Public Document Pack

Democratic Services
White Cliffs Business Park
Dover
Kent CT16 3PJ

Telephone: (01304) 821199
Fax: (01304) 872452
DX: 6312
Minicom: (01304) 820115
Website: www.dover.gov.uk
e-mail: democraticservices@dover.gov.uk

29 September 2021

Dear Councillor

I am now able to enclose, for consideration at the meeting of the **GOVERNANCE COMMITTEE** on Thursday 30 September 2021 at 6.00 pm, the following reports that were unavailable when the agenda was printed.

4 **MINUTES** (Pages 2 - 6)

To confirm the Minutes of the meeting of the Committee held on 29 July 2021.

7 **TREASURY MANAGEMENT REPORT QUARTER ONE 2021/22** (Pages 7 - 22)

To consider the report of the Head of Finance and Investment.

Yours sincerely

Chief Executive

Minutes of the meeting of the **GOVERNANCE COMMITTEE** held at the Council Offices, Whitfield on Thursday, 29 July 2021 at 6.00 pm.

Present:

Chairman: Councillor D Hannent

Councillors: D A Hawkes
P D Jull
P Walker

Officers: Head of Finance and Investment
Deputy Head of Audit Partnership (East Kent Audit Partnership)
Democratic Services Officer

Also present: Key Audit Partner (Grant Thornton) (External Auditors)

1 APOLOGIES

Apologies for absence were received from Councillors S H Beer and S S Chandler.

2 APPOINTMENT OF SUBSTITUTE MEMBERS

There were no substitute members appointed.

3 DECLARATIONS OF INTEREST

There were no declarations of interest made.

4 MINUTES

The Minutes of the meeting held on 15 April 2021 were approved as a correct record for signing by the Chairman.

5 QUARTERLY INTERNAL UPDATE REPORT

The Deputy Head of Audit Partnership introduced the Quarterly Internal Audit Update report to the Committee. For the period up to 30 June 2021, 40.5% of the plan had been completed having conducted twelve new audits, along with completing eight follow-up reviews.

Members considered the audits and discussed the following points:

- In respect of the audit of Receipt and Opening of Tenders, Members were advised that tenders were usually opened without the presence of a councillor since electronic opening was introduced.

- The audit of Planning Enforcement had identified that there were no performance indicators (PIs) for the service. The Deputy Head of Audit Partnership advised Members that a follow-up audit of the service was imminent and a recommendation to management had been made to introduce PIs for the service. Members were keen to recommend that these be implemented although would wait to see what progress had been made after follow-up.

- With regard to the EKS ICT Disaster Recovery audit it was recognised the Business Continuity Plan and Disaster Recovery for ICT Services had been well tested during the pandemic. It had evidenced how quickly the service and council could respond to a crisis, having moved staff from the office to home working.

- Members recognised the switch to working from home had worked well for some areas of the council. Lessons had been learned which had improved efficiency and some good practices had emerged. Home working had also presented risks and had highlighted some GDPR implications, ensuring that council data was adequately protected. Some services were badly affected, such as planning enforcement site visits and tenant safety checks for example were ceased as a result of lockdowns and restrictions. It was hoped that these services would begin to return to normal as restrictions eased.

- Members considered the two Project audits, Kearsney Abbey and Ottaway House, and the lessons learned regarding the Project Management processes. The Kearsney Abbey project had encountered numerous problems and considerable additional costs. Members considered the Value for Money (VFM) of the project and the implications of such an overspend when bidding for grants in the future. Members' attention was drawn to the four key governance and risk management learning areas that were identified in the report and the Chairman of the Committee would follow these points up with officers outside of the meeting.

Members thanked officers for the report and

RESOLVED: That the Quarterly Internal Audit Update Report be noted.

6 ANNUAL INTERNAL AUDIT REPORT

The Deputy Head of Audit Partnership introduced the report to the Committee which provided a summary of the work undertaken by the East Kent Audit Partnership (EKAP) for the year ended 31 March 2021.

During the period the Covid-19 pandemic had impacted on the service and the audit plan had been suspended. During the first quarter (April, May and June) staff were redeployed to utilise their skills in the Community Hub set up by the council. A revised target of 75% plan completion was implemented and as of 1 July 2020 the plan completion was reasonable against the revised target.

During the year 100% of completed reviews received either a substantial or reasonable assurance level and following positive actions from management, two reviews were moved from reasonable to substantial assurance after follow-up.

Members' attention was drawn to the Overall Opinion of the Head of Audit Partnership within the report, The GDPR Review undertaken by the legal team which looked at data breach implications as a result of working from home was praised by Members and was a well-received piece of work that audit would encourage other councils to undertake.

With regard to Risk Management, Members noted that the council did not comply with CIPFA and IAA Best Practice guidance. Members considered whether the Corporate Risk Register should be presented to the Governance Committee. The information in the register did not change regularly and members considered the regularity of the report coming to the Committee. It was suggested that the report could be presented quarterly and for the report to highlight what had changed. Members also discussed whether the report should only be presented to the Committee when there was a change to the register.

RESOLVED: (a) That Members not the Opinion of the Head of Audit Partnership.

(b) That Members not the Annual Report detailing the work of the EKAP and its performance to underpin the 2020-21 opinion.

(c) That the Corporate Risk Register be presented quarterly (subject to change) to the Governance Committee.

7 AUDIT FINDINGS REPORT

The Key Audit Partner for Grant Thornton (External Auditors) presented the report which highlighted the key findings and other matters arising from the statutory audit of the Council and the preparation of the Council's financial statements for the year ended 31 March 2020.

The audit was not yet completed and deadlines for the preparation of the financial statements and audited financial statements for the period had been extended. Additional challenges and work pressures throughout the year delayed the completion of the draft statements to January 2021. Auditors began work on the accounts in February through to April when auditors were deployed to work on NHS audits. Work on Dover's audit had commenced again in July 2021 although a new team were tasked with the finalisation of the audit which resulted in further delays. It was hoped the audit would be completed by the end of September 2021. Members expressed their concerns that the completed audit for 2019/20 was still outstanding. The 2020/21 audit was due to commence on completion of the previous year's audit and the audit plan to be presented to the Committee in September.

It was reported to Members that for the 2018/19 audit the Value for Money conclusion was deferred whilst objections raised at other East Kent district in respect of East Kent Housing were considered. Having now finalised consideration of the objections it was concluded that an 'except for' qualification for 2018/19 be issued.

It was recognised that the housing service had come back in-house in October 2020. Building on the experiences from East Kent Housing's failings Members were hopeful that their concerns regarding other projects and contract management would encourage Grant Thornton to look closely at those areas.

RESOLVED: That the Audit Findings Report be noted.

8 FINANCIAL OUTTURN 2019/20

The Head of Finance and Investment presented the Financial Outturn 2019/20 report the Committee. This report tied into the Statement of Accounts which, due to the impact of the Covid-19 pandemic, was delayed in the production process. Members were asked to consider the report in conjunction with both the Statement of Accounts and the Audit Findings report.

Members were directed to the summary of the key points within the report where it was reported that the General Fund had delivered an underspend against the original budget of c£2.2m and the factors contributing to the underspend. The Council had remained within its Treasury Management guidelines and complied with the Prudential Code during the year.

With regard to the investment in the CCTV Upgrade and Town Centre WiFi, project, Councillor P D Jull queried the original budget and whether there was an underspend as the wi-fi had not been delivered. The Head of Finance and Investment would get further details from officers and get back to councillors with this information.

As a member of the Chamber of Trade, Councillor Jull had offered to make an appeal for the overspend of the NNDR for the old Dover Leisure Centre and this would be taken up with Civica by the Head of Finance and Investment.

RESOLVED: That the Financial Outturn 2019/20 report be received and noted.

9 STATEMENT OF ACCOUNTS 2019/20

The Head of Finance and Investment presented the Statement of Accounts 2019/20 to the Committee. The production of the report was a statutory requirement which supported the Financial Outturn 2019/20 report.

The Committee was advised that the auditors, Grant Thornton, were nearing completion of the audit of the council's financial statements and an unqualified opinion was anticipated. An amendment to the recommendation in the report was required to reflect the unfinished audit.

In response to a question from Councillor P D Jull about the performance of the Ernest Bruce Charles Charity, the Head of Finance and Investment would look into the matter further and provide a response to him outside of the meeting.

RESOLVED:

(a) That upon completion of the audit the Statement of Accounts for 2019/20 (Appendix 1) be approved and signed by the Chairman of the committee.

(b) That the committee notes the letter of representation (Appendix 2) to be signed by the Strategic Director (Corporate Resources).

10 SECTOR UPDATE - GRANT THORNTON

The Key Audit Partner for Grant Thornton (External Auditors) presented the Audit Progress Report and Sector Update to the Committee.

Progress to date and updates included:

- As previously reported the 2019/20 audit was in the process of being completed and Members' attention was drawn to the progress of the 2020/21 audit and expected timings of that within the report.

- The Value for Money scope had expanded and as a consequence, Grant Thornton's approach to it.

- The need to increase fees for 2020/21, with the proposed fee being presented to the September meeting.

The Head of Finance and Investment responded to the proposed audit timings and that the 2020/21 accounts had not yet been published. The timings needed to work for both the finance team and Grant Thornton as work would be commencing on budgets. Flexibility would be required to find a balance that worked for everyone to produce timely reports.

In response to a question from Members, the Key Audit Partner advised that remote working did not adversely impact on the audit as long as councils had the necessary arrangements in place. It was the view of the Key Audit Partner that any authority that could not deliver a balanced hybrid approach could potentially face problems.

RESOVLED: That the Progress Report and Sector Update be noted.

The meeting ended at 7.28 pm.

Subject:	**TREASURY MANAGEMENT QUARTER ONE REPORT 2021/22**
Meeting and Date:	**Governance Committee – 30 September 2021**
Report of:	**Helen Lamb – Head of Finance and Housing**
Portfolio Holder:	**Councillor Christopher Vinson – Portfolio Holder for Finance and Governance**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the year ended 30 June 2021.
Recommendation:	That the report is received.

1. **Summary**

1.1 The Council's investment return for the period to 30 June was 2.18% (annualised), which outperformed the benchmark[1] by 2.16%. The total interest and dividends income forecast to be received for the year is £1,503k as of 30 June, which is £247k less than the original budget estimate of £1,750k. The long-term investments have been generating a reasonable income return considering the impact of the global pandemic.

2. The Council remained within its Treasury Management guidelines and complied with the Prudential Code guidelines during the period.

3. **Introduction and Background**

3.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

3.2 Council adopted the 2021/22 Treasury Management Strategy (TMS) on 3rd March 2021 as part of the 2021/22 Budget and Medium-Term Financial Plan.

3.3 To comply with the CIPFA code referred to above, a brief summary is provided below, and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.

3.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

1 The "benchmark" is the interest rate against which performance is assessed. DDC use the 3 month London Inter-Bank Bid Rate or LIBID, as its benchmark, which was 0.07 at the end of the quarter.

4. **Economic Background**

4.1 The report attached (Appendix 1) contains information up to the end of June 2021; since then we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

"Main points since June:

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

II. *The re opening the UK economy will result in improved GDP in Q2 and Q3 although the pingdemic in June and July will have restrained activity a little and exacerbated labour shortages. The more upbeat assessment is that GDP will return to its pre Covid peak by the end of calendar 2021 but will be predicated on the extent and speed with which households and businesses normalise their spending and activity during the remainder of the year.*

III. *Inflation rose to 2.5% in June. Alongside the increase in commodity and energy prices, supply and transportation bottlenecks and the boost in prices from the lifting of restrictions, the MPC has acknowledged the potential of CPI rising to around 4 in Q 4 2021. However, the transitory factors affecting inflation including the low base effect of 2020 are expected to unwind over time expectations for medium term inflation are not elevated.*

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

V. *Government bond yields declined after rising earlier in the year as the prospect of imminent higher policy rates receded- the Delta variant increased concerns that the pandemic will dampen confidence and weigh on growth for longer than previously expected. Some upward pressure on gilt yields could remain in the short term due to the variability of data.*

VI. *Policymakers have begun signalling their intention of higher policy rates, albeit,not just yet. At its August meeting, the MPC indicated that some modest tightening of monetary policy over the 3 year forecast period was likely to be necessary to mitigate inflation risks.*

VII. *Arlingclose expects Bank Rate to remain at the current 0.10% level. We believe the risk of movement in the immediate term remains low, although the risks over the MPC's 3 year horizon have increased and are leaning to the upside.*

VIII. *Gilt yields have fallen recently, but volatility is likely given the uncertainties over the economic outlook and central bank asset purchase programmes.*

IX. *Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.*

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

5. Annual Investment Strategy

5.1 The investment portfolio, as at the end of June 2021, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £58.5m, increasing to £58.7m at the end of August. The increase reflects normal cashflow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.

5.2 As at 30th June 2021, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£8.4m at 30 June 2021).

5.3 Cashflow funds have since increased (to £8.7m at 31 August 2021) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

6. New Borrowing

6.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of June 2021, the Council had £11 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives.

7. Debt Rescheduling

7.1 At this time, it is not considered of benefit to the Council to undertake any further rescheduling of its long-term debt.

8. Compliance with Treasury and Prudential Limits

8.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

9. Appendices

Appendix 1 – Arlingclose Treasury Management Report for quarter one 2021/22

Appendix 2 – Investment portfolio as at 30 June 2021

Appendix 3 – Borrowing portfolio as at 30 June 2021

Appendix 4 – Investment portfolio as at 31 August 2021

10. Background Papers

Medium Term Financial Plan 2021/22 – 2024/25

Contact Officer: Dani Loxton, extension 2285

Treasury Management Report Q1 2021/22

Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

The Authority's treasury management strategy for 2021/22 was approved at a meeting on 3rd March 2021. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 3rd March 2021.

External Context

Economic background: Economic resurgence from coronavirus pandemic continued to dominate the first quarter of the financial year. In the biggest inoculation programme the country has ever undertaken, over 44 million people in the UK had received their first dose of a COVID-19 vaccine with 32 million also having a second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its June 2021 policy announcement, the BoE expected the economy to experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation is expected to fall back. There were, however, two-sided risks around this central path, and it is possible that near-term upward pressure on prices could prove somewhat larger than expected. The Bank's Monetary Policy Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

Government initiatives continued to support the economy over the quarter, following the range of measures announced by the Chancellor in the 2021 Budget, which included extending the furlough (Coronavirus Job Retention) scheme until September 2021.

The latest labour market data showed that in the three months to April 2021 the unemployment rate fell to 4.7%, although it is likely that labour market slack has remained higher than implied by this measure. Some individuals stopped looking for work during the pandemic and were therefore recorded as inactive. There is uncertainty around how many of these individuals will resume their search for a job, and when. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 5.6% for the three months February to April 2021. The seemingly high growth partly reflected a base effect from a decline in average pay in the spring of last year, associated with the reduced pay of employees on the furlough scheme.

Annual CPI inflation rose to 2.1% in May on the back of base effects in spring 2020 and partly due to higher energy and commodity prices and supply-side bottlenecks. The BoE expects inflation to

exceed 3% for a temporary period. The ONS' preferred measure of CPIH which includes owner-occupied housing was also 2.1% year/year, marginally higher than expectations.

The reimposition of restrictions on activity in the first quarter of calendar 2021 year resulted in GDP falling 1.6% in Q1. GDP growth was strong in April at 2.3% with the partial easing of restrictions on non-essential retail and outdoor hospitality. Housing market activity remained strong, aided by the extension of the stamp duty threshold and an increase in mortgage approvals for house purchases.

The US economy rebounded by 4.3% in Q4 2020 (Oct-Dec) and then an even stronger 6.4% in Q1 as the recovery continued to be fuelled by $5 trillion worth of pandemic stimulus packages. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period.

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

Financial markets: Ongoing monetary and fiscal stimulus together with improving economic growth prospects and successful vaccine rollout programmes continued to boost equity markets over the period. The Dow Jones reached a record high during the period while the UK-focused FTSE 250 index was back above pre-pandemic levels and the more internationally focused FTSE 100 had recouped around three-quarters of 2020 losses.

Inflation worries continued during the period but declines in bond yields between April and June suggest bond markets may be expecting any general price increases to be less severe, or more transitory, that was previously thought.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.32% by the end of June 2021. Over the same period the 10-year gilt yield fell from 0.80% to 0.71%, despite jumping to 0.90% in May. The 20-year yield declined from 1.31% to 1.21%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.03%, 0.02% and 0.15% respectively over the period.

Credit review: Credit default swap spreads were relatively flat over the period and remain only slightly above their pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, and Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of June, Santander UK was trading the highest at 52bps and Standard Chartered the lowest at 31bps. The other ringfenced banks were trading between 32 and 34bps while Nationwide Building Society was 38bps.

There were only a small number of credit rating actions over the period. Fitch revised a number of Singaporean and Australian banks as well as Close Brothers to stable, and also upgraded Coventry Building Society to 'A' (from 'A-'). Towards the end of the period Fitch revised the United Kingdom's outlook to stable from negative.

S&P also revised some Australian banks to stable, as well as Transport for London, which a week or so later received a £1.08 billion bailout from the UK government. S&P also downgraded the long- and short-term ratings of DZ Bank (Germany) to A+ and A-1 from AA- and A-1+ respectively. In late June S&P took further rating actions, upwardly revising the outlooks for a number of UK and European banks from negative to stable, or in the case of Barclays and Nationwide from stable to positive.

The successful vaccine rollout programme is credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Local Context

On 31st March 2021, the Authority had net borrowing of £34.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.21 Actual £000
General Fund CFR	65,267
HRA CFR	73,726
Total CFR	**138,993**
Less: Usable reserves	(90,805)
Less: Working capital	(13,875)
Net borrowing	**34,313**

Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.

The treasury management position on 30th June 2021 and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £000	**Movement £000**	**30.6.21 Balance £000**	**30.6.21 Rate %**
Long-term borrowing	73,187	2,443	75,631	
Short-term borrowing	18,443	(7,443)	11,000	
Total borrowing	**91,631**	**0**	**86,631**	**3.46%**
Long-term investments	49,549	451	50,000	
Short-term investments	4	0	4	
Cash and cash equivalents	7,765	719	8,484	
Total investments	**57,318**	**1,170**	**58,488**	**2.18%**
Net borrowing	**34,313**		**28,143**	

£5m of short-term borrowing repaid in the quarter to 30 June.

Borrowing Update

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

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

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB

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

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

UK Infrastructure Bank: £4bn has been earmarked for of lending to local authorities by the UK Infrastructure Bank. The availability of this lending to local authorities is due to commence in summer 2021 for which there is expected to be a bidding process. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.

Borrowing Strategy during the period

At 30th June 2021 the Authority held £11m of loans, a decrease of £5m 31st March 2021, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30th June are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.21 Balance £000	**Net Movement £000**	**30.6.21 Balance £000**
Public Works Loan Board	75,631	0	75,631
Local authorities (short-term)	16,000	(5,000)	11,000
Total borrowing	**91,631**		**86,631**

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

In keeping with these objectives, no new long-term borrowing was undertaken. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates and with surplus of liquidity continuing to feature in the LA to LA market, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in table 3 above.

The Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital.

Treasury Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £72m and £52m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.21 Balance £000	**Net Movement £000**	**30.6.21 Balance £000**	**30.6.21 Income Return %**
Banks & building societies (unsecured)	7,764	(1,634)	6,134	0.10%
Money Market Funds	5	2,349	2,354	0.01%
Other Pooled Funds				
• *Short-dated bond funds*	8,032	(32)	8,000	
• *Strategic bond funds*	8,386	(386)	8,000	
• *Property funds*	5,585	415	6,000	
• *Multi asset income funds*	27,546	454	28,000	
Other Pooled Funds Sub-total	**49,549**	451	**50,000**	3%
Total investments	**57,318**	1,170	**58,488**	

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

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

ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.

Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has diversified into more secure and/or higher yielding asset classes as shown in table 4 above. £50m that is available for longer-term investment is available for longer-term investment is held in pooled investment funds.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2021 30.06.2021	5.33 5.21	A+ A+	100% 100%	1 1	3.01% 7.52%
Similar LAs **All LAs**	4.60 4.64	A+ A+	68% 67%	41 12	3.32% 2.13%

Externally Managed Pooled Funds: £50m of the Authority's investments are held in externally managed strategic pooled bond, multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of 9.70%, comprising a 2.81% income return which is used to support services in year, and 6.89% of capital growth.

The Authority is invested in bond, multi-asset and property funds. The improved market sentiment in the past 6 months is reflected in property and multi-asset fund valuations which is reflected in the capital values of the Authority's property and multi-asset income funds in the Authority's portfolio. The prospect of higher inflation and rising bond yields resulted in muted bond fund performance. The change in capital values and income earned is shown in Table 4.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

Following the approval of the Property Investment Strategy in November 2016, work continues to identify and progress suitable investments to deliver economic regeneration and to generate additional income streams for the future. Additionally, the Property Investment team continues to work on a number of residential developments both utilising DDC owned properties and land, as well as with external developers.

The 2021/22 budget includes a forecast of total income (rent and service charges) of £1.94m. Costs including management costs, minimum revenue provision and long term borrowing of £1.30m are forecast resulting in retained income for the General Fund of £640k.

Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £000	Budget £000	Over/ under	Actual %	Benchmark %
Interest Received	1,503	1,750	(247)	2.18	0.02
Interest Payable	2,521	2,521	0	3.46%	3.46%

Compliance

The Strategic Director of Corporate Resources reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 7: Debt Limits

	30.6.21 Actual	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied?
Borrowing	£86.3m	£333m	£338.5m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits

	30.6.21 Actual	2021/22 Limit	Complied?
Any single organisation, except the UK Government	<1m	£8m per bank	✓
Any group of organisations under the same ownership	0	£16m per group	✓

Negotiable instruments held in a broker's nominee account	0	£15m	✓
UK Government	0	Unlimited	✓
Building societies (unsecured)	0	£8m	✓
Strategic pooled funds	£50m	£10m per fund	✓
Money market funds	£2m	£10m per fund	✓
Operational bank	£6m	£20m	✓

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	30.6.21 Actual	2021/22 Target	Complied?
Portfolio average credit rating	5.21	6	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	30.6.21 Actual	2021/22 Target	Complied?
Total cash available within 3 months	£8.4m	£8m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	30.6.21 Actual	2021/22 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	584	500	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	584	500	✓

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

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Refinancing rate risk indicator	30.6.21 Actual £000	Upper Limit	Lower Limit	Complied?
Under 12 months	13,443	25%	0%	✓
12 months and within 24 months	3,812	50%	0%	✓
24 months and within 5 years	8,188	50%	0%	✓
5 years and within 10 years	16,493	100%	0%	✓
10 years and above	44,695	100%	0%	✓

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

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Price risk indicator	2021/22	2022/23	2023/24
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied?	✓	✓	✓

Other

CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. The revised codes are yet to be released. However, from feedback documents the following changes are likely:

Prudential Code:

- Clarification and definitions to define commercial activity and investment, and that an authority must not borrow to invest for the primary purpose of commercial return.
- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.
- Proportionality will be included as an objective; new indicators for net income from commercial and service investments to net revenue stream.
- A specific objective around commercial investment with the intention of embedding good practice across authorities.

Treasury Management Code:

- Inclusion of the liability benchmark as a mandatory treasury indicator.
- Implementation of a treasury management knowledge and skills framework.

- Incorporating ESG issues as a consideration within TMP 1 Risk Management.

Outlook for the remainder of 2021/22

The medium-term global economic outlook has continued to improve with the rollout of vaccination programmes. The UK has continued to benefit from its initial rapid vaccine rollout and has shifted focus onto second vaccinations to increase protection to counter a third wave of Covid variant.

The opening up of the UK economy in Q2/Q3 will continue to prompt a sharp increase in GDP.

While downside risks seem to have fallen somewhat after recent trends in GDP and labour, the upside risks remain relatively balanced with the MPC reiterating its commitment not to tighten policy until there is clear evidence that the recovery is eliminating spare capacity in the economy.

Inflation has moved above the Bank of England's 2% target. Alongside the increase in commodity prices, the MPC has acknowledged the prospect of a sharper upturn in inflation, with the potential CPI could rise above 3% in the coming months. However, the nature of the commodity price rise and the base effect easing, this is likely a more transitory effect.

Upward pressure on gilt yields could continue in the short term due to the preponderance of strong data, but this is likely to ease once inflation fears recede as the effect of weak base effects subsides and growth figures return to more normal levels.

Arlingclose expects Bank Rate to remain at the current 0.10% level. The risk of movement in Bank Rate in the short term is low.

Gilt yields could continue to increase in the short term but will begin to plateau and reduce once the market's expectation of rises in Bank Rate and inflation fears subside. Longer term yields may face upward pressure towards the end of Arlingclose's forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.

Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases.

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Official Bank Rate													
Upside risk	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20

In-house as at 30/06/21

APPENDIX 2

Organisation	Issue Date	Book cost	Market yield %	Government Sovereign Debt rating	Options available
In-house investments - Long Term					
CCLA Property investment Fund	30/06/17	3,000,000	4.06%	UK - Gov 'AA'	*5 Years* +
CCLA Property investment Fund	31/07/17	3,000,000	4.06%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	15/12/17	6,000,000	3.69%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	2.78%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.56%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	3.69%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	3.69%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.10%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	2.78%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/19	8,000,000	5.00%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	16/12/19	2,000,000	5.00%	UK - Gov 'AA'	5 Years +
		50,000,000			
		50,000,000	**Total Portfolio**		

Cashflow:		**Rate**
Call Accounts/MMF (as at 30/06/21)		
Global Treasury Fund (Goldman Sachs Money Market Fund)	354,106	0.01%
Standard Life Investments (Money Market Fund)	2,000,000	0.01%
Natwest SIBA	6,123,992	0.10%
Santander	503	0.05%
Bank of Scotland	5,023	0.10%
Barclays	374	0.00%
Total Cash flow	**8,483,998**	
Total Portfolio ar	**58,483,998**	

Dover District Council Borrowing - 2021/22 **APPENDIX 3**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-21	Interest Rate %	Principal To Be Repaid 2021/22	Principal Balance 31-Mar-22	Interest Payable 2021/22	Lender	Type of loan
Long Term Borrowing											
Fixed	02/10/97	02/10/57	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity
Fixed	28/05/97	28/05/57	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity
Fixed	23/08/46	23/06/26	JUNE-DEC	131582	245	2.50	45	201	6	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	27/09/46	27/06/26	JUNE-DEC	131583	45	2.50	8	37	1	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	16/11/01	30/09/26	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity
Fixed	26/03/12	26/03/42	SEPT-MAR	499853	71,630,591	3.18	2,443,225	69,187,366	2,258,582	PWLB	Annuity (HRA Financing)
					75,630,882		**2,443,278**	**73,187,604**	**2,521,090**		
Short Term Borrowing											
Fixed	06/04/21	06/07/21	On Maturity		0	0.03	6,000,000	0	454	Shropshire Council	Short term loan for Strategic cash flow purposes
Fixed	10/05/21	10/08/21	On Maturity		0	0.03	5,000,000	0	378	Barnsley Metropolitan BC	Short term loan for Strategic cash flow purposes
					0		**11,000,000**	**0**	**832**		*Sub-total*
Fixed	01/05/12	01/11/27	MAY-NOV		60,966	0.00	8,710	52,257	0	Lawn Tennis Association	Interest free
					75,691,848		**2,451,988**	**73,239,860**	**2,521,921**		

In-house as at 31/08/21

APPENDIX 4

Organisation	Issue Date	Book cost	Market yield	Government	Options available
In-house investments - Long Term					
CCLA Property investment Fund	30/06/17	3,000,000	4.06%	UK - Gov 'AA'	*5 Years* +
CCLA Property investment Fund	31/07/17	3,000,000	4.06%	UK - Gov 'AA'	*5 Years* +
Investec Diversified Income Fund	15/12/17	6,000,000	3.69%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	2.78%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.56%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	3.69%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	3.69%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.10%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	2.78%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/19	8,000,000	5.00%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	16/12/19	2,000,000	5.00%	UK - Gov 'AA'	5 Years +
		50,000,000			
		50,000,000	**Total Portfolio**		

Cashflow:

Call Accounts/MMF (as at 31/08/21)	**Rate**	
Global Treasury Fund (Goldman Sachs Money Market Fund)	354,106	0.01%
Standard Life Investments (Money Market Fund)	2,000,000	0.01%
Natwest SIBA	6,333,992	0.10%
Santander	503	0.05%
Bank of Scotland (BOS)	5,023	0.10%
Barclays	374	0.00%
Total Cash flow	**8,693,998**	