internal audit risk assessments. Reviews include authority wide issues and areas relating to individual services, establishments and functions. Includes:** **- Audit reviews** **- Follow up reviews including further audits and gaining assurance from service updates.** See Appendix 2 for audit opinion reports issued and planned.	260	178	143
Grant claims checks / Data Quality	**Internal audit checks of grant claims / statutory returns and other data quality checks as required:** **Planned Work**: - Certification of Disabled Facilities Grant 2019/20 completed in October 2020.	25	22	195 **

	Unplanned work (not in 2020/21 Audit Plan): Work completed as part of COVID-19 response - Support to Exchequer Services and the Strategic Growth team in completing checks to support administering the payment of business grants. (See Section 3)			
Service Advice / Project Support	**General advice and guidance, both corporately and across individual service areas.** **Support and advice to the organisation in contributing to working groups and projects in relation to governance, risk and control issues.** Summary of work completed during the year to be set out in Annual Head of Internal Audit Report and reflected where applicable in updates. (Also See Section 6.)	60	45	19
TOTAL		**1000***	**700**	**706**

* Note there was a further contingency of 70 days within the 2020/21 Plan which have been utilised to mitigate the loss of a vacant post.

** Actual Days spent in this category includes unplanned work as part of the Council's COVID-19 response.

APPENDIX 2

Audit Opinion Reports Issued and Planned 2020/21 (as at 31 December 2020)

Category	Audit Opinion Reports	Status (where progressed by 31/12/20)	2020/21 IA Plan
Financial Systems	- Direct Payments (Children's Services)	Final report issued 5/8/20	Completed
	- Client Finance system (Finance and Systems)	Final report issued 5/8/20	Completed
	- Housing Benefit / Council Tax Support (Finance and Systems)	Final report issued 28/4/20	Completed
	- Payroll (Strategy and Resources)	Draft findings of interim review shared with management.	Final interim report to be issued Q4 with further work rescheduled to 2021/22.
	- Asset Investment Strategy (Authority-Wide)	Final report issued 13/7/20	Completed
	- Adult Social Care Payments System - Liquid Logic/ContrOCC (Adult Services)	Final report issued 5/8/20	Completed
	- Children's Social Care Payments System - Liquid Logic/ContrOCC (Children's Services)	In progress	Draft report to be issued Q4
	- Direct Payments (Adult Services)	Final report issued 5/8/20	Completed
	- Accounts Receivable / Debt Recovery (Finance and Systems)	Planning commenced	Draft report to be issued Q4
	- Budgetary Control (Authority-wide/Finance and Systems)	-	Timing to be agreed
	- Accounts Payable (Finance and Systems)	In progress	Final report to be issued Q4
	- Treasury Management (Finance and Systems)	Final report issued 21/9/20	Completed
	- Foster Carer payments (Children's Services)	-	Timing to be agreed
	- Cash handling (Children's Services)	-	Timing to be agreed
Risk Management	- Health and Safety (Strategy and Resources / Authority-wide)	-	Timing to be agreed
	- Insurance (Finance and Systems)	Draft findings shared with management	Final report to be issued Q4
Procurement /Contracts /Value for money	- Social Value in Procurement (STAR authorities – Trafford lead) (Finance and Systems)	Final report issued 17/9/20	Completed
	-STAR Performance Management follow-up review (Stockport lead) (Finance and Systems)	Final report issued 21/9/20	Completed
	- Purchase cards follow-up audit (Finance and Systems)	In progress	Final report to be issued Q4
Information Governance / ICT Audit	- Data breaches (Governance and Community Strategy/Authority-Wide)	-	Planning to commence in Q4
	- Subject Access Requests (Governance and Community Strategy / Authority-Wide)	-	Timing to be agreed
	- Freedom of Information Requests (Governance and Community Strategy / Authority-Wide)	-	Timing to be agreed
	- IT Incident Management (Finance	Final report issued 20/8/20	Completed

	and Systems) - Civica System IT Application review (Finance and Systems) - ICT Service Management (Finance and Systems) - Cyber Security (Finance and Systems / Authority-wide) - ICT Asset Management (Finance and Systems) - ICT Security in Schools (Finance and Systems / Children's Services)	Draft findings shared with management. - Final report issued16/11/20 - -	Final report to be issued Q4 Timing to be agreed Completed Planning to commence in Q4 Planning to commence in Q4
Schools	School Audits (Children's Services) To include reports to be issued for the following schools: - Highfield Primary School - St. Vincent's Catholic Primary School - Urmston Primary School - St. Alphonsus RC Primary School - Victoria Park Junior School - Moorlands Junior School - 8 other schools audits planned to be undertaken in 2020/21.	Final report issued 29/6/20 Final report issued 22/7/20 Draft findings produced Planning commenced - Planning commenced -	Completed Completed Final report to be issued Q4 Draft report to be issued Q4 Planning to commence in Q4 Draft report to be issued Q4 Audits to commence either by the end of Q4 or rescheduled to 2021/22
Assurance – Other Business Risks	- Altrincham Library (Governance and Community Strategy - Tree Unit (Place) - Sale Waterside Arts Centre (Governance and Community Strategy) - Flixton House (Governance and Community Strategy) - Blue Badges (Governance and Community Strategy) - Complaints System (Authority-Wide / Governance and Community Strategy) - Recruitment Processes (Strategy and Resources) - Aids and Adaptations (Adult Services) - Liberty Protection Safeguards (Adult Services) - Social Care Transitions (Children's/Adult Services) - Troubled Families (Children's Services) - Children's external residential placements (Children's Services) - Out of Borough Education Placements (Children's Services) - Home to School Transport (Children's Services) - Licensing (Place) - Building Control (Place) - Housing Waiting List (Place) - Let Estates (Place) - Outdoor Advertising (Place) - Safety at Sports Grounds (Place) - Strategic Growth Team (Place)	Final report issued 3/7/20 Final report issued 7/8/20 - Final report issued 8/7/20 - Draft findings shared with management - In progress - - - - - - - - In progress In progress In progress - - -	Completed Completed Timing to be agreed Completed Timing to be agreed Final report to be issued Q4 Timing to be agreed Draft report to be issued Q4 Timing to be agreed Timing to be agreed Timing to be agreed Timing to be agreed Timing to be agreed Timing to be agreed Timing to be agreed Timing to be agreed Further work rescheduled to 2021/22 Final report to be issued Q4 Final report to be issued Q4 Timing to be agreed Timing to be agreed Timing to be agreed

National Fraud Initiative – Update on 2020/21 Exercise

The Audit and Assurance Service continues to co-ordinate the Council's participation in the statutory National Fraud Initiative (NFI) exercise.

The NFI is a nationwide data matching exercise. It is designed to help participating bodies identify possible cases of error or fraud and detect and correct any consequential under or overpayments from the public purse. The main exercise is carried out once every two years at minimal cost to the organisations involved and is firmly established as the United Kingdom's premier public sector fraud detection exercise.

The following datasets for the 2020/21 NFI exercise were submitted to the Cabinet Office during October to December 2020:

- Payroll Data
- Pension Gratuity Payment Data
- Creditors Standing Data
- Creditors History Data
- Council Tax Data
- Council Tax Reduction Scheme Data
- Housing Waiting List Data
- Taxi Licensing Data
- Resident Parking Permit Data.

At the time of writing we are currently awaiting submission of the Electoral Register Data to enable us to upload this by the deadline of 29th January 2021.

Dataset matches for the above datasets are all due to be released shortly after the time of writing this report at the end of January 2021.

Additionally for the 2020 exercise, as part of the UK Government's financial response to the COVID-19 pandemic, we are also required to submit data in relation to payments made under the:

- Small Business Grant Fund (SBGF),
- Retail, Hospitality and Leisure Grant Fund (RHLGF), and;
- Local Authority Discretionary Fund.

The deadline for submission of these datasets is 29th January 2021, with matches to be released by the end of March 2021. The Audit and Assurance Service is liaising with the various services who administer these payments to address this data requirement.

The Audit & Assurance Service will also continue to liaise with services across the Council to ensure high priority matches are reviewed and, where appropriate, followed up through the year. Details of progress will be reported in future updates to the Corporate Leadership Team and the Accounts and Audit Committee through the year with final outcomes included in the 2021/22 Annual Head of Internal Audit Report.

POINTS OF INFORMATION TO SUPPORT THE REPORT:

Audit Opinion Levels (RAG reporting) :

Opinion – General Audits

High – Very Good	**Green**
Medium / High – Good	**Green**
Medium – Adequate	**Green**
Low / Medium - Marginal	**Amber**
Low – Unsatisfactory	**Red**

An opinion is stated in each audit report to assess the standard of the control environment.

Report Status:

Draft reports:
These are issued to managers prior to the final report to provide comments and finalise agreed responses to audit recommendations.

Final reports:
These incorporate management comments and responses to audit recommendations, including planned improvement actions.

Breadth of coverage of review (Levels 1 to 4)

Provides an indication as to the nature / breadth of coverage of the review in terms of which aspects of the organisation's governance and control environment it relates to. Levels are as follows:

- **Level 4: Key strategic risk or significant corporate / authority wide issue** - Area under review directly relates to a strategic risk or a significant corporate / authority wide issue or area of activity.
- **Level 3: Directorate wide** - Area under review has a significant impact within a given Directorate.
- **Level 2: Service wide** - Area under review relates to a particular service provided or service area which comprises for example a number of functions or establishments.
- **Level 1: Establishment / function specific** - Area under review relates to a single area such as an establishment.

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TRAFFORD COUNCIL

Report to: **Accounts and Audit Committee**
Date: **3 February 2021**
Report for: **Discussion**
Report of: **Audit and Assurance Manager**

Report Title

Accounts and Audit Committee – Work Programme – 2020/21

Summary

This report sets out the work plan for the Committee for the 2020/21 municipal year.

It outlines areas to be considered by the Committee at each of its meetings, over the period of the year. The work programme helps to ensure that the Committee meets its responsibilities under its terms of reference and maintains focus on key issues and priorities as defined by the Committee.

The work programme is flexible and can have items added or rescheduled if this ensures that the Committee best meets its responsibilities.

Recommendation

The Accounts and Audit Committee is asked to note the 2020/21 work programme.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
Email: mark.foster@trafford.gov.uk

Background Papers: None

Committee Meeting Dates	Areas of Responsibility of the Committee					
	Internal Audit	External Audit	Risk Management	Governance (including Annual Governance Statement)	Anti- Fraud & Corruption Arrangements	Accounts / Financial Management
15 July 2020	Agree Committee's Work Programme for 2020/21 (including consideration of training and development) (Training workshop held on 22 July 2020 on the 2019/20 Statement of Accounts)					
	- 2019/20 Head of Internal Audit Annual Report - 2020/21 Internal Audit Operational Plan (Previously circulated to Members in March 2020)	- Audit Progress Report - 2020/21 Audit Fee Letter (Public Sector Audit Appointments)	- Strategic Risk Register Report	- 2019/20 Draft Annual Governance Statement - Accounts and Audit Committee 2019/20 Annual Report to Council		-Treasury Management update (Annual Performance Report 2019/20) -2019/20 Revenue Budget Monitoring Outturn and Capital Investment Programme Outturn Reports - 2020/21 Budget Monitoring Report (Period 2 report, which includes an update on the financial implications of COVID-19, to be circulated at a later date following the meeting).
26 November 2020						
	- Internal Audit Monitoring Report (April to September 2020)	- 2019/20 Audit Completion Report	- Strategic Risk Register Report. (Also see Financial Management -	- 2019/20 Annual Governance Statement (final version)	- Counter Fraud and Enforcement Team Update Report	- Approval of Annual Statement of Accounts 2019/20 - Treasury Management : 2020/21 Mid-Year

Committee Meeting Dates	Areas of Responsibility of the Committee					
	Internal Audit	External Audit	Risk Management	Governance (Including Annual Governance Statement)	Anti- Fraud & Corruption Arrangements	Accounts/Financial Management
			Insurance Performance Report 2019/20)			Performance Report - Insurance Performance Report 2019/20 - 2020/21 Budget Monitoring Report (Period 6 report)
3 February 2021	Treasury Management Training – 21 January 2021					
	- Internal Audit Monitoring Report (October to December 2020)	- Audit Progress Update	- Strategic Risk update - Cyber Security		(Ant-Fraud update, within Internal Audit monitoring report)	- Treasury Management Strategy - 2020/21 Budget Monitoring Report (Period 8)
23 March 2021						
	- 2021/22 Internal Audit Plan - Internal Audit Charter and Strategy	- 2019/20 Annual Audit Letter - Audit Strategy Memorandum for year-ending 31st March 2021)	- Strategic Risk Register Report	- Report on arrangements for 2020/21 Annual Governance Statement		- 2020/21 Budget Monitoring Report (Period10) -Accounting Policies - Procurement update (STAR)

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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