Public Document Pack

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18 November 2020

Dear Councillor

NOTICE IS HEREBY GIVEN THAT a meeting of the **GOVERNANCE COMMITTEE** will be held as a Remote Meeting - Teams Live Event on Thursday 26 November 2020 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Jemma Duffield on (01304) 872305 or by e-mail at democraticservices@dover.gov.uk.

Yours sincerely

Chief Executive

Governance Committee Membership:

D Hannent (Chairman)
S S Chandler (Vice-Chairman)
S H Beer
S J Jones
P D Jull
J Rose
P Walker

AGENDA

1 **APOLOGIES**

To receive any apologies for absence.

2 **APPOINTMENT OF SUBSTITUTE MEMBERS**

To note appointments of Substitute Members.

3 **DECLARATIONS OF INTEREST** (Page 4)

To receive any declarations of interest from Members in respect of business to be transacted on the agenda.

4 **MINUTES** (Pages 5 - 7)

To confirm the attached Minutes of the meeting of the Committee held on 1 October 2020.

5 **ANNUAL COMPLAINTS REPORT** (Pages 8 - 10)

To consider the attached report of the Head of Leadership Support.

6 **QUARTERLY INTERNAL AUDIT UPDATE** (Pages 11 - 26)

To consider the attached report of the Head of Audit Partnership (East Kent Audit Partnership).

7 **TREASURY MANAGEMENT QUARTERS 1 AND 2 2020/21** (Pages 27 - 57)

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

8 **EXCLUSION OF THE PRESS AND PUBLIC** (Page 58)

The recommendation is attached.

MATTERS WHICH THE MANAGEMENT TEAM SUGGESTS SHOULD BE CONSIDERED IN PRIVATE AS THE REPORT CONTAINS EXEMPT INFORMATION AS DEFINED WITHIN PART 1 OF SCHEDULE 12A OF THE LOCAL GOVERNMENT ACT 1972 AS INDICATED AND IN RESPECT OF WHICH THE PROPER OFFICER CONSIDERS THAT THE PUBLIC INTEREST IN MAINTAINING THE EXEMPTION OUTWEIGHS THE PUBLIC INTEREST IN DISCLOSING THE INFORMATION

9 **ANNUAL DEBT COLLECTION REPORT FOR EAST KENT SERVICES (MANAGED BY CIVICA LIMITED)** (Pages 59 - 69)

To consider the attached report of the Strategic Director (Corporate Resources).

Access to Meetings and Information

- The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 have changed the basis of the public’s legal right to attend meetings. This means the public now has the right to hear Councillors attending the remote committee meeting that would normally be open to the public to attend in person. It is the intention of Dover District Council to also offer the opportunity for members of the public to view, as well as hear, remote meetings where possible. You may remain present throughout them except during the consideration of exempt or confidential information.

- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of charge, and all agendas, reports and minutes can be viewed and downloaded from our website www.dover.gov.uk. Minutes will be published on our website as soon as practicably possible after each meeting. All agenda papers and minutes are available for public inspection for a period of six years from the date of the meeting.

- If you require any further information about the contents of this agenda or your right to gain access to information held by the Council please contact Jemma Duffield, Democratic Services Officer, telephone: (01304) 872305 or email: democraticservices@dover.gov.uk for details.

Large print copies of this agenda can be supplied on request.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

Minutes of the meeting of the **GOVERNANCE COMMITTEE** held as a Teams Live Events remote meeting on Thursday, 1 October 2020 at 6.05 pm

Present:

Chairman:	Councillor D Hannent
Councillors:	S S Chandler S H Beer S J Jones P D Jull J Rose P Walker
Officers:	Strategic Director (Corporate Resources) Head of Governance Head of Audit Partnership (East Kent Audit Partnership) Deputy Head of Audit Partnership (East Kent Audit Partnership) Engagement Lead (Grant Thornton) Engagement Manager (Grant Thornton) Democratic Services Officer

11 APOLOGIES

There were no apologies for absence.

12 APPOINTMENT OF SUBSTITUTE MEMBERS

There were no substitute members appointed.

13 DECLARATIONS OF INTEREST

There were no declarations of interest made by Members.

14 MINUTES

The minutes of the meeting held on 30 July 2020 were approved as a correct record and signed by the Chairman.

15 AUDIT PROGRESS REPORT AND SECTOR UPDATE

Members considered the Audit Progress and Sector Update report that was presented to the Committee by the Engagement Lead for Grant Thornton, the Council's external auditors. The report provided members with details of the current position of the auditor's work and issues arising from the local government sector.

Members' attention was drawn to the new Code of Audit Practice framework, introduced by the National Audit Office, and the introduction of a revised approach to the audit Value for Money which would come into effect from audit year 2020/21. Members and officers discussed the Redmond Review, the impact of Covid-19 and the impact of Brexit on the authority. It was the view of the Strategic Director (Corporate Resources) that this report was a generic review of local authorities and did not consider the unique issues for the Dover district in terms of Brexit, Covid-19 and business rates and cited the Channel Tunnel, which would be impacted by both

Covid-19 and Brexit; the effect of these on the Dover district would be far greater than other authorities.

RESOLVED: That the Audit Progress and Sector Update report be noted.

16 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Deputy Head of Audit Partnership (East Kent Audit Partnership) (EKAP) introduced the Quarterly Internal Audit Update report to the Committee which provided a summary of the work completed by the EKAP to 30 June 2020.

There had been five internal audit assignments completed of which three concluded substantial assurance and one reasonable. EKHR – Benefits in Kind had received a split reasonable/limited assurance. EKAP were confident the issues that gave rise to the split assurance would be addressed in the coming months to raise the assurance.

After follow-up East Kent Housing – Tenants' Health and Safety Lifts had increased to reasonable assurance from no assurance and the East Kent Housing – Tenant Health and Safety Fire Safety follow-up review was still to be completed and would be reported to the next meeting of the committee in November.

Concern was raised by Members that ten planned audit days for Planning Enforcement had been deferred and requested that these be re-instated in the 2020/21 Audit Plan. The Strategic Director (Corporate Resources) commented that the Regulatory Service, which managed Planning Enforcement, was under pressure as a result of Brexit to recruit circa 140 staff by June/July 2021 and that this was likely to have attributed to the decision to remove the audit days.

Regarding the Dog Control Service the Deputy Head of Audit Partnership would report back to Councillor P D Jull outside of the meeting on whether sheep worrying was within the scope of the audit although he did not think it was.

RESOLVED: That with the re-inclusion of 10 audit days for Planning Enforcement in the 2020/21 Audit Plan, the Quarterly Internal Audit Update report be noted.

17 2019/20 ANNUAL GOVERNANCE ASSURANCE STATEMENT

The Head of Governance introduced the 2019/20 Annual Governance Assurance Statement (AGAS) to the Committee and explained that it was required to be published alongside the Statement of Accounts. The AGAS was produced later in the year than in previous years. This was as a result of the Covid-19 pandemic and an amendment made to the Accounts and Audit Regulations 2015 which required the Statement of Accounts to be approved by 30 November 2020 instead of 31 July.

The Head of Governance advised Members that the report had been considered and approved by Cabinet at its meeting on 7 September 2020 and the typo error relating to the number of complaints which had been reviewed by the Local Government Ombudsman in 2018/19 in that report had been corrected for the Governance Committee report. The Leader and Head of Paid Service would be made aware of the correction before signing the statement on behalf of the Council.

RESOLVED: That the 2019/20 Annual Governance Assurance Statement be accepted alongside the 2019/20 Statement of Accounts.

The meeting ended at 6.52 pm.

Subject:	**ANNUAL COMPLAINTS REPORT**
Meeting and Date:	**Governance Committee – 26 November 2020**
Report of:	**Michelle Farrow, Head of Leadership Support**
Decision Type:	**Non-Key**
Classification:	**Unrestricted**
Purpose of the report:	This report documents the number of complaints dealt with through the corporate complaints process for the financial year 2019/20 and from April to October 2020/21.
Recommendation:	That the report be noted.

1. **Summary**

This report highlights the number of complaints received for each service provided by the Council, for the financial year 2019/20 and the current financial year to 31 October 2020 and indicates where the number has risen or decreased. The report does not compare a full year with a full year.

2. **Introduction and Background**

2.1 The Council has a two stage corporate complaints process. The first stage is for the relevant department to respond. If the complainant remains dissatisfied, they can request a stage 2 review by Corporate Services. The report also details the numbers that have been referred to the Local Government & Social Care Ombudsman. This is an independent free service for the public if they are unhappy with the way in which a local authority (not town or parish council) has dealt with an issue. The Ombudsman would normally require the matter to have been through the Council's complaints process first.

2.2 The number of complaints for the previous and current financial years have been compared. The majority of services show minor variations, but the major difference is in the reduction of council tax and business rate complaints received at stage 1. This has been raised with Civica who monitor the trends and they confirm that there has been a reduction across east Kent. It is believed that this is due to bailiff action being suspended through lockdown, council tax and business rates have paid out grants to support customers during the pandemic thus providing more support and further Civica have recovered from the build-up of work caused by year end resulting in fewer complaints about response times. It is expected that once full recovery work recommences the number of stage 1 complaints received will rise to a more normal level.

2.3 Thirteen decisions were issued by the Local Government and Social Care Ombudsman in the 2019/20 financial year. Four decisions were as a result of detailed investigations, none of which were upheld. Five were closed after initial enquiries, two were referred back for local resolution as they had not been through the Council’s complaints process and advice was provided to the complainants for the remaining two.

2.4 On 1 October 2020 the management of the Council's housing stock came back in-house. At the current time it is difficult to gauge the effect that this will have on the capacity of the Corporate Services team and the complaints process. There have been numerous 'requests for service', however these are not deemed complaints, unless they are not resolved in an appropriate manner or agreed time. There is a slight variation with the Housing Ombudsman process, in that after Stage 2 there is a 3rd stage – this can be referral to the Portfolio Holder for further investigation and then onto the Ombudsman (if necessary), or the complainant can wait 8 weeks before approaching the Ombudsman. Complaints guidance has been amended to reflect this and future reports will contain data on this process.

3. **Resource Implications**

3.1 None.

4. **Appendices**

Appendix 1 – Summary of complaints received during 2019/20 and 2020/21.

5. **Background Papers**

File C23/5 – Complaints

Contact Officer: Sue Carr, Corporate Services Officer

Appendix 1

Summary of Complaints received during 2019/20 and 2020/21

Service	1 April 2019 to 31 March 2020 Resolved at:				1 April 2019 to 31 October 2020 Resolved at:				Increase/ Decrease
	Stage 1	Stage 2	LGO	Total	Stage 1	Stage 2	LGO	Total	
Benefits	6	2	1	9	4	1	0	5	-4
Building Control	0	5	0	5	0	0	0	0	-5
Community Services	2	0	0	2	0	2	0	2	-
Council Tax & NNDR	39	3	2	44	6	1	1	8	-36
Customer Services	3	0	0	3	0	1	0	1	-2
Environmental Protection	6	0	0	6	1	2	0	3	-3
Finance	1	0	0	1	0	0	0	0	-1
Housing Services	0	0	0	0	1	0	0	1	+1
Housing Options	5	2	1	8	3	2	0	5	-3
Housing Repairs	0	0	0	0	1	0	0	1	+1
Legal	1	0	0	1	1	0	0	1	-
Mail Room	0	0	0	0	0	1	0	1	+1
Parks & Open Spaces	1	0	0	1	2	0	0	2	+1
Parking Services	4	0	1	5	1	0	0	1	-4
Private Sector Housing	1	0	0	1	0	0	0	0	-1
Planning	9	2	0	11	8	5	2	15	+4
Planning Enforcement	5	3	2	10	2	2	0	4	-6
Property Services	1	1	2	4	2	1	0	3	-1
Regeneration	0	0	0	0	0	1	0	1	+1
Waste Services	6	0	0	6	7	2	0	9	+3
Total	**90**	**18**	**9**	**117**	**39**	**21**	**3**	**63**	**-54**

Subject:	**QUARTERLY INTERNAL AUDIT UPDATE REPORT**
Meeting and Date:	**Governance Committee – 26th November 2020**
Report of:	**Christine Parker – Head of Audit Partnership**
Decision Type:	**Non-key**
Classification:	**Unrestricted**
Purpose of the report:	This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2020
Recommendation:	That Members note the update report.

1. Summary

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

2. Introduction and Background

2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed.

2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

2.4 Those services with either Limited or No Assurance are monitored and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Annex 2 to the EKAP report.

2.5 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

SUMMARY OF WORK

2.7 There has been one internal audit assignment completed during the period, which are summarised in the table in section 2 of the report.

2.8 In addition one follow-up review have been completed during the period, which is detailed in section 3 of the quarterly update report.

2.9 For the six-month period to 30th September 2020, 152.90 chargeable days were delivered against the revised target of 311.76, which equates to 49.04% plan completion.

2.10 Due to the Covid19 virus the EKAP team were redirected to community work on behalf of the partner councils early in the 2020/21 year. This has impacted upon the amount of internal audit work that can be completed within the year resulting in a revision to the audit plan in appendix 3. At the same time East Kent Housing Limited was taken back in house by the partner councils from 1st October 2020, therefore the plan is further adjusted to bring back in 30 days for 2020/21 in respect of housing reviews.

3 Resource Implications

3.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2020-21 revenue budgets.

3.2 The financial performance of the EKAP is currently on target at the present time.

Appendices

Appendix 1 – Internal Audit update report from the Head of the East Kent Audit Partnership.

Background Papers

- Internal Audit Annual Plan 2020-21 - Previously presented to and approved at the 25th June 2020 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of Audit Partnership

APPENDIX 1

INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP.

1. INTRODUCTION AND BACKGROUND

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2020.

2. SUMMARY OF REPORTS:

Service / Topic		Assurance level	No. of Recs.	
2.1	Cemeteries	Substantial	C H M L	0 0 2 3
2.2	EKHR – Disclosure & Barring Service Checks	Limited	C H M L	1 11 6 1

2.1 Cemeteries – Substantial Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council's cemetery activities are undertaken efficiently and effectively in accordance with Council policy and procedures.

2.1.2 Summary of Findings

There are six open cemeteries located within the district located in Aylesham, Deal, Dover and Sandwich. The Council deals with approximately between 120 and 170 burials each year, the nature of which attracts a fee dependent on the services requests. In 2019/10 income generated from burials was £116,317 and controllable expenditure was £215k plus there were a further £92k of recharges.

Since the previous audit in 2016 the Council has taken on responsibility for Grounds Maintenance from the contractor and this includes Grave Digging amongst other activities. This is the first internal audit under the new arrangements.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- The Council is actively exploring different and credible strategic options and has taken action to increase grave and burial capacity within the district;
- Income collection processes are working effectively;
- Budget monitoring routines are working effectively which is helping to control expenditure;
- Sample testing revealed no major weaknesses in any of the processes or records kept; and
- The service is compliant with all major Regulation and there are well documented risk assessments in place.

Scope for improvement was however identified in the following areas:

- The Council needs to continue to work to put in place a monument stability scheme at the earliest opportunity to ensure monuments and gravestone present no risk to members of the public;
- Management need to work to formally address four grave digging weakness identified by the Corporate Health and Safety Advisor;
- There is not a fee or formal process in place for grave owners to be identified and to extend a deed of grant at the expiry of their 100-year term; and one Council webpage requires updating to present the correct fees and charges.

2.1 EKHR – Disclosure & Barring Service Checks – Limited Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the processes and procedures in place to ensure that Disclosure & Barring Service (DBS) checks are undertaken where required, such as part of Safeguarding procedures and that the system meets any legal requirements in place, including GDPR.

2.1.2 Summary of Findings

There is a requirement for DBS checks to be undertaken for staff who work with or have access to children and vulnerable adults but also for staff linked to professional and other requirements. In any organisation whereby the Human Resources is delivered by a shared service provider it is vital to ensure that all partners and stakeholders are aware of their responsibilities to minimise the risk of gaps which may lead to inconsistencies, errors and any increase in preventable safeguarding risks.

The primary findings giving rise to the Limited Assurance opinion in this area are as follows:

- A number of DBS required posts at each council had not been checked, and a number were overdue.
- The various approved DBS List of Posts often missed some important positions which are a requirement set out in government and professional guidance.
- Roles and responsibilities need to be re-evaluated, strengthened and communicated in order to ensure DBS checks are kept up to date, reconciliations are undertaken at least annually and no gaps in responsibility and control exist between partners;

- Prior to December 2019 the level of check required or undertaken (Standard or Enhanced or Child Barred) had not been recorded by EKHR. This has now been addressed for DBS checks undertaken since December 2019;
- The EKHR DBS Policy requires updating to ensure no gaps exist between partners and to acknowledge GDPR compliance requirements;
- Recruitment guidance requires updating and linking to the EKHR DBS Policy to help raise awareness of DBS processes and DBS requirements.

Effective control was however evidenced in the following areas:

- 59% (202 out of 341) of officer posts requiring DBS checks across all authorities and partners were carried out in accordance with the DBS Eligibility Lists;
- Some roles and responsibilities were in place and shown to be working effectively;
- The DBS framework and core processes between partners have been established but need to be strengthened, clarified and monitored;
- The Councils have generally responded well to the DBS External Audit carried out by the Disclosure and Barring Service last year and have started working on new and improved DBS Eligibility Lists although there are still some weaknesses identified with some of these new lists; and
- Whilst the EKHR DBS Policy does not contain GDPR compliant practices, the practices in operation are GDPR compliant.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

3.1 As part of the period's work, two follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

<table>
<tr><th colspan="2">Service/ Topic</th><th>Original Assurance level</th><th>Revised Assurance level</th><th colspan="2">Original Number of Recs</th><th colspan="2">No of Recs Outstanding</th></tr>
<tr><td rowspan="4">a)</td><td rowspan="4">East Kent Housing – Tenants' H&S - Fire Safety</td><td rowspan="4">No</td><td rowspan="4">Limited</td><td>C</td><td>2</td><td>C</td><td>1*</td></tr>
<tr><td>H</td><td>4</td><td>H</td><td>1*</td></tr>
<tr><td>M</td><td>0</td><td>M</td><td>0</td></tr>
<tr><td>L</td><td>0</td><td>L</td><td>0</td></tr>
<tr><td rowspan="4">b)</td><td rowspan="4">EKS Housing Benefit Appeals</td><td rowspan="4">Substantial</td><td rowspan="4">Substantial</td><td>C</td><td>0</td><td>C</td><td>0</td></tr>
<tr><td>H</td><td>0</td><td>H</td><td>0</td></tr>
<tr><td>M</td><td>0</td><td>M</td><td>0</td></tr>
<tr><td>L</td><td>1</td><td>L</td><td>0</td></tr>
</table>

*Partially implemented at the time of follow up

3.2 Details of each of any individual high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Governance Committee – None this quarter.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

3.3 As highlighted in the above table, those areas previously reported as having either Limited or No assurance have been reviewed and Members are advised as follows:

a) East Kent Housing – Fire Safety:

Several significant issues identified during the original audit needed to be addressed. The main issue being around fire prevention work identified in Fire Risk Assessments (FRA) and repairs to be undertaken to emergency lighting identified as faulty at the annual tests. A contractor has since been appointed and has made some progress on the fire prevention works to rectify the weaknesses recorded on FRA's. The Coronavirus pandemic has meant that to date the majority of the work completed has been restricted to communal areas.

It is likely that it will take a number of years to complete all outstanding fire prevention work meaning that responsibility for completion of the work will become the responsibility of each Council from October 2020. Work has started on the development of zone plans for each building, that work is not yet complete and will also become the responsibility of each Council for completion.

At present, the EKH Chief Executive is named as the Responsible Person on all FRA's. Responsibility for all FRA's will fall back to each Council in October. Therefore each Council will need to update all FRA's in October with a new Responsible Person.

Contractors responsible for the completion of annual testing of emergency lighting have now been instructed to repair all lights identified as faulty at the time of testing. This means that all emergency lighting is now working and has passed the annual test

While a significant amount of work has already been undertaken in respect of fire safety, a large amount of fire prevention work remains outstanding and will not be completed before responsibility falls back to each Council for the completion of the work. Each Council should ensure that it has suitably qualified and experienced members of staff in place to plan, monitor and sign off fire prevention work and then review and update all Fire Risk Assessments.

4.0 WORK-IN-PROGRESS:

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Environmental Health Protection Requests, Dover Leisure Centre PIR, and Receipt & Opening of Tenders.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2020-21 Audit plan was agreed by Members at the meeting of this Committee on 25th June 2020.

5.2 The Head of the Audit Partnership meets on a quarterly basis with the Strategic Director (Corporate Resources) - Section 151 Officer to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments are made to the plan during the course of the year as some high-profile projects or high-risk areas may be requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Annex 3.

5.3 There has of course been an impact on the work of the internal audit team as a result of the C19 Crisis the team was re-deployed to assist with C19 response work in the community. As a consequence, no new internal audit work was commissioned or undertaken throughout April to June, leading to a total of 152 audit days being lost (over the partnership). The plan that was approved at the June meeting is set out in the table in Appendix 3, showing the days allocated up to the end of September. It has therefore been necessary to work with the s.151 Officer to agree a revised plan based on 9 month's work not 12, the reviews that are deferred within the overall five-year strategic audit plan are also shown. Additionally, the revised plan also accommodates the new Housing audits which will commence after 1st October once the former EKH Ltd responsibilities have transferred back to the four councils. Except for follow up, no new EKH Ltd audits commenced before the end of September, and therefore the revised EKH Plan is also shown in Appendix 3.

6.0 FRAUD AND CORRUPTION:

6.1 There were no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

7.0 INTERNAL AUDIT PERFORMANCE

7.1 For the six-month period to 30th September 2020, 152.90 chargeable days were delivered against the revised target of 311.76, which equates to 49.04% plan completion.

7.2 The financial performance of the EKAP is currently on target at the present time.

7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures.

7.4 The EKAP introduced an electronic client satisfaction questionnaire, which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Annex 4.

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Attachments

Annex 1 Summary of High priority recommendations outstanding after follow-up.
Annex 2 Summary of services with Limited / No Assurances yet to be followed up.
Annex 3 Progress to 30th September 2020 against the agreed 2020/21 Audit Plan.
Annex 4 Balanced Scorecard of performance indicators to 30th September 2020.
Annex 5 Assurance statements

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SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING OR IN PROGRESS AFTER FOLLOW-UP – ANNEX 1		
Original Recommendation	**Agreed Management Action, Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
None to report this quarter		

ANNEX 2

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
Tenancy & Right to Buy Fraud	March 2019	Limited	A pilot Counter Fraud scheme is being undertaken in conjunction with Ashford Borough Council
EKHR – Benefits-in-kind	October 2020	Reasonable/Limited	WIP
EKHR – Disclosure & Barring Service Checks	November 2020	Limited	Spring 2020

ANNEX 3

PROGRESS AGAINST THE AGREED 2020-21 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2020	Status and Assurance Level
FINANCIAL SYSTEMS:				
Treasury Management	10	10	0.22	Brief Prepared
Insurance & Inventories of Portable Assets	10	10	0.18	Brief Prepared
HOUSING SYSTEMS:				
Housing Allocations	10	10	0	-
Tenant Health & Safety Compliance	-	10	0	Quarter 4
Data Quality	-	10	0	Quarter 4
Leasehold Services	-	10	0	Quarter 4
GOVERNANCE RELATED:				
GDPR, FOI & Information Management	10	10	0.53	Brief issued
Performance Management	10	10	0.24	Brief Prepared
Corporate Advice/CMT	2	2	0	Work-in-Progress throughout 2020-21
s.151 Meetings and support	9	9	12.46	Work-in-Progress throughout 2020-21
Governance Committee Meetings and Reports	12	12	9.06	Work-in-Progress throughout 2020-21
2021-22 Audit Plan Preparation and Meetings	9	9	2.22	Quarter 4
POST IMPLEMENTATION REVIEWS:				
Kearnsey Abbey	10	0	0	Deferred
CONTRACT AUDITS:				
Receipt & Opening of Tenders	10	10	2.28	Work-in-progress
SERVICE LEVEL:				
Employee Health & Safety	10	0	0.18	Deferred
Cemeteries	10	12	12.45	Finalised - Substantial
Safeguarding Children & Vulnerable Groups	10	10	0.20	Brief Prepared
Planning Enforcement	10	10	0	Quarter 4
Business Continuity & Emergency Planning	12	0	0.18	Deferred
Playgrounds	10	0	0.22	Deferred

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2020	Status and Assurance Level
Disabled Facilities Grants	10	10	11.81	Finalised - Substantial
Land Charges	10	10	0.21	Brief Prepared
Members' Allowances & Expenses	10	10	11.22	Finalised - Substantial
Planning Applications, Income & s106 Agreements	15	0	0	Deferred
Green Waste & Recycling Income	10	10	0	-
OTHER				
Liaison with External Auditors	1	1	0	Work-in-Progress throughout 2020-21
Follow-up Work	15	15	3.54	Work-in-Progress throughout 2020-21
FINALISATION OF 2019-20- AUDITS				
Environmental Health Protection Requests	20	20	3.35	Work-in-Progress
Car Parking & Enforcement			1.88	Finalised - Substantial
Election Management & Electoral Registration			0.45	Finalised - Substantial
Dog Warden			2.81	Finalised – Reasonable
Dover Leisure Centre PIR			1.91	Work-in-Progress
Days under delivered in 2019-20	0	26.76	-	Allocated
Responsive Work:				
Duplicate Creditor Payment Testing	0	5	1.08	Work-in-Progress
Discretionary Grants – Counter Fraud	0	22	36.21	Work-in-Progress
C-19 Redeployments	0	38	38.03	Finalised
TOTAL	**255**	***311.76**	**152.90**	**49.04% as at 30th September 2020**

* 30 days added to the revised planned days from the former East Kent Housing audit plan from 1st October 2020.

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual To 30/09/2020	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Ctte/EA Liaison	4	4	3.09	Finalised for 2020-21
Follow-up Reviews	7	0	0	Finalised for 2020-21
Tenants Health & Safety	8	8	8.13	Finalised -Various
Finalisation of 2019/20 Work-in-Progress:				
Days over delivered in 2019/20		-7.37		Allocated
Welfare Reform	0	1	0.41	Finalised - Substantial
Employee Health & Safety	1	0.63	1	Finalised - Limited
Total	**20**	**12.63**	**12.63**	**100% as at 30/09/2020**

EKS, EKHR & CIVICA:

Review	Original Planned Days	Revised Planned Days	Actual days to 30/09/2020	Status and Assurance Level
EKS Reviews;				
Housing Benefits Overpayments	10	10	0.71	Work in progress
Housing Benefit Testing	30	30	0	Quarters 3 & 4
Housing Benefit Subsidy	10	10	0.45	Work in progress
Customer Services Gateway	10	10	0	Quarter 4
ICT – Disaster Recovery	15	15	0.52	Quarter 4
ICT – Software Licensing	15	15	0.19	Quarter 3
KPIs	5	5	0	Quarter 3
EKHR Reviews;				
Payroll	15	15	0	Quarter 4
EKHR DBS Checks	15	15	16.00	Finalised - Limited
EK Leavers	15	15	0.30	Quarter 3
Other;				
Corporate/Committee	5	5	4.19	Ongoing
Follow up	5	5	1.54	Ongoing
Finalisation of 2019/20 Audits:				
Days underdelivered in 2019/20	0	30.67	-	Allocated
EKHR Employee Benefits in Kind	10	2	1.19	Finalised – Substantial / No
Housing Benefit Testing 2019/20		10	10.82	Finalised – N/A
EKHR Payroll		10	10.34	Finalised - Reasonable
Total	**160**	**190.67**	**46.28**	**25.2%**

EKAP Balanced Score Card 2020-21

Quarter 2

INTERNAL PROCESSES PERSPECTIVE:	2020-21 Actual	Target	FINANCIAL PERSPECTIVE:	2020-21 Actual	Original Budget
	Quarter 2		Reported Annually		
Chargeable as % of available days	90%	80%	• Cost per Audit Day	£	£339.14
			• Direct Costs	£	£437,130
Chargeable days as % of planned days					
CCC	66.05%	50%	• + Indirect Costs (Recharges from Host)	£	£10,530
DDC	49.04%	50%			
F&HDC	34.62%	50%	• - 'Unplanned Income'	£	Zero
TDC	42.90%	50%			
EKS	25.20%	50%			
EKH	100%	50%			
(C19 Redeployment Days 152.14)			• = Net EKAP cost (all Partners)		£447,660
Overall	43.30%	50%			
Follow up/ Progress Reviews;					
• Issued	20	-			
• Not yet due	24	-			
• Now due for Follow Up	32	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

CUSTOMER PERSPECTIVE:	**2020-21 Actual** **Quarter 2**	**Target**
Number of Satisfaction Questionnaires Issued;	**22**	
Number of completed questionnaires received back;	**13**	
	= 59%	
Percentage of Customers who felt that;		
• **Interviews were conducted in a professional manner**	**100%**	**100%**
• **The audit report was ‘Good’ or better**	**100%**	**90%**
• **That the audit was worthwhile.**	**100%**	**100%**

INNOVATION & LEARNING PERSPECTIVE: **Quarter 2**	**2020-21 Actual**	**Target**
Percentage of staff qualified to relevant technician level	**75%**	**75%**
Percentage of staff holding a relevant higher level qualification	**39%**	**39%**
Percentage of staff studying for a relevant professional qualification	**15%**	**N/A**
Number of days technical training per FTE	**0.94**	**3.5**
Percentage of staff meeting formal CPD requirements (post qualification)	**39%**	**39%**

Definition of Audit Assurance Statements & Recommendation Priorities

Cipfa Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

Subject:	**TREASURY MANAGEMENT QUARTER 1 AND 2 2020/21**
Meeting and Date:	**Governance Committee – 26 November 2020**
Report of:	**Helen Lamb – Head of Finance and Investment**
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 quarters ended 30th June 2020 (Q1), 30th September 2020 (Q2) and an update of activity to date.
Recommendation:	That the report is received.

1. **Summary**

1.1 The Council's investment return for the period to 30th June was 2.50% (annualised), this had improved to 2.80% by 30th September which outperformed the benchmark[1] by 2.21% (2.67% for end of September) The total forecast interest and dividends income for the year £1,621k as at 30th June, which is £129k less than the original budget estimate of £1,750k. As at 30th September there was a slight improvement to £1,624k. The long-term investments have been generating a reasonable income return considering the impact of the global pandemic.

1.2 The Council remained within the majority of its Treasury Management guidelines and complied with the Prudential Code guidelines during the period. The only exception was the limit on short term borrowing which was exceeded at the end of March due to retaining additional cashflow funds whilst assessing the potential cashflow impact of the Coronavirus lockdown.

2. **Introduction and Background**

2.1 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.

2.2 Council adopted the 2020/21 Treasury Management Strategy (TMS) on 26th February 2020 as part of the 2020/21 Budget and Medium-Term Financial Plan.

2.3 In order 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.

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 0.67 at the end of the quarter.

2.4 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 in order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

3. Economic Background

3.1 The report attached (Appendix 5) contains information up to the end of September 2020; 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 September:

I. *The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.*

II. *The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.*

III. *Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.*

IV. *Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.*

V. *This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.*

VI. *Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal.*

VII. *Arlingclose expects Bank Rate to remain at the current 0.10% level.*

VIII. *Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.*

IX. *Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.*

X. *Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.*

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of June 2020, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £72.5m, decreasing to £51.8m at the end of September (see Appendix 6). The decrease 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.

4.2 As at 30th June 2020, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£22.5m at 30 June 2020). This was due to the Council receiving £27.6m in funding for business support grants, by 30 September most of this had be paid out to local businesses.

4.3 Cashflow funds have since decreased (to £51.8.5m at 30 September 2020) 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.

5. New Borrowing

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of June 2020, the Council had £29 million in short term loans with other Local Authorities as part of the Council’s strategic cash management objectives. £18 million of short-term loans had been repaid by the end of September 2020.

6. Debt Rescheduling

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

7. Compliance with Treasury and Prudential Limits

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

8. Appendices

Appendix 1 – Arlingclose Treasury Management Report for Q1 2020/21

Appendix 2 – Investment portfolio as at 30 June 2020

Appendix 3 – Borrowing portfolio as at 30 June 2020

Appendix 4 – Investment portfolio as at 31 August 2020

Appendix 5 – Arlingclose Treasury Management Report for Q2 2020/21

Appendix 6 – Investment portfolio as at 30 September 2020

Appendix 7 – Borrowing portfolio as at 30 September 2020

Appendix 8 – Investment portfolio as at 31 October 2020

9. **Background Papers**

Medium Term Financial Plan 2019/20 – 2022/23

Contact Officer: Dani Loxton, extension 2285

Treasury Management Report Q1 2020/21

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 2020/21 was approved at a meeting on 26th February 2020. 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 26th February 2020.

External Context

Economic background: The UK's exit from the European Union took a back seat during the first quarter of 2020/21 as the global economic impact from coronavirus took centre stage. Part of the measures taken to stop the spread of the pandemic included the government implementing a nationwide lockdown in late March which effectively shut down almost the entire UK economy. These measures continued throughout most of the quarter with only some easing of restrictions at the end of May and into June.

Bank Rate was maintained at 0.1% despite some speculation that the Bank of England's Monetary Policy Committee (MPC) might cut further and some MPC members also suggesting that negative rates are part of the Bank's policy tools. In June the Bank increased the asset purchase scheme by £100 billion, taking the recent round of QE to £300bn and total QE to £745 billion.

At the same time, the government also implemented a range of fiscal stimulus measures totalling over £300 billion which had been announced in March and designed to dampen the effect of the pandemic on the labour market.

GDP growth contracted by 2.2% in Q1 (Jan-Mar) 2020 pushing the annual growth rate down to -1.6%. The lockdown only came into force on 23rd March, and the markets are braced for a dire set of growth data for Q2. In April UK GDP fell 20.4% month-on-month. On the back of the 5.8% month-on-month fall in March, this means economic output fell by 25% compared to its pre-coronavirus peak in February 2020.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.2% y/y in May, further below the Bank of England's 2% target.

In the three months to June, labour market data remained largely unchanged on the previous quarter. This is likely due to the government's furlough scheme as more than a quarter of the UK workforce was estimated to be supported by it. The ILO unemployment rate remained unchanged at 3.9% while the employment rate fell to 76.4%. However, employers will have to contribute towards furlough payments from August and the scheme is due to stop at the end of October; unemployment is expected to rise as a result.

The US economy contracted at an annualised rate of 5.0% in Q1 2020. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% while the US government announced a $2 trillion fiscal stimulus package. Relations between the US and China, which had briefly improved when Phase 1 of the trade agreement was signed in January, deteriorated over the quarter.

With little room to move on interest rates, the European Central Bank maintained interest rates at 0% and the rate on the deposit facility (which banks may use to make overnight deposits with the Eurosystem) at -0.5% and announced a further huge, open-ended commitment to buy €600bn of bonds under its Pandemic Emergency Purchase Programme (PEPP) which can be reinvested out to 2022. This lifted the ECB's total bond buying support package to €1.35trillion.

Financial markets: After selling off sharply in March, equity markets started recovering in April and while still down on their pre-crisis levels, the Dow Jones and FTSE 100 and 250 have made up around half of the losses. Measures implemented by central banks and governments continue to maintain some degree of general investor confidence, however volatility remains.

Ultra-low interest rates and the flight to quality continued to keep gilts yields low over the period with the yield on some short-dated government bonds turning negative. The 5-year UK benchmark gilt yield dropped from 0.18% at the beginning of April 2020 to -0.06% on 30th June. The 10-year benchmark gilt yield fell from 0.31% to 0.14% over the same period, and the 20-year from 0.69% to 0.52%. 1-month, 3-month and 12-month bid rates averaged 0.04%, 0.28% and 0.44% respectively over the quarter.

Over the quarter (April–June), the yield on 2-year US treasuries fell from 0.24% to 0.20% while that on yield on 10-year treasuries fell from 0.63% to 0.61%. German bund yields remain negative.

Credit review: After rising sharply in late March, credit default swap spreads slowly eased over the quarter but remained above their pre-crisis levels.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and also non-UK banks from early April onwards. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as downgrading Close Brothers' long-term rating to A-. Network Rail Infrastructure and LCR Finance's long-term ratings were downgraded from AA to AA-. HSBC Bank and HSBC UK Bank were the exceptions however, with Fitch upgrading their long-term ratings to AA-.

Fitch affirmed the ratings of Canadian banks but revised their outlook to negative. The agency also downgraded the long- and short-term ratings of Australia's four largest banking groups. It upgraded the long-term deposit rating of both Bayerische Landesbank and Landesbank Baden-Wuerttemberg (LBBW) but downgraded the viability ratings, and revised outlooks to negative. Fitch later placed three Singapore banks on Rating Watch Negative.

S&P also took action on a range of UK and European banks, affirming their ratings but revising their outlook downwards due to the economic consequences of COVID-19. Moody's downgraded the long-term rating of Nationwide BS from Aa3 to A1 and S&P downgraded the long- and short-term ratings of HSBC Bank PLC and HSBC UK Bank PLC to A+ and A-1 respectively

In May, Fitch and S&P downgraded TfL's long-term rating to A+ from AA- after the 95% reduction in tube and train fares which make up 47% of TfL's revenue. However, the UK government agreed to a £1.6 billion support package which will help ease some of the stress TfL faces.

As the extent of the losses that banks and building societies will suffer due to the impact from the coronavirus epidemic remains uncertain but is expected to be substantial, in early June following Arlingclose's stress testing of the institutions on the counterparty list using bail-in analysis, a number of UK banks and building societies were suspended from the counterparty list for unsecured deposits. Although much better capitalised than before the 2007-09 financial crisis, under the current economic circumstances these entities were suspended for reasons of prudence. For those remaining on the list, the duration advice remains up to 35 days.

Local Context

On 31st March 2020, the Authority had net borrowing of £51.9m 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

	31.3.20 Actual £000
General Fund CFR	62,506
HRA CFR	69,617
Total CFR	**132,123**
Less: Usable reserves	(71,292)
Less: Working capital	(8,897)
Net borrowing	**51,934**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

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 2020 and the change during over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.20 Balance £000	**Movement £000**	**30.6.20 Balance £000**	**30.6.20 Rate %**
Long-term borrowing	75,632	2,367	77,999	
Short-term borrowing	31,367	(2,367)	29,000	
Total borrowing	**106,999**	**0**	**106,999**	**3.46%**
Long-term investments	45,476	4,524	50,000	
Short-term investments	4	1	5	
Cash and cash equivalents	9,585	12,898	22,483	
Total investments	**55,065**	**17,423**	**72,488**	**3.95%**
Net borrowing	**51,934**		**46,836**	

Significant increase of £12.9m to cash and cash equivalents to the quarter ended 30th June 2020 due to emergency grant funding received in April from central government to support local businesses. £4.5m for the year end fair value adjustments added back to the pooled investments in the quarter.

Borrowing Update

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available, however the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields the value of this discount is 1% below the rate at which the authority usually borrows from the PWLB). £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% was made available to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation deadline was extended and now closes on 31st July 2020 with implementation of the new lending terms expected in the latter part of this calendar year.

Municipal Bonds Agency (MBA): The MBA has revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency issued its first bond in March 2020 on behalf of Lancashire County Council.

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.

Borrowing Strategy during the period

At 30th June 2020 the Authority held £107m of loans, similar position to 31st March 2020, 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

	31.3.20 Balance £000	Net Movement £000	30.6.20 Balance £000	30.6.20 Weighted Average Rate %
Public Works Loan Boar	77,999	0	77,999	3.46%
Local authorities (short-term)	29,000	0	29,000	0.40%
Total borrowing	**106,999**		**106,999**	

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 during the quarter. 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, 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

On 1st April 2020 the Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £27.6m was received, temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds.

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 £69.9 and £72.5 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.20 Balance £000	**Net Movement £000**	**30.6.20 Balance £000**	**30.6.20 Income Return %**
Banks & building societies (unsecured)	5,055	7,918	9,515	0.01%
Money Market Funds	4,534	4,981	12,973	0.15%
Other Pooled Funds:				
- Short-dated bond funds	7,861	139	8,000	0.76%
- Strategic bond funds	7,474	526	8,000	3.57%
- Property funds	5,625	375	6,000	3.63%
- Multi asset income funds	24,516	3,484	28,000	4.71%
Other Pooled Funds Sub-Total	45,476	4,524	50,000	
Total investments	**55,065**	**17,423**	**72,788**	

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.

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 was moved from bank and building society deposits into pooled investment funds.

The balance of the pooled funds as at 31.3.20 includes accounting adjustments of £4.5m for unrealised losses, which were included at year-end for statutory reporting purposes (and separately reversed out through a non-useable reserve, as permitted). The high value of the unrealised losses is due to the impact of the pandemic on the underlying assets in the funds, most of the funds have recouped some of their value in the quarter ended 30.06.20.

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 %
31.03.2020	4.88	A+	100%	1	2.75
30.06.2020	4.70	A+	100%	1	2.20
Similar LAs	4.10	AA-	59%	51	1.23
All LAs	4.10	AA-	59%	18	0.96

Externally Managed Pooled Funds: £50m of the Authority's investments are held in externally managed strategic pooled 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 -1.36%, comprising a 3.18% income return which is used to support services in year, and -4.54%of unrealised capital loss.

In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.

The Authority is invested in bond, multi-asset and property funds. The falls in the capital values of the underlying assets, in particular bonds and equities were reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12-month period. Since March there here has been some improvement in market sentiment which is reflected in an increase in capital values of the short-dated, strategic bond, and multi-asset income funds in the Authority's portfolio. The capital value of the property fund is below that at 31st March.

Dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The temporary suspension remained in force on 30th June.

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 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. In light of their performance over the medium / long term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.

In 2020/21 the Authority expects to receive lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. 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 2020/21 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 %	Over/ under
Interest Received	1,621	1,750	(129)	2.50%	0.29%	2.21%
Interest payable	2,596	2,596	0	3.46%	3.46%	0

Estimates for income 2020/21

The corporate world is still adjusting to the economic shock, with probably more to come, and it is still too early to tell which companies will withstand the economic damage in the short- to medium-term or which will choose to conserve cash in very difficult economic conditions simply to survive.

Investment income in the Authority's 2020/21 was set against a very different economic backdrop. Bank Rate, which was 0.75% in January/February 2020 was 0.75%, it now stands at 0.1%. Interest earned from short-dated money market investments will be significantly lower. In relation to income from the Authority's externally managed strategic funds, dividends and income distributions will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

Compliance

The Chief Finance Officer 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

	30.6.20 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied?
Borrowing	107	333	338.5	✓

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

	30.6.20 Actual	2020/21 Limit	Complied?
Any single organisation, except the UK Government	£4.9m	£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	✓
Unsecured investments with building societies	0	£8m	✓
Pooled Investment Funds	£50m	£10m per fund	✓
Money Market Funds	£12.9m	£10m per fund	✓
Operational bank	£4.5m	£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.

	30.6.20 Actual	2020/21 Target	Complied?
Portfolio average credit rating	4.70	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.

	30.6.20 Actual	2020/21 Target	Complied?
Total cash available within 3 months	£22.5m	£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	30.6.20 Actual	2020/21 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	728	550	x
Upper limit on one-year revenue impact of a 1% fall in interest rates	728	550	x

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

Due to additional funding received from central government in April the cash balances up until the 30th June 2020 were higher than anticipated at the time the 20/21 limits were set in December 2019. It is expected that the balances will have returned to their normal levels by the end of the next quarter as most of the funding will have been paid out in business support grants.

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:

	30.6.20 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	31,367	25%	0%	✓
12 months and within 24 months	3,694	50%	0%	✓
24 months and within 5 years	7,934	50%	0%	✓
5 years and within 10 years	16,012	100%	0%	✓
10 years and above	47,992	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:

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied?	✓	✓	✓

Other

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed until 2021/22.

Outlook for the remainder of 2020/21

The medium-term global economic outlook is very weak. While containment measures taken by national governments in response to coronavirus are being eased, it is likely to be some time before demand recovers to pre-crisis levels due to rises in unemployment, the on-going need for virus control measures and the impact on consumer/business confidence.

The responses from the Bank of England, HM Treasury as well as other central banks and governments have been significant and will act to support the recovery when it occurs, by keeping financial conditions stable and many businesses solvent/employees employed than would otherwise have been the case. There will be an economic bounce in the second half of the year, as businesses currently dormant begin production/supply services once more.

However, the scale of the economic shock to demand and the probable on-going social distancing measures necessary before a vaccine is produced will mean that the subsequent pace of recovery is limited.

Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the near future through further financial asset purchases (QE). While the Arlingclose central case for Bank Rate is no change, further cuts to Bank Rate to zero or even into negative territory cannot be ruled out.

Downside risks remain in the near term, as households and businesses react to an unprecedented set of economic circumstances.

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Official Bank Rate												
Upside risk	0.00	0.00	0.00	0.00	0.00	0.15	0.15	0.15	0.15	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
Downside risk	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35

Gilt yields are expected to remain very low in the medium term. Some shorter-term gilt yields will remain around zero until either the Bank expressly rules out negative Bank Rate or growth prospects improve.

In-house as at 30/06/20

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	3.63%	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund	31/07/17	3,000,000	3.63%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	15/12/17	6,000,000	4.10%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	3.57%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.76%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	4.10%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	4.10%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.94%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	3.57%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/19	8,000,000	6.00%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	16/12/19	2,000,000	6.00%	UK - Gov 'AA'	5 Years +
		50,000,000			
		50,000,000	**Total Portfolio**		

Cashflow:			**Rate**
Call Accounts/MMF (as at 30/06/20)			
Global Treasury Fund (Goldman Sachs Money Market Fund)		2,973,106	0.27%
Standard Life Investments (Money Market Fund)		10,000,000	0.44%
Natwest SIBA		4,543,835	0.20%
Santander		503	0.05%
Bank of Scotland		5,036	0.65%
HSBC Business Acc		0	0.00%
Barclays		4,965,374	0.00%
	Total Cash flow	**22,487,854**	
	Total Portfolio ai	**72,487,854**	

Dover District Council Borrowing - 2020/21 **APPENDIX 3**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-20	Interest Rate %	Principal To Be Repaid 2020/21	Principal Balance 31-Mar-21	Interest Payable 2020/21	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	290	2.50	45	245	7	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	27/09/46	27/06/26	JUNE-DEC	131583	54	2.50	8	45	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	73,997,937	3.18	2,367,345	71,630,591	2,334,462	PWLB	Annuity (HRA Financing)
					77,998,280		**2,367,398**	**75,630,882**	**2,596,971**		
Short Term Borrowing											
Fixed	04/06/20	04/08/20	On Maturity		0	0.25	6,000,000	0	2,507	Islington Brough Council	Short term loan for Strategic cash flow purposes
Fixed	08/06/20	10/08/20	On Maturity		0	0.25	6,000,000	0	2,589	Barnsley Metropolitan	Short term loan for Strategic cash flow purposes
Fixed	29/06/20	29/07/20	On Maturity		0	0.06	2,000,000	0	99	Essex County Council	Short term loan for Strategic cash flow purposes
Fixed	14/05/20	14/08/20	On Maturity		0	0.72	5,000,000	0	9,074	Warrington Brough Council	Short term loan for Strategic cash flow purposes
Fixed	20/05/20	20/08/20	On Maturity		0	0.72	10,000,000	0	18,148	Warrington Brough Council	Short term loan for Strategic cash flow purposes
					0		**29,000,000**	**0**	**32,416**		*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
					78,059,247		**2,376,108**	**75,683,139**	**2,629,387**		

In-house as at 31/08/20

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	4.19%	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund	31/07/17	3,000,000	4.19%	UK - Gov 'AA'	*5 Years +*
Investec Diversified Income Fund	15/12/17	6,000,000	4.11%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	2.45%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.97%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	4.11%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	4.11%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.29%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	2.45%	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 31/08/20)		**Rate**
Global Treasury Fund (Goldman Sachs Money Market Fund)	2,689,106	0.04%
Standard Life Investments (Money Market Fund)	50,000	0.25%
Natwest SIBA	1,891,835	0.01%
Santander	503	0.05%
Bank of Scotland (BOS)	5,017	0.10%
HSBC Business Acc	0	0.00%
Barclays	374	0.00%
Total Cash flow	**4,636,835**	

Treasury Management Outturn Report Q2 2020/21

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 2020/21 was approved at a meeting on 26th February 2020. 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 26th February 2020.

External Context

Economic background: The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down

1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is ‘moderately’ above the 2% average target, particularly given it has been below target for most of the last decade.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

Financial markets: Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

Credit review: Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose’s counterparty list and recommended duration 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 2020, the Authority had net borrowing of £51.9m 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

	31.3.20 Actual £000
General Fund CFR	62,506
HRA CFR	69,617
Total CFR	**132,123**
Less: Usable reserves	(71,292)
Less: Working capital	(8,897)
Net borrowing	**51,934**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

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 September 2020 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.20 Balance £000	Movement £000	30.9.20 Balance £000	30.9.20 Rate %
Long-term borrowing	75,632	1,193	76,825	
Short-term borrowing	31,367	(20,367)	11,000	
Total borrowing	**106,999**	**(19,174)**	**87,825**	**3.46%**
Long-term investments	45,476	4,524	50,000	
Short-term investments	4	1	5	
Cash and cash equivalents	9,585	(7,247)	1,837	
Total investments	**55,065**	**(2,772)**	**51,842**	**3.82%**
Net borrowing	**51,934**		**35,983**	

£18m of short-term borrowing repaid in the quarter to 30th September 2020 as well as a repayment made to the HRA loan of £1.2m. Cash and cash equivalents reduced by £7.2m due to repayment of short term borrowing and normal cash flow movements. £4.5m year-end fair value adjustment to pooled investment funds reversed in previous quarter.

Borrowing Update

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available, however the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields the value of this discount is 1% below the rate at which the authority usually borrows from the PWLB). £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% has been made available to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closed on 31st July 2020 with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year.

Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor.

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.

Borrowing Strategy during the period

At 30th September 2020 the Authority held £87.8m of loans, a decrease of £19.1m 31st March 2020, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.20 Balance £000	**Net Movement £000**	**30.9.20 Balance £000**	**30.9.20 Weighted Average Rate %**
Public Works Loan Board	77,999	(1,174)	76,825	3.46%
Local authorities (short-term)	29,000	(18,000)	11,000	0.09%
Total borrowing	106,999	(19,174)	87,825	

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 in the quarter. 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 temporary investments earning Bank Rate or lower, 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

On 1st April 2020 the Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £27.6m was received, temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds.

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 £52.3 and £72.5 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.20 Balance £000	Net Movement £000	30.9.20 Balance £000	30.9.20 Income Return %
Banks & building societies (unsecured)	5,055	(4,450)	388	0.01%
Money Market Funds	4,534	(2,796)	1,454	0.08%
Other Pooled Funds:				
- *Short-dated bond funds*	7,861	139	8,000	0.63%
- Strategic bond funds	7,474	526	8,000	3.05%
- Property funds	5,625	375	6,000	3.80%
- Multi asset income funds	24,516	3,484	28,000	4.00%
Other pooled Funds Sub-Total	45,476	4,524	50,000	
Total investments	**55,065**	**(2,772)**	**51,842**	

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.

Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily 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.

On 25th September the overnight, 1- and 2-week deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities.

The return on Money Market Funds net of fees also fell over the six months and for many funds net returns range between 0% and 0.1%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.

Given the continuing 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 was moved from bank and building society deposits into pooled investment funds.

The balance of the pooled funds as at 31.3.20 includes accounting adjustments of £4.5m for unrealised losses, which were included at year-end for statutory reporting purposes (and separately reversed out through a non-useable reserve, as permitted). The high value of the unrealised losses is due to the impact of the pandemic on the underlying assets in the funds, most of the funds have recouped some of their value in the quarter ended 30.09.20.

In the light of the pandemic crisis and the likelihood of unexpected calls on cash flow, the Authority kept cash available at very short notice. Liquid cash was diversified over several counterparties and/or Money Market Funds to manage both credit and liquidity risks.

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 %
31.03.2020	4.88	A+	100%	1	2.75%
30.09.2020	4.40	A+	100%	1	2.99%
Similar LAs	4.15	AA-	65%	51	1.31%
All LAs	4.16	AA-	64%	18	0.90%

Externally Managed Pooled Funds: £50m of the Authority's investments are held in externally managed strategic pooled 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 -0.78%, comprising a 3.13% income return which is used to support services in year, and -3.91% of unrealised capital loss.

In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.

The Authority is invested in bond, multi-asset and property funds. The falls in the capital values of the underlying assets, in particular bonds and equities were reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12-month period. Since March there here has been improvement in market sentiment which is reflected in an increase in capital values of the short-dated, strategic bond and multi-asset income funds and all/most of the equity income funds in the Authority's portfolio. The capital value of the property fund is below that at 31st March.

Dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund and was suspended by the fund in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.

Because the Authority's externally managed 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 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. In light of their performance over the medium / long term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.

In 2020/21 the Authority expects to receive significantly lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. 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 2020/21 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 %	Over/ under
Interest Received	1,624	1,750	(126)	2.80%	0.13%	2.67%
Interest Payable	2,521	2,521	0	3.46%	3.46%	0

Estimates for income 2020/21

The corporate world is still adjusting to the economic shock, with probably more to come, and it is still too early to tell which companies will withstand the economic damage in the short- to medium-term or which will choose to conserve cash in very difficult economic conditions simply to survive.

Investment income in the Authority's 2020/21 was set against a very different economic backdrop. Bank Rate, which was 0.75% in January/February 2020, now stands at 0.1%. Interest earned from short-dated money market investments will be significantly lower. In relation to income from the Authority's externally managed strategic funds, dividends and income distributions will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

Compliance

The Chief Finance Officer 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 8 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	30.9.20 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied?
Borrowing	87.8	333	338.5	✓

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

	30.9.20 Actual	2020/21 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	✓
Unsecured investments with building societies	0	£8m	✓
Pooled Investment Funds	£50m	£10m per fund	✓
Money Market Funds	£1.5m	£10m per fund	✓
Operational bank	<£1m	£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.

	30.9.20 Actual	2020/21 Target	Complied?
Portfolio average credit rating	4.40	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.

	30.9.20 Actual	2020/21 Target	Complied?
Total cash available within 3 months	£2.3m	£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	30.9.20 Actual	2020/21 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	523	550	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	523	550	✓

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:

	30.9.20 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	12,193	25%	0%	✓
12 months and within 24 months	3,694	50%	0%	✓
24 months and within 5 years	7,934	50%	0%	✓
5 years and within 10 years	16,012	100%	0%	✓
10 years and above	47,992	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:

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied?	✓	✓	✓

Other

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed until 2021/22.

Arlingclose's Outlook for the remainder of 2020/21

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	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	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been supressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Q3.

However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have priced in a chance of negative Bank Rate.

Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

In-house as at 30/09/20 **APPENDIX 6**

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	3.80%	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund	31/07/17	3,000,000	3.80%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	15/12/17	6,000,000	4.03%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	3.05%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.63%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	4.03%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	4.03%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.59%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	3.05%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/19	8,000,000	6.00%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	16/12/19	2,000,000	6.00%	UK - Gov 'AA'	5 Years +
		50,000,000			
		50,000,000	**Total Portfolio**		

Cashflow:		Rate
Call Accounts/MMF (as at 30/09/20)		
Global Treasury Fund (Goldman Sachs Money Market Fund)	1,404,106	0.01%
Standard Life Investments (Money Market Fund)	50,000	0.08%
Natwest SIBA	381,835	0.01%
Santander	503	0.05%
Bank of Scotland	5,036	0.10%
Barclays	374	0.00%
Total Cash flow	**1,841,854**	
Total Portfolio ar	**51,841,854**	

Dover District Council Borrowing - 2020/21 **APPENDIX 7**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-20	Interest Rate %	Principal To Be Repaid 2020/21	Principal Balance 31-Mar-21	Interest Payable 2020/21	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	290	2.50	45	245	7	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	27/09/46	27/06/26	JUNE-DEC	131583	54	2.50	8	45	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	73,997,937	3.18	2,367,345	71,630,591	2,334,462	PWLB	Annuity (HRA Financing)
					77,998,280		**2,367,398**	**75,630,882**	**2,596,971**		
Short Term Borrowing											
Fixed	04/08/20	05/10/20	On Maturity		0	0.04	6,000,000	0	408	Islington Brough Council	Short term loan for Strategic cash flow purposes
Fixed	10/08/20	10/11/20	On Maturity		0	0.05	5,000,000	0	630	North West Leicestershire	Short term loan for Strategic cash flow purposes
					0		**11,000,000**	**0**	**1,038**		*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
					78,059,247		**2,376,108**	**75,683,139**	**2,598,009**		

In-house as at 31/10/20

APPENDIX 8

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	4.19%	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund	31/07/17	3,000,000	4.19%	UK - Gov 'AA'	*5 Years +*
Investec Diversified Income Fund	15/12/17	6,000,000	4.11%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	2.45%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.97%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	4.11%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	4.11%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.29%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	2.45%	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 31/10/20)		**Rate**
Global Treasury Fund (Goldman Sachs Money Market Fund)	4,106	0.04%
Standard Life Investments (Money Market Fund)	50,000	0.25%
Natwest SIBA	3,480,835	0.01%
Santander	503	0.05%
Bank of Scotland (BOS)	5,023	0.10%
Barclays	374	0.00%
Total Cash flow	**3,540,841**	

DOVER DISTRICT COUNCIL

GOVERNANCE COMMITTEE– 26 NOVEMBER 2020

EXCLUSION OF THE PRESS AND PUBLIC

Recommendation

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting for the remainder of the business on the grounds that the item(s) to be considered involve the likely disclosure of exempt information as defined in the paragraph of Part 1 Schedule 12A of the 1972 Act set out below:

Item	Report Title	Paragraphs Exempt	Reason Exempt
9	Annual Debt Collection Report for East Kent Services (Managed by Civica Limited)	3	Information relates to the financial affairs of any particular person (including the authority holding the information).

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item No 9

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