



# AUDIT AND GOVERNANCE COMMITTEE

Date 16<sup>th</sup> July 2020

Thursday, 23rd July, 2020, 6.00 pm in Online Meeting

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## SUPPLEMENT – ADDITIONAL DOCUMENTS

Further to the Agenda and Papers for the above meeting, previously circulated, please find attached the following further information, which was not available when the agenda was issued:

### Agenda No. Item

9. **Audit & Governance Committee Timetable** (Pages 3 - 364)  
*(pack 1 of pre-circulated reports for endorsement and noting)*

Yours faithfully

A handwritten signature in black ink, consisting of a stylized 'M' followed by a long horizontal line.

Chief Executive

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To Councillors: M Summers, M Bailey, C Cooke, J Faulkner, M Oates, S Pritchard and R Rogers.

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**PLANNED REPORTS TO AUDIT AND GOVERNANCE COMMITTEE 2020-2021**

	<b>Report</b>	<b>Committee Date</b>	<b>Report Of</b>	<b>Comments</b>
1	Audit Committee update	<b>26 March 2020*</b>	Grant Thornton	*26 March 2020 Committee cancelled due to Covid-19 restrictions.  This report circulated to the Committee 22 May 2020
2	Informing the Audit Risk Assessment	<b>26 March 2020*</b>	Grant Thornton	Circulated to the Committee 22 May 2020
3	Update on Audit Matters from Public Sector Audit Appointments Limited	<b>26 March 2020*</b>	Joint Report of Grant Thornton and the Executive Director Finance	Circulated to the Committee 22 May 2020
4	Cipfa Section 151 Update and Review of the Financial Resilience Index	<b>26 March 2020*</b>	Executive Director Finance	Circulated to the Committee 22 May 2020
5	Review of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report	<b>26 March 2020*</b>	Executive Director Finance	Presented to Council Dec 19 / Feb 20. Circulated to the Committee 22 May 2020

6	Final Accounts – Accounting Policies and Action Plan	<b>26 March 2020*</b>	Assistant Director of Finance	Circulated to the Committee 22 May 2020
7	Risk Based Verification – exempt item	<b>26 March 2020*</b>	Assistant Director of Finance	Circulated to the Committee 22 May 2020
8	Internal Audit Charter and Audit Plan	<b>26 March 2020*</b>	Head of Audit & Governance	Circulated to Committee 23 June 2020
9	Review of the Constitution and Scheme of Delegation for Officers	<b>26 March 2020*</b>	Head of Audit & Governance	Deferred to October 2020 meeting
10	Review of Financial Guidance	<b>26 March 2020*</b>	Head of Audit & Governance	Circulated to Committee 12 June 2020
1	Pros & cons of Independent Members	<b>26 March 2020*</b>	Head of Audit & Governance	Deferred to July 2020 Committee
	Private meeting of Internal and External Auditors and Committee members	<b>Deferred to October 2020 meeting</b>		
1	Role of the Audit Committee	<b>4 June 2020 **</b>	Grant Thornton	<p>*4 June 2020 Committee cancelled due to Covid-19 restrictions.</p> <p>This presentation/training – postpone to later in the year</p>

2	Audit Committee update	<b>4 June 2020</b>	Grant Thornton	Deferred to July 2020 Committee
3	RIPA Quarterly Report	<b>4 June 2020</b>	Assistant Director - Partnerships	Deferred to July 2020 Committee
4	Internal Audit Annual and Quarterly Update	<b>4 June 2020</b>	Head of Audit & Governance	Deferred to July 2020 Committee
5	Public Sector Internal Audit Standards/Quality Assurance and Improvement Programme	<b>4 June 2020</b>	Head of Audit & Governance	Report circulated 3 June 2020
6	Annual Governance Statement and Code of Corporate Governance	<b>4 June 2020</b>	Head of Audit & Governance	Requires approval defer to October 2020 to accompany statement of accounts
7	Counter Fraud Update	<b>4 June 2020</b>	Head of Audit & Governance	Defer to October 2020 Committee
8	Chair of Audit & Governance Committee's Annual Report	<b>4 June 2020</b>	Head of Audit & Governance	Report circulated 12 June 2020
1	Audit Committee update	<b>23 July 2020</b> (Meeting programme commences remotely)	Grant Thornton	Committee schedule commences remotely now until further notice.

2	<del>Audit Findings Report</del>	<del>23 July 2020</del>	<del>Grant Thornton</del>	Deferred to October 2020 Committee
3	<del>Management Representation Letter</del>	<del>23 July 2020</del>	<del>Grant Thornton</del>	Deferred to October 2020 Committee
4	<del>Annual Statement of Accounts</del>	<del>23 July 2020</del>	<del>Executive Director Finance</del>	Deferred to October 2020 Committee
5	Risk Management Quarterly Update	<b>23 July 2020</b>	Assistant Director – Finance	
6	RIPA Quarterly Report and Policy	<b>23 July 2020</b>	Assistant Director - Partnerships	Deferred from June 2020 Committee
7	Internal Audit Annual Report and Update	<b>23 July 2020</b>	Head of Audit & Governance	Deferred from June 2020 Committee
8	Pros and Cons of Independent Members	<b>23 July 2020</b>	Head of Audit & Governance	Deferred from June 2020 Committee
9	Timetable	<b>23 July 2020</b>	Head of Audit & Governance	
10	<del>Modern Slavery and Human Trafficking Statement</del>	<b>23 July 2020</b>	Assistant Director - Partnerships	To be circulated to Committee for comment in advance of submission to Cabinet for approval.
1	Annual Audit Letter	<b>29 October 2020</b>	Grant Thornton	

2	Audit Findings Report	<b>29 October 2020</b>	Grant Thornton	Deferred from July 2020 Committee
3	Management Representation Letter	<b>29 October 2020</b>	Grant Thornton	Deferred from July 2020 Committee
4	Annual Statement of Accounts	<b>29 October 2020</b>	Executive Director Finance	Deferred from July 2020 Committee
5	Annual Governance Statement and Code of Corporate Governance	<b>29 October 2020</b>	Head of Audit & Governance	Deferred from June 2020 Committee
6	Review of the Constitution and Scheme of Delegation for Officers	<b>29 October 2020</b>	Head of Audit & Governance	Deferred to October 2020 meeting
7	RIPA Quarterly Update	<b>29 October 2020</b>	Assistant Director - Partnerships	
8	Internal Audit Quarterly Update	<b>29 October 2020</b>	Head of Audit & Governance	
9	Risk Management Quarterly Update	<b>29 October 2020</b>	Assistant Director – Finance	
10	Annual Treasury Outturn	<b>29 October 2020</b>	Executive Director Finance	
11	Local Government Ombudsman's Annual Review and Report 2018/19	<b>29 October 2020</b>	Assistant Director - People	
12	Counter Fraud Update	<b>29 October 2020</b>	Head of Audit & Governance	Deferred from July 2020 Committee
13	Private meeting of Internal and External	<b>29 October 2020</b>		

	Auditors and Committee members			
1	Audit Committee update	<b>11 February 2021</b>	Grant Thornton	
2	Fee Increase Letter	<b>11 February 2021</b>	Grant Thornton	
3	Audit Plan	<b>11 February 2021</b>	Grant Thornton	
4	RIPA Quarterly Report	<b>11 February 2021</b>	Assistant Director – Partnerships	
5	Internal Audit Quarterly Update	<b>11 February 2021</b>	Head of Audit & Governance	
6	Risk Management Quarterly Update	<b>11 February 2021</b>	Assistant Director – Finance	
7	Audit Committee Effectiveness	<b>11 February 2021</b>	Head of Audit & Governance	
1	Audit Committee update	<b>23 March 2021</b>	Grant Thornton	
2	Informing the Audit Risk Assessment	<b>23 March 2021</b>	Grant Thornton	
3	Review of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year	<b>23 March 2021</b>	Executive Director Finance	



	Review Report			
4	Final Accounts – Accounting Policies and Action Plan	<b>23 March 2021</b>	Assistant Director of Finance	
5	Risk Based Verification – exempt item	<b>23 March 2021</b>	Assistant Director of Finance	
6	Internal Audit Charter and Audit Plan	<b>23 March 2021</b>	Head of Audit & Governance	
7	Review of the Constitution and Scheme of Delegation for Officers	<b>23 March 2021</b>	Head of Audit & Governance	
	Private meeting of Internal and External Auditors and Committee members			

List of reports pre-circulated to the Committee during lockdown restrictions as only noting and endorsement are required, not approval:

ITEM	MEETING DATE OF ENDORSEMENT / NOTING CONFIRMATION
<b>INTERNAL AUDIT</b>	
Internal Audit Charter and Audit Plan	23 July 2020
Review of Financial Guidance	23 July 2020
Public Sector Internal Audit Standards/Quality Assurance and Improvement Programme	23 July 2020
Chair of the Audit Committee's Annual Report to Council	23 July 2020
<b>FINANCE</b>	
Audit Committee Update (Grant Thornton)	23 July 2020
Informing the Audit Risk Assessment	23 July 2020
Update on Audit Matters from Public Sector Audit Appointments	23 July 2020

Limited	
CIPFA Section 151 Update and Review of the Financial Resilience Index	23 July 2020
Review of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report	23 July 2020
Final Accounts – Accounting Policies and Action Plan	23 July 2020
Risk Based Verification – exempt item	23 July 2020

# AUDIT & GOVERNANCE COMMITTEE

23 JUNE 2020

## REPORT OF THE HEAD OF AUDIT AND GOVERNANCE & MONITORING OFFICER

### INTERNAL AUDIT PLAN AND CHARTER

#### EXEMPT INFORMATION

None.

#### PURPOSE

For the Audit & Governance Committee to comment on and endorse the 2020/21 proposed internal audit plan (**Appendix 1**) and refreshed charter (**Appendix 2**).

#### RECOMMENDATIONS

1. That the Committee comment on and endorse the 2020/21 proposed internal audit plan (**Appendix 1**) and refreshed charter (**Appendix 2**).

#### EXECUTIVE SUMMARY

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Public Sector Internal Audit Standards (PSIAS)).

The Audit & Governance Committee's consideration and endorsement of an effective audit plan, charter and protocol is an important element in providing assurance to the organisation that arrangements are in place to provide an independent and objective opinion on the adequacy of the internal control environment.

The audit plan is detailed at **Appendix 1**. Salient points to note are the allocation of audit days to Covid-19 related operational risks and the trial 12 month extension to the shared agreement with Lichfield District Council to include their auditor resources.

The refreshed Audit Charter is detailed at **Appendix 2** (changes are highlighted).

#### RESOURCE IMPLICATIONS

Available resources have been considered and optimised; and there is a continuous review process in place to monitor plan delivery. Regular updates are provided to Audit & Member Standards Committee.

#### LEGAL/RISK IMPLICATIONS BACKGROUND

The audit planning process ensures that audit resources are directed to areas of most significance / highest risk.

## **EQUALITIES IMPLICATIONS**

None.

## **SUSTAINABILITY IMPLICATIONS**

None.

## **BACKGROUND INFORMATION**

None.

## **REPORT AUTHOR**

Rebecca Neill, Head of Audit and Governance & Monitoring Officer

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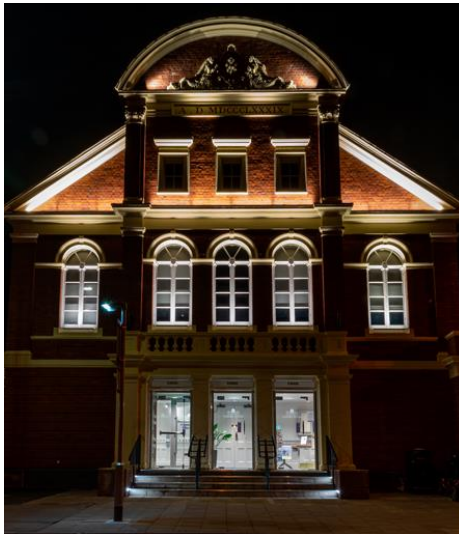
## **LIST OF BACKGROUND PAPERS**

### **APPENDICES**

**Appendix 1** – Audit Plan

**Appendix 2** – Audit Charter

Internal Audit  
Draft Audit Plan & Charter 2020/21



## Contents

- 01 Introduction
- 02 Audit Planning
- 03 Internal Audit Plan 2020/21
- 04 Joint Working
- 05 Charter

### Appendices

- 01 Detailed Plan 2020/21
- 02 Internal Audit Charter

In the event of any questions arising from this report please contact Rebecca Neill, Head of Audit & Governance and Monitoring Officer  
[Rebecca-neill@tamworth.gov.uk](mailto:Rebecca-neill@tamworth.gov.uk)

The matters raised in this report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report was produced solely for the use and benefit of Tamworth Borough Council. The Council accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification.

## 01 Introduction

### Background

This report sets out the Internal Audit operational plan for Tamworth Borough Council (TBC) for endorsement by the Audit & Governance Committee. The purpose of this plan is to identify the work required to achieve a reasonable level of assurance to be provided by Internal Audit in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and the Audit Committee with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work in accordance with an annual operational plan as endorsed by the Audit Committee.

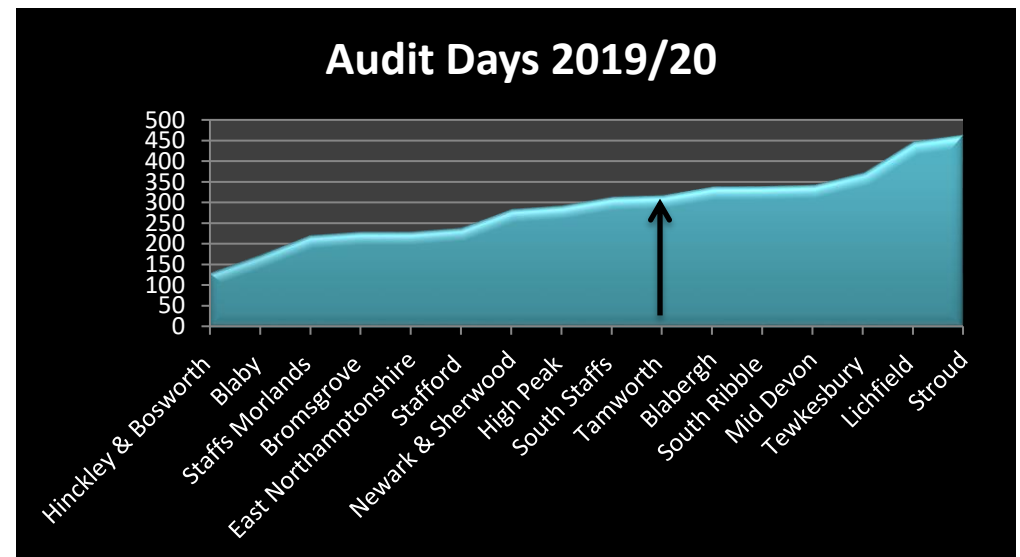
### 02 Audit Planning

As part of the planning for 2020/21, the proposed plan of work has been developed based on:

- **Key risks** – the plan for 2020/21 is based on an analysis of strategic and operational risks; strategic objectives; internal control and governance processes and other factors which may affect the year ahead, including any changes within the external environment and the sector .
- **Covid-19** – Due to the significant impact of Covid-19 on the Council's operations, it has been considered appropriate to allocate a proportionate of time to address assurance needs as and when they arise, in response to the crisis and subsequent recovery / restoration. This will be kept under constant review and any proposed changes reported to the Committee as part of routine quarterly progress reports.

- **Reference to previous assurance work** – a review of the outcome of previous audit and assurance work undertaken and where assurance is now required again.
- **Level of resources** – the level of resource required to deliver an assurance opinion have been reviewed via benchmarking with similar council's. This review (table 1) has identified us as a relative outlier (2019/20: 318 days). The Council's risk profile is not unusual (a reasonable assurance opinion has been given for the last 3 years, and the level of fraud risk has been low). The 2020/21 draft plan has therefore been produced based on a level of resources which is competitive with our peers and maximises our effectiveness by directing resources to the highest risk areas.

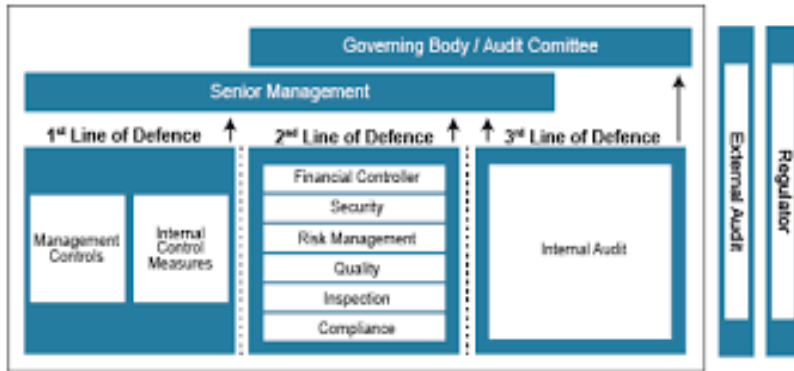
Table 1: Peer Comparison



- **Agile approach** – our approach will be one where we will respond to the changing assurance need, by having a level of contingency, we will be able to change the focus of the audits / audit deliver

Discussions with the Corporate Management Team (which include the Section 151 Officer) have been included and their views reflected in the final plan.

Our strategy is based upon a three lines of defence model of assurance:

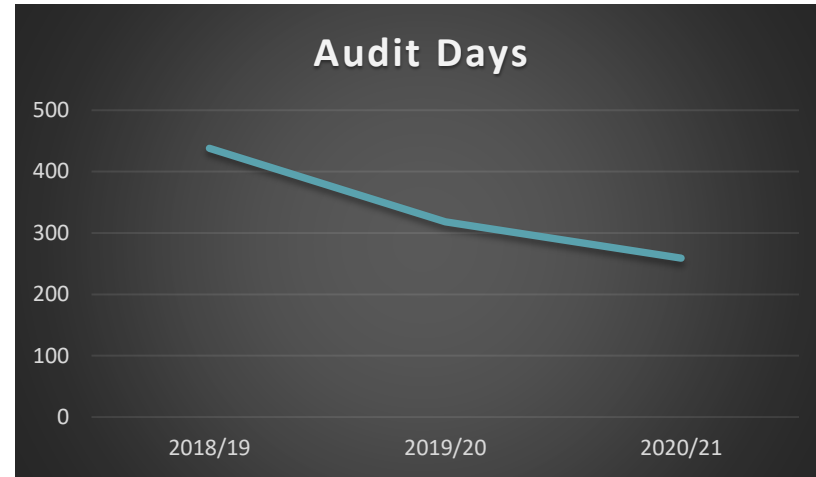


Internal Audit seeks to identify assurances provided through the first and second lines of defence and selects the most appropriate method for obtaining assurance to support the Head of Internal Audit's opinion and the Council's governance requirements.

**03 Internal Audit Plan**

The detailed audit plan at Appendix 01 sets out the assurance requirement in terms of core financial systems; strategic and operational risk; ICT; governance, fraud and other assurance. The draft plan is for a total of 259 days and in particular seeks to provide assurance over areas of higher risk.

While it is noted that the overall number of days has slightly reduced when compared to the 2019/20 plan, it remains comparable with peers in similar organisations. A renewed focus on strategic risk and what matters most, makes the reduction possible without diluting the assurance that the Council receives from Internal Audit.



**04 Joint Working**

TBC currently operates under a shared agreement with Lichfield District Council (LDC) which shares the management of the service (the provision of TBC's Head of Audit & Governance). This is in line with the Memorandum of Understanding between both Council's which sets out each other as a preference when considering shared services.

Auditors remain separate to this agreement, operating within their legacy organisation.

The outcome of the audit planning process this year has led to a reduction in audit days at both Councils. For LDC, the reduction in audit days required has resulted in an excess of



auditor resources. For TBC, auditor resources were needed to be brought in during 2019/20 due to difficulties in recruiting internal audit staff.

Under the current draft plan resource requirements, the additional days at LDC can be utilised by TBC, under an extension to the existing shared arrangement with TBC. This has the following benefits:

- ☺ Better staff learning and development, with exposure to peer sharing of good practice.
- ☺ Synergies across both Council's in terms of audit practice.
- ☺ Greater resilience across both Councils to address demand.
- ☺ Potential cost savings to both organisations (initial figures suggest savings between @ £20k).

The Audit & Governance Committee are requested to endorse in principal, the proposal to extend the shared arrangements to include LDC internal audit staff. This would be on a one year trial basis, with a review at the year end. Success would be measured against feedback from key stakeholders (including respective managers, leadership teams and Audit Committees) and delivery against KPI's.

ATBC and LDC's leadership teams as well as the external auditor have endorsed the proposal. LDC's audit staff have been informally consulted and have indicated a willingness to undertake shared duties.

Any audits which cannot be covered by LDC's team would continue to be bought in as required from the private sector, enabling TBC to benefit from a mixed economy of audit resource.

## 05 Charter

The refreshed charter is at **Appendix 2**. Changes, which have been highlighted, are mainly to account for the change in the audit follow up process.

Appendix 01: Detailed Audit Plan 2020/21

Assurance Requirement	Audit	Scope	Risk	Planned Days	Total Days	Proposed Quarter
Core Financial Systems	Main accounting	Risk based review covering the adequacy and effectiveness of controls around main accounting, including access control, journals, virements, control account reconciliations etc. All core financial system audits will include a review of controls which may have been relaxed / adapted as a result of the requirement for remote working as a result of Covid-19.		5	45	Q4
	Budgetary Control	Risk based review covering the adequacy and effectiveness of controls around budget planning; monitoring and control (including variances, profiling), reporting – and testing a sample of departments.		10		Q3
	Treasury Management	Risk based review of treasury management including strategy, investments and loans.		10		Q3
	Debtors	Standard risk based review of debtors, including invoice requisitioning, invoicing, debt recovery and monitoring, aged debtor analysis, bad and doubtful debts.		10		Q3
	Housing & Council Tax Benefits	Standard CIPFA risk based review of housing and council tax benefits.		10		Q3
Strategic & Operational Risks	Covid-19 Risks	'Flash' audits of dynamic risks arising from the Council's Covid-19 response. To include continuity and recovery arrangements, business grants, new funding, staff well being, governance, financial, productivity. This audit will compliment other strategic and operational risk and ICT audits on the plan which will be looked at with a 'Covid-19 risk lens'.		33	99	Q2-Q4
	Risk Management	Review of the adequacy and effectiveness of the Council's risk management policy and system for managing strategic and operational risks.		10		Q3

Assurance Requirement	Audit	Scope	Risk	Planned Days	Total Days	Proposed Quarter
	Housing Allocations	Risk based review of the implementation of the new Housing Allocations Policy and systems for monitoring compliance.		10		Q4
	Reactive Repairs	Risk based review of the system for reactive repairs.		10		Q4
	Planned Maintenance	Risk based review of the planned maintenance programme.		10		Q4
	Landlord Health & Safety	Compliance review against the Council's landlord health & safety requirements e.g. gas, fire, legionella, asbestos, electrical.		10		Q3
	Assembly Rooms	Risk based review looking at key aspects of the Assembly Room's operations e.g. income, asset management, marketing, stock and inventory management, procurement, security and agility of operations on recovery.		8		Q4
	Castle	Risk based review looking at key aspects of the Castle's operations e.g. income, asset management, marketing, stock and inventory management, procurement, security and agility of operations on recovery.		8		Q4
ICT	Remote Working	High level risk based review of ICT systems and controls mitigating risks from remote working.		8	20	Q2-Q4
	Network Infrastructure	Risk based review of network infrastructure, including access management and security.		6		
	'Patching' and Change Control	Risk based review of the Council's systems for patching		6		
Governance, Fraud & Other Assurance	Pensions	Assurance statements to Staffordshire County Council		5	35	Q4
	Disabled Facilities Grant			5		Q4
	Municipal Charities			2		Q4
	Counter Fraud	Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.		10		Q1-Q4
	Annual Governance Statement	Production of the AGS.		10		Q1-Q2
	Annual Audit Opinion	Production of the Annual Audit Opinion		3		Q1-Q2

Assurance Requirement	Audit	Scope	Risk	Planned Days	Total Days	Proposed Quarter
	Follow Up of Recommendations	To follow up all no and limited assurance reports and all high priority recommendations.		20	60	Q1-Q4
	Management and Planning	Management, planning and assurance reporting to CMT and Audit & Governance Committee		30		Q1-Q4
	Ad hoc / Contingency / Consultancy	Contingency allocation to be utilised upon agreement of the Chief Finance Officer		10		Q1-Q4
<b>Total</b>					<b>259</b>	

# Tamworth

Borough Council

## INTERNAL AUDIT CHARTER



**June 2020**

### Document Location

This document is held by Tamworth Borough Council (TBC) and the document owner is the **Head of Audit & Governance and Monitoring Officer.**

Printed documents may be obsolete. An electronic copy will be available on TBC's intranet. Please check for current version before using.

### Revision History

Revision Date	Version Control	Summary of changes
25/01/13	1.01.01	1 <sup>st</sup> draft
05/03/14	1.01.02	Review
04/03/15	1.01.03	Annual review
20/11/15	1.01.04	Review
08/03/17	1.01.05	Review
13/03/18	1.01.06	Review
07/06/18	1.01.07	Roles and responsibilities following management restructure
05/03/19	1.01.08	Review
<b>12/06/20</b>	<b>1.01.09</b>	<b>Review – changes to follow up process</b>

### Approvals

Name	Date:
Audit & Governance Committee	
<b>Chief Executive</b>	
<b>Head of Audit &amp; Governance and Monitoring Officer</b>	<b>12.06.20</b>

### Document Review Plans

This document is subject to a scheduled annual review. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

### Distribution

The document will be available on the Intranet and the website.

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## **1 Definition of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IIA – UK & Ireland).

The internal audit service will comply with the Public Sector Internal Auditing Standards (PSIAS) as adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

The mandatory core principles for the Professional Practice of Internal Auditing are:

- Demonstrate integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement.

This Charter will be periodically reviewed in consultation with the Chief Executive and the Audit & Governance Committee. Changes to the International Professional Practice Framework will be incorporated as and when they occur.

The Head of Audit & Governance will report conformance to the PSIAS in the annual report to the Audit & Governance Committee.

## **2 Mission Statement of Internal Audit**

To enhance and protect the authority's values by providing risk-based, value added and objective assurance, advice and insight.

## **3 Purpose and Statutory Requirements**

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.



The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information amongst the Audit & Governance Committee, external and internal auditors and management.

In addition, the other objectives of the function are to:

- Support the Executive Director Finance to discharge their s151 duties of the Local Government Finance Act 1972 by maintaining an adequate and effective Internal Audit service;
- Contribute to and support the Authority's objectives of ensuring the provision of and promoting the need for, sound financial systems; and
- Investigate allegations of fraud or irregularity to help safeguard public funds.

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state in respect of Internal Audit that:

*“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

The work of Internal Audit forms part of the assurance framework, however, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

#### **4 Objectives**

The Head of Audit & Governance's responsibility is to report to the Audit & Governance Committee on its assessment of the adequacy of the entire control environment.

They do this by:

- Providing assurance, which is risk based and objective and relevant (Internal Audit's primary role) to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, control and governance. Assurance to third parties will be provided where specific internal audit resources are allocated to the area under review (e.g. pension contributions).

- Providing consultancy services to internal and external delivered services. Consultancy services are advisory and insightful in nature and will be performed at the specific request of the organisation with the aim to improve governance, risk management and control.
- Providing counter fraud and corruption services to include investigating fraud; increasing awareness of the counter-fraud responsibilities at all levels within and outside the Council; further embedding and supporting the effective management of fraud risk within the Council; setting specific goals for improving the resilience against fraud and corruption through the support of counter-fraud activities across the Council; and minimising the likelihood and extent of loss through fraud and corruption.

## 5 Role and Scope of Work

The scope on internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's risk management, control and governance processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of management and financial information processes and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organisation's risk management processes;
- Monitoring the degree of coordination of internal audit and external audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Audit & Governance Committee;

- Evaluating specific operations at the request of management, as appropriate;
- Support management upon the design of controls at appropriate points in the development of major change programmes.

## **6 Proficiency and Due Professional Care**

The internal audit activity will govern itself by adherence to the Institute of Internal Auditors mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Core Principles of the Internal Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to Lichfield District Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Job descriptions and person specifications for each post within Internal Audit Services define the appropriate knowledge, skills and experience and are reviewed periodically.

Personal Development Reviews will be completed in accordance with the Council's policy. Staff will be supported to fulfil training and development needs identified in order to support their continuous professional development programme.

Internal Auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives with detailed Terms of Reference (including consultancy engagements);
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

Where gaps exist in knowledge and skills in the delivery of internal audit plans, the Head of Audit & Governance can engage specialist providers of Internal Audit Services.

Internal Audit staff will be suitably supervised and work will be reviewed by a senior member of staff.

## **7 Authority**

The Internal Audit service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Tamworth Borough Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit service in fulfilling its roles and responsibilities.

## **8 Organisation**

The Head of Audit & Governance will report functionally to the Audit & Governance Committee and administratively (i.e. day to day operations) to the Chief Executive.

The Audit & Governance Committee will receive performance reports on the internal audit function on a quarterly basis.

## **9 Independence and Objectivity**

The service is managed by the Head of Audit & Governance who is professionally qualified as required by the PSIAS. The Head of Audit & Governance has a direct reporting line to the Chief Executive and also provides regular reports to the Audit & Governance Committee which has responsibility for overseeing audit arrangements.

The Head of Audit & Governance is also the Authority's Monitoring Officer and Deputy Returning Officer. She also manages the Elections and Counter Fraud functions. For any audits of these functions, the pre audit brief and draft report will be issued to the Chief Executive at the same time as the Head of Audit & Governance to ensure independence and objectivity is maintained.

The internal audit service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or reporting content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

Regular review of the placement/location of Internal Audit team members will be completed to ensure independence, taking into account the consultancy work individual internal auditors have performed when completing assurance engagements. Internal auditors will not provide assurance in areas where they have been involved in advising management.

The internal audit service will also have free and unrestricted access to the Chief Executive and the Audit & Governance Committee.

The Head of Audit & Governance will confirm to the Audit & Governance Committee, at least annually, the organisational independence of the internal audit activity.

## 10 Internal Audit Plan

At least annually, the Head of Audit & Governance will submit to the **Corporate Management Team** and the Audit & Governance Committee an internal audit plan for review and **endorsement**.

The internal audit plan will be developed based on prioritisation of the audit universe using a risk-based methodology, which takes into account, results from previous audits, stakeholders expectations, feed back from Senior Managers, objectives in strategic plans and business plans, the risk maturity of the organisation (including managements response to risk), and legal & regulatory requirements. The use of other sources of assurance and the work required to place reliance on them will be highlighted in the audit plan.

Contingency time will be built in to the annual audit plan to allow for any unplanned work. This will be reported on in accordance with the internal reporting process to the Audit & Governance Committee.

Approval will be sought from the Audit & Governance Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits required are deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control;
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

## **11 Reporting and Monitoring**

A written report will be prepared and issued by the Head of Audit & Governance following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing issued to the Chief Executive and the Chief Finance Officer. A summary of the internal audit results will be communicated to the Audit & Governance Committee

The final internal audit report will include management's response and corrective actions in regard to the specific findings and recommendations. It will also include a timetable for anticipated completion of action to be taken.

The Internal Audit service will be responsible for following up all high priority recommendations and those arising from overall no and limited assurance reports to ensure that management have implemented them in the agreed timescales. It is management's responsibility to ensure that the agreed actions for medium and low priority actions are implemented. All outstanding recommendations will be monitored.

Results of audit follow up will be communicated as appropriate and a summary of the results will be reported to senior management and the Audit & Governance Committee.

Where significant risk exposures and control issues, including fraud and governance issues, are identified, they will be reported to the Audit & Governance Committee.

## **12 Quality Assurance and Improvement Programme**

The Internal Audit activity will maintain a quality assurance and improvement programme that covers all aspects on the Internal Audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Head of Audit & Governance will periodically report to the Audit & Governance Committee on the internal audit service purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Executive Leadership Team and the Audit & Governance Committee.

In addition, the Head of Audit & Governance will communicate to the Executive Leadership Team and the Audit & Governance Committee on the internal audit service's quality assurance and improvement programme, including results of

ongoing internal assessments and improvement plans and external assessments. External assessments will be conducted at least every five years by a professionally qualified and experienced assessor.

The improvement plan resulting from the internal and external assessments will be reported to and monitored by the Audit & Governance Committee.

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# AUDIT & GOVERNANCE COMMITTEE

3 JUNE 2020

## REPORT OF THE HEAD OF AUDIT AND GOVERNANCE & MONITORING OFFICER

### REVIEW OF FINANCIAL GUIDANCE

#### EXEMPT INFORMATION

None.

#### PURPOSE

For the Audit & Governance Committee to comment on and endorse the proposed amendments to the Council's Financial Guidance.

#### RECOMMENDATIONS

1. That the Committee comment on and endorse the proposed amendments to the Council's Financial Guidance.

#### EXECUTIVE SUMMARY

As part of the core functions under the terms of reference, this Committee is empowered to maintain an overview of the Council's Financial Guidance. The last review of Financial Guidance was endorsed by this Committee in March 2018.

This review has included consultation with the Corporate Management Team, Heads of Service and staff with financial responsibility. It has also been reviewed in line with the refresh of the constitution (which is also requiring endorsement from the Audit & Governance Committee, prior to its submission to Council for final approval). It is proposed that subject to the necessary endorsements and approvals, the new financial guidelines will come into effect at the same time as the refreshed constitution.

The proposed amendments to Financial Guidance with tracked changes are detailed at **Appendix 1**.

#### RESOURCE IMPLICATIONS

None.

#### LEGAL/RISK IMPLICATIONS BACKGROUND

None.

#### EQUALITIES IMPLICATIONS

None.

## **SUSTAINABILITY IMPLICATIONS**

None.

## **BACKGROUND INFORMATION**

None.

## **REPORT AUTHOR**

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Ext: 234

## **LIST OF BACKGROUND PAPERS**

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**Appendix 1** – Proposed Financial Guidance with tracked changes.

# FINANCIAL GUIDANCE

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# Section A

## Financial Regulation Policy

## FINANCIAL REGULATION POLICY

~~Adopted by Tamworth Borough Council on 22 May 2001.~~

### Purpose

The financial regulation framework within the Council aims to:

- a) Promote best value, service delivery and delivery of the Council's vision;
- b) Provide sound arrangements for all the Council's financial affairs and to be able to demonstrate that proper controls are in place;
- c) Safeguard Members and officers by setting out procedures which meet the Council's expected standards.

Financial regulations are not intended to inhibit creativity but to provide the parameters within which creativity may be exercised. They are intended to guide and support managers and their staff. Financial control at a corporate level is achieved primarily through transparency and accountability. Managers and especially Chief Officers [\(Chief Officer will be interpreted as Chief Executive, Executive Director and Assistant Directors from here on\)](#) and budget holders occupy key roles. Managers are given appropriate authority to deploy resources in pursuit of agreed objectives. Their activities are expected to adhere to specified standards and they are required to report upon and be accountable for their actions. Those engaged in support functions (for examples, Accountancy) do not themselves directly exert control. Their responsibilities are to support frontline services and to monitor activities. Where necessary they must act as whistle-blowers (See Whistleblowing Policy).

### Controls

The financial regulation framework comprises this policy document, financial ~~regulations~~ and contract ~~procedure rules standing orders~~ approved by Council and detailed guidance issued by the Council's Chief Executive, to support these documents. They contain a mixture of:

- a) Responsibilities;
- b) Instructions;
- c) Expected standards of behaviour;
- d) Discretionary powers.

Instructions and responsibilities are clearly set out. All employees and Members are required to comply where they are applicable. The expected standard of behaviour and discretionary powers are guidelines to aid employees and Members in their day to day activities. They cannot cover all potential circumstances. All employees and all Members are therefore required at all times when engaged on Council activities to act reasonably, having regard to this framework, and to act within the spirit of the framework.



A review of the policy and guidance is to be completed annually.

## Section B

# Financial Procedure Rules Regulations

7

Revised ADD MONTH March 202018 – Approved Audit & Governance Committee 28 March 2018  
Revised August 2018

## FINANCIAL REGULATIONS PROCEDURE RULES

~~Adopted by Tamworth Borough Council on 22 May 2001.~~

1. All employees and all Members must at all times when engaged on Council activities act in the interests of the Council as a whole.
2. All employees and all Members must comply at all times with these regulations wherever they apply.
3. All employees and all Members must act reasonably and within the spirit of the financial regulation framework.
4. All relevant financial interests must be declared to the ~~Head of Audit & Governance~~ (Monitoring Officer).
5. All activities must be in accordance with:
  - a) Legislation;
  - b) Approved service plans or corporate plans;
  - c) Approved service net revenue budgets or capital programmes;
  - d) Relevant Council policies and adopted codes of practice.

Any material departures (actual or potential) must be reported formally to Members as soon as practicable.

6. Where practicable all activities should be in accordance with accepted best practice.
7. Best value and value for money must be sought in all activities, including the procurement of goods and services.
8. Budgets at an appropriate level of detail must be prepared by the start of each financial year for all activities and units of the Council.
9. Material changes to financial policy or the distribution of resources must be referred to ~~the Executive Council~~ for approval.
10. Service managers have primary responsibility for the control and management of all resources of all kinds made available to them.
11. All managers must ensure and regularly check that there is a full set of controls in every system under their management, including an adequate segregation of duties and an assessment of risk in all activities and decisions.
12. All employees must consider the need to seek appropriate views, advice and guidance before embarking on a course of action and particularly on a new course of action. This includes seeking advice from managers in other services, for example consulting the Assistant Director - People on the procurement of information technology or the Executive Director - Finance on the arrangement of

leases, rentals or agreements involving the use of assets to or from the authority.

13. All managers must ensure that all assets and personnel must be adequately secured or protected and appropriate insurance arranged where necessary.
14. Adequate records must be maintained of all transactions in all systems (a complete audit trail) and unrestricted access must be allowed to all assets and records for:
  - a) The Chief Executive;
  - b) The Executive Director - Finance;
  - c) The Head of Audit & Governance ([Monitoring Officer](#));
  - d) External Auditors and other [Statutory Inspectors](#);
  - e) Officers designated by any of the above.

Employees must supply information to those officers on request.

15. Managers must routinely monitor all activities under their control and report on any significant variations from expected standards.
16. Managers must report at regular intervals on performance on planned activities and on financial performance against approved budgets.
17. All employees and all Members must report any suspected:
  - a) Failure in any system;
  - b) Failure to comply with financial regulations;
  - c) Suspected criminal act, including fraud or corruption.

The report should normally be made to the line manager. Full guidance is provided in the Council's [Counter Fraud & Corruption Policy Statement, Strategy & Guidance Notes](#).

Field Code Changed

Any manager who suspects such an occurrence must take any immediate action necessary to rectify any failure in a control system and report the position to a relevant senior manager, who may include the Chief Executive, Executive Director – Organisation, Executive Director -Finance, Head of Audit & Governance (Monitoring Officer).

18. ~~The Chief Executive shall, with the agreement of the Executive Director – Finance, Executive Director – Organisation and Head of Audit & Governance (Monitoring Officer), issue detailed guidance on procedures to be followed in compliance with these regulations. The Section 151 Officer shall, with the agreement of the Chief Executive and Monitoring Officer, issue detailed guidance on procedures to be followed in compliance with these regulations.~~
19. All employees must comply with any applicable instructions or responsibilities specified in the guidance. In other respects all employees must act reasonably, having regard to the guidance and within the spirit of the guidance.

## **CONTRACT ~~STANDING ORDERS~~PROCEDURE RULES**

~~Adopted by Tamworth Borough Council on 22 May 2001.~~

1. All employees must comply with these standing orders, the relevant regulations relating to Public Contracts and with financial regulations when procuring goods and services.
2. All Directors have primary responsibility for ensuring compliance within their service areas.
3. Best value and value for money must be sought in all procurement activities. Competition must be sought in accordance with issued guidance.
4. The financial limits as set out within financial guidance for the procurement of goods and services should be followed. Where the value of the goods and services is likely to be £50,000 (cumulative amount) or more the following requirements apply:
  - a) ~~Tenders must be sought from suitably qualified suppliers;~~
  - b) ~~The supply must be governed by a formal written contract.~~

The only exception to these requirements shall be where the Cabinet has given authority in order to achieve best value.

5. Reasonable steps must be taken to manage risk throughout the procurement process and employees must have regard to the guidance that is issued for this purpose.
6. All potential suppliers of goods and services must be treated equally and without discrimination. The Council shall act in a transparent and proportionate manner equitably.
7. In all procurement activities, arrangements must be clear regarding:
  - a) The goods or services to be supplied and the supply mechanisms;
  - b) The amount to be paid and the payment mechanisms;
  - c) The rights and responsibilities of all parties.
8. Employees must consider the need to seek appropriate views, advice and guidance before making a decision or embarking on a course of action related to procurement.
9. The Section 151 Officer shall, Chief Executive shall, with the agreement of the Chief Executive and Monitoring Officer~~Executive Director (Finance), Executive Director – Organisation and Head of Audit & Governance (Monitoring Officer)~~, issue detailed guidance on procedures to be followed in compliance with these standing orders. Such guidance shall include procedures for securing competition, for regulating the manner in which tenders are invited and for managing risk.

10. Employees must comply with any applicable instructions or responsibilities specified in the guidance. In other respects employees must act reasonably, having regard to the guidance and within the spirit of the guidance.

# Section C

## Financial Guidance

## 1. FINANCIAL MANAGEMENT

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### 1.1 Introduction

- 1.1.1 Financial management covers all financial accountabilities in relation to the running of the authority, including the policy framework and budget.

### 1.2 The Full Council

- 1.2.1 Only the Council will exercise the following functions:

- a) Adopting and changing the Constitution;
- b) Approving or adopting the Policy Framework, the Budget and any application to the Secretary of State in respect of any Housing Land Transfer;
- c) Subject to the urgency procedure contained in the Access to Information Procedure Rules in Part 4 of the Constitution, making decisions about any matter in the discharge of an executive function which is covered by the Policy Framework or the Budget where the decision maker is minded to make it in a manner which would be contrary to the Policy Framework or contrary to/or not wholly in accordance with the Budget;
- d) ~~Appointing-Electing~~ the Leader ~~and resolving to remove the Leader~~;
- e) Agreeing and/or amending the terms of reference for committees, deciding on their composition and making appointments to them (except where the appointment to a committee is required to give effect to the wishes of a political group) and ensuring that, with the exception of the Mayor, Members are appointed to at least two committees (one of which shall not include the Budget Review Joint Scrutiny Committee; except for executive Members who are appointed to one committee;
- f) Appointing representatives to outside bodies unless the appointment is an executive function or has been delegated by the Council;
- g) Adopting an allowances scheme under Article 2.25 ~~(of the constitution)~~;
- h) Changing the name of the areas, conferring the title of honorary alderman, Freeman or freedom of the borough;
- i) ~~Confirming-Approving~~ the appointment or dismissal of the ~~Chief~~

Executive, Head of Paid Service, Monitoring Officer and S151 Officer;

- j) Making, amending, revoking, re-enacting or adopting bylaws and promoting or opposing the making of local legislation or personal Bills;
- k) Approving the Council's Code of Conduct;
- l) Approving the Senior Officer Pay Scheme;
- m) All local choice functions set out in Part 3 of this Constitution which the Council decides should be undertaken by itself rather than the executive; ~~and~~

n) Electing the Mayor and the Deputy Mayor at the annual meeting;

o) Appointing Independent Persons; and

pa) All other matters which, by law, must be reserved to Council.

**CONTACT:** Head of Audit & Governance

### 1.3 The Executive

1.3.1 The Executive will carry out all of the local authority's functions which are not the responsibility of any other part of the local authority, whether by law or under the Constitution.

**CONTACT:** Head of Audit & Governance

### 1.4 The Audit & Governance Committee

1.4.1 The Audit & Governance Committee will have the following roles and functions:

- a) Audit Activity
  - Receive, but not direct, internal audit's strategy and audit plan;
  - Consider reports dealing with the management and performance of Internal Audit;
  - Consider the Head of Audit & Governance's annual report and opinion, and the level of assurance Internal Audit can give over the Council's corporate governance arrangements;
  - Consider periodic reports from Internal Audit on the main issues arising from their work and "high priority" recommendations not implemented within a reasonable timescale, and seek assurance that action has been taken where necessary;



- Consider the final external audit Annual Audit and Inspection letter and any other relevant reports to “those charged with governance”.
  - [Consider on an annual basis the Local Authority Trading Company’s Code of practice and Governance Statement.](#)
- b) Regulatory Framework
- Maintain an overview of the Council’s Constitution, including Contract Standing Orders, Financial Regulations and Codes of Conduct;
  - Consider the internal control environment and the level of assurance that may be given as to its effectiveness, to include the review of the Annual Governance Statement and the recommendation to the Council of its adoption;
  - Satisfy itself that the authority’s assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
  - Monitor the effectiveness of the authority’s risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management;
  - Monitor the effective development and operation of the corporate governance framework in the Council and to recommend to the Cabinet or the Council, as appropriate, the actions necessary to ensure compliance with best practice;
  - Monitor the effectiveness of the Council’s policies and arrangements for anti-fraud and corruption, whistle-blowing, complaints handling, RIPA and Ombudsman investigations.
- c) Accounts
- Approve the annual statement of accounts, external auditor’s opinion and reports to Members and monitor management action in response to the issues raised by external audit.
- d) Reports to Council
- ~~Reports in the form of minutes detailing action taken by the Committee and recommendations will be submitted to Council on an annual basis.~~[The Chair of the Audit & Governance Committee will provide an annual report of the Committee’s activities to Council.](#)
- e) Delegated Powers
- The Committee is empowered to deal with the functions detailed above.
- f) Standards of Conduct
- This Committee, [in the form of a sub Committee](#), shall exercise

all the functions of the Council relating to [the Members' Codes of Conduct](#) as provided by the Localism Act 2011 except for those functions which under Chapter 7 of the Localism Act 2011 may only be exercised by the full Council.

[Where a complaint is made alleging a breach of the Code, the matter will be considered by a Sub-committee of the Audit & Governance Committee. The Sub-committee will consider the complaint in accordance with the procedure set down in the Council's Arrangements for Making Complaints Against a Councillor for an Alleged Breach of the Code of Conduct.](#)

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[The Sub-committee shall be made of three members of the Audit & Governance Committee and shall include representation from each political group \(where practicable\).](#)

[The Independent Person\(s\) appointed by full Council shall attend meetings of the Sub-committee and the Sub-committee shall have regards to the views of the Independent Person\(s\).](#)

[The Monitoring Officer will report to the Audit & Governance Committee regarding an investigation of a complaint if the investigation has not concluded within 6 months of the date of the complaint, and the Audit & Governance Committee may review the investigation of such a complaint, following consideration of the Monitoring Officer's report.](#)

[The Council's Arrangements for Making Complaints Against a Councillor for an Alleged Breach of the Code of Conduct is appended.](#)

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**CONTACT:** Head of Audit & Governance (Monitoring Officer)

## 1.5 Overview & Scrutiny Committees

1.5.1 The Overview & Scrutiny Committees general roles are to:

- [Review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions including consideration at each meeting of the Forward Plan;](#)
- [Review and/or scrutinise matters identified as relevant to that committee, including items on the Forward Plan which have not yet been approved and/or implemented;](#)
- [Prepare an annual scrutiny work plan covering two successive periods of six months and to make reports and/or recommendations bi-annually to the full Council and/or the Executive and/or any policy, joint or area committee in connection with the discharge of any functions;](#)
- [Liaise regularly with each other to ensure that there is no duplication between them in respect of scrutiny and review activity;](#)
- [Consider any matter affecting the area or its inhabitants;](#)
- [Exercise the right to call-in, for reconsideration, decisions made](#)

but not yet implemented by the executive and/or any policy or area committees; and

- Appoint Task and Finish Groups as and when required ~~with no more than two operating at any one time.~~ Normally the Chair and Vice-Chair of the Committee would Chair these groups and there would be an expectation that these groups would co-opt external expertise.

In addition to their general role, each Overview and Scrutiny Committee has a primary scope and specific functions as detailed in the Constitution.

**CONTACT:** ~~Head of Legal & Democratic Services~~ Legal & Democratic Services Manager

## 1.6 The Statutory Officers

### 1.6.1 Head of Paid Service

The Head of Paid Service will:

- Determine and publicise a description of the overall departmental structure of the Council showing the management structure and deployment of officers as set out in part 7 of the Constitution;
- Report to full Council on the manner in which the discharge of the Council's functions is co-ordinated, the number and grade of officers required for the discharge of functions and the organisation of officers.

### 1.6.2 Monitoring Officer (Head of Audit & Governance)

The Monitoring Officer will:

- Maintain an up-to-date version of the Constitution and will ensure that it is widely available for consultation by Members, staff and the public;
- After consultation with the Chief Executive, Executive Director - Organisation and the Chief Finance Officer, the Monitoring Officer will report to the full Council or the executive in relation to an executive function if s/he considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered in accordance with the Local Government & Housing Act 1989;
- Contribute to the promotion and maintenance of high standards of conduct through provision of support to the relevant committee;
- Conduct investigations or take other action into matters referred by the Audit & Governance Committee in accordance with the complaints procedure;
- ~~Ensure that executive decisions, together with the reasons for those decisions and relevant officer reports and background~~

~~papers are made publicly available as soon as possible and will advise upon issues relating to confidential and exempt information;~~

**Commented [NR2]:** This is now a responsibility of the Chief Executive

- Advise whether decisions of the executive are in accordance with the budget and policy framework;
- Provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all councillors.

### 1.6.3 Chief Finance Officer (Executive Director - Finance)

The Chief Finance Officer has statutory duties in relation to the financial administration and stewardship of the authority. This statutory responsibility cannot be overridden. ~~The statutory duties arise from:~~

- ~~Section 151 of the Local Government Act 1972;~~
- ~~The Local Government Finance Act 1988;~~
- ~~The Local Government and Housing Act 1989;~~
- ~~The Accounts and Audit Regulations (Amendment) England 2009;~~
- ~~Section 73 of the Local Government Act 1985 (c.51);~~
- ~~The Local Government Act 2003.~~

The Chief Finance Officer will:

- After consulting with the Chief Executive, ~~Executive Director – Organisation~~ and the Monitoring Officer, report to the full Council or to the ~~E~~xecutive in relation to an ~~E~~xecutive function – and the Council's external auditor if s/he considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully;
- Have responsibility for the administration of the financial affairs of the Council;
- Contribute to the corporate management of the Council, in particular through the provision of professional financial advice;
- Provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all councillors and will support and advise councillors and officers in their respective roles;
- Provide financial information to the media, members of the public and the community.

Section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to the full Council, executive and external auditor if the authority or one of its officers:

- Has made, or is about to make, a decision which involves incurring unlawful expenditure;

- Has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority;
- Is about to make an unlawful entry in the authority's accounts.

Section 114 of the 1988 Act also requires:

- The Chief Finance Officer to nominate a properly qualified member of staff to deputise should they be unable to perform the duties under section 114 personally;
- The authority to provide the Chief Finance Officer with sufficient staff, accommodation and other resources – including legal advice where this is necessary [\(where this document refers to legal advice this is via the legal shared services arrangement with South Staffordshire Council\)](#) – to carry out the duties under section 114.

**CONTACT:** [Executive Director – Organisation](#), Head of Audit & Governance (Monitoring Officer), [Executive Director - Finance](#)

## 1.7 Scheme of Delegation

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1.7.1 The Local Government Act 1972 as amended provides for a Scheme of Delegation where Council delegates to certain officers powers to undertake functions and duties on behalf of the authority. This delegation is completed annually.

1.7.2 Chief Officers must ensure that they comply with the approved Scheme of Delegation.

**CONTACT:** Head of Audit & Governance (Monitoring Officer)

## 1.8 Accounting Policies

1.8.1 The Executive Director - Finance is responsible for the preparation of the authority's statement of accounts, including Whole of Government Accounts, in accordance with proper practices as set out in the format required by the *Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC)* based on International Financial Reporting Standards, for each financial year ending 31 March.

1.8.2 Key Controls  
The key controls for accounting policies are:

- a) Systems of internal control are in place that ensure that financial transactions are lawful;
- b) Suitable accounting policies are selected and applied consistently;
- c) Proper accounting records are maintained;
- d) Financial statements are prepared which present fairly the financial position of the authority and its expenditure and

income.

#### 1.8.3 Responsibilities of the Executive Director - Finance

To select suitable accounting policies and to ensure that they are applied consistently. The accounting policies are set out in the statement of accounts, which is prepared at 31 March each year, and covers such items as:

- a) Separate accounts for capital and revenue transactions;
- b) The basis on which debtors and creditors at year end are included in the accounts;
- c) Details on substantial provisions and reserves;
- d) Fixed assets;
- e) Depreciation;
- f) Capital charges;
- g) Work in progress;
- h) Stocks and stores;
- i) Deferred charges;
- j) Accounting for value added tax;
- k) Government grants;
- l) Leasing/pensions.

#### 1.8.4 Responsibilities of Chief Officers

To adhere to the accounting policies and guidelines approved by the Executive Director - Finance.

**CONTACT:** Executive Director - Finance

## 2. GENERAL GUIDANCE

### 2.1 Introduction

2.1.1 This guidance aims to help employees in their day to day work. Employees are required to comply at all times with the Council's financial regulations, and this guidance will help to ensure they do.

2.1.2 In this guidance there are three levels of requirements:

- i) In some cases the guidance states that employees **MUST** comply with the requirement and therefore 100% compliance is expected;
- ii) In other cases employees **SHOULD** comply, but there will be times when compliance would not be possible or desirable; and
- iii) In the remaining cases it is stated that employees **MAY** wish to follow the guidance if it would be helpful, but it is purely at their discretion.

2.1.3 Employees must therefore take careful note whether the wording used in each section is **MUST**, **SHOULD** or **MAY**.

2.1.4 **If the guidance states a requirement MUST be complied with, employees should consult the Executive Director - Finance if there is particular difficulty. The Executive Director - Finance has authority to waive compliance and limits where necessary. In the absence of the Executive Director authority is passed to the Assistant Director - Finance and then the Chief Executive or Executive Director - Organisation.**

2.1.5 Employees needing help to interpret or apply the guidance should contact their Chief Officers, Head of Audit & Governance, or Executive Director - Finance.

2.1.6 The review and updating of Financial Regulations, Standing Orders and Financial Guidance will be completed by the Head of Audit & Governance.

2.1.7 Throughout the guidance, reference is made to Chief Officers. A Chief Officer includes the Chief Executive, Executive Directors and Assistant Directors.

**CONTACT:** Head of Audit & Governance, [Executive Director – Finance](#),

### 2.2 Employee Responsibilities

2.2.1 Each Chief Officer must ensure that all his/her employees and any other agents acting on behalf of the Council are aware of the sections of this guidance that relate to their areas of work.

2.2.2 Chief Officers may delegate to other employees duties shown in this guidance, but the Chief Officer retains primary responsibility. Where the guidance places a duty on an employee, it is the Chief Officer's responsibility to ensure the existence of adequate procedures, documentation and supervision.

### 2.3 Miscellaneous

2.3.1 Chief Officers must ensure that lists of officers authorised to certify or approve orders, payments and records are updated at least on an annual basis. They must advise the Executive Director - Finance of changes such as **authorised signatories** leaving and propose new names, specimen signatures and monetary limits (where needed);

2.3.2 Any employees required to carry out checks such as **checks of documents** or calculations must sign/initial and date the relevant document (or use an electronic signature on electronic documents). The employee who prepares the document should also sign or initial, and date it.

2.3.3 Chief Officers must ensure that all **financial records** are completed promptly and accurately. Any amendment to a financial record or a document required in a payment process, including expense claims, timesheets and official returns must be made in ink. The original entry should be struck through with a single bold line and the correct entry written alongside. It must then be initialled and dated. Correction fluid or tape must never be used.

2.3.4 Chief Officers must ensure that all financial records are kept securely, and retained for the periods specified in the appendix attached. At the end of the period the records must be securely disposed of, e.g., by shredding. Arrangements for the disposal of any obsolete or surplus records, including unused items, should be agreed with the Executive Director - Finance.

2.3.5 All bank accounts relating to the Authority's transactions will be controlled and reconciled by the Executive Director - Finance. No other bank accounts are to be used.

2.3.6 If an employee is requested to give any **indemnities, guarantees or warranties** on behalf of the Council they must consult [with their Director and obtain legal advice where appropriate](#) ~~Head of Legal & Democratic Services~~ before taking any action.

2.3.7 Where there is a suspected fraud or other significant **criminal act**, the Chief Officer must consult the Head of Audit & Governance or Executive Director - Finance on whether/ when the Police should be informed. Employees should follow the Council's advice on fraud and corruption ([Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes](#)).



- 2.3.8 All employees must comply with the Information Security Policy.
- 2.3.9 All employees must comply with the Officer's Code of Conduct subject to any conflict with professional codes, which in such circumstances the professional obligations subsist over the Officer's Code of Conduct.
- 2.3.10 In order to comply with the International Financial Reporting Standards, managers are required to consult with the Executive Director - Finance prior to entering into an agreement on any rentals, leases or use of assets to or from the authority, especially where financial/operating leases are entered into as more advantageous financing could be sought.

**CONTACT:** Executive Director - Finance, Head of Audit & Governance

### 3. RISK MANAGEMENT AND CONTROL OF RESOURCES

#### 3.1 Risk Management

- 3.1.1 Risk Management is the planned and systematic approach to the identification, evaluation and control of risk. The Cabinet shall approve a Risk Management Policy Statement and Strategy for the Council and shall promote a culture of risk management awareness throughout the Council.
- 3.1.2 Key decisions taken must include an assessment of the risk.
- 3.1.3 The Executive Director - Finance is the focal point for developing and implementing the Risk Management Strategy throughout the authority. Their role is to advise others. All staff have a duty to co-operate so that risk is effectively managed in their areas, ensuring that all issues that they cannot resolve directly are brought to the attention of their managers.
- 3.1.4 The Executive Management Team will be the forum where risk is performance managed.
- 3.1.5 Chief Officers are responsible for risk management and must have regard to advice from the Executive Director - Finance and other specialist employees (e.g. crime prevention, fire prevention, health & safety, cash handling and internal controls of various types).
- 3.1.6 Chief Officers are responsible for ensuring that regular and appropriate reviews of risk within their departments are completed and entered onto the Corporate Risk Register, held within the Pentana software system. Additional guidance can be sought from the Executive Director - Finance on risk management issues.
- 3.1.7 The Audit & Governance Committee will review the management of risk within the Authority.

**CONTACT:** Executive Director - Finance

#### 3.2 Insurances

- 3.2.1 The Executive Director - Finance is responsible for the arrangement of appropriate insurance cover through external insurance and internal funding. They shall, after such consultation as they think appropriate with other employees, settle all claims within individual policy excesses, and pass on all claims over individual policy excesses to the relevant insurer.
- 3.2.2 Chief Officers shall:
- a) Give prompt notification to the Executive Director - Finance of all

new risks, properties, vehicles, activities, functions, or any other assets which require to be insured and of any alteration affecting existing insurances (for example – safe limits being exceeded, loss of safe keys, temporary disablement of alarms).

- b) Promptly notify the Executive Director - Finance in writing of any loss, liability or damage or any event likely to lead to a claim against the Council together with any information or explanation required by them or the Council's insurer's, and inform the police where necessary;
- c) Ensure that all appropriate employees of the Council shall be included in a suitable fidelity guarantee insurance;
- d) Consult the Executive Director - Finance in respect of any indemnity which the Council is requested to give;
- e) Ensure that employees, or anyone covered by the Council's insurances, do not admit liability or make any offer to pay compensation that may prejudice the assessment of liability in respect of any insurance claim.

3.2.3 It is the responsibility of the Executive Director - Finance to:

- a) Maintain a register of all insurance arranged by the Council and the property and risk covered by them;
- b) At least annually, furnish Chief Officers with details of all insurances in force affecting their departments. Each Chief Officer shall review all such insurances, and any risks not insured against, or inadequately insured against, shall be notified immediately to the Executive Director - Finance;
- c) Ensure the adequacy of all insurances entered into by contractors of the Council. An employee shall not authorise work to commence by a Contractor until the Executive Director - Finance has advised such an employee that the appropriate insurances have been effected to their satisfaction.

**CONTACT:** Operations Accountant

### 3.3 Internal Controls

3.3.1 The Council accepts that controls and control systems must be in place to ensure that its financial and other activities are carried out in a secure environment, in a manner that complies with the law and that fulfils its stewardship obligations. To achieve this the following key controls and control objectives and systems shall be in place:

- a) Key controls shall be reviewed on a regular basis and the Council shall make a formal statement annually to the effect that it is

satisfied that the systems of internal control are operating effectively which will feed into the Annual Governance Statement. Chief Officers are required to produce an annual statement in respect of the level of assurance on the adequacy of internal controls within their service areas in accordance with the Accounts & Audit Regulations 2011;

- b) Managerial control systems, including defining policies, setting objectives and plans, monitoring financial and other performance and taking appropriate anticipatory and remedial action. The key objective of these systems is to promote ownership of the control environment by defining roles and responsibilities;
- c) Financial and operational control systems and procedures, which include physical safeguards for assets, segregation of duties, authorisation and approval procedures and information systems;
- d) An effective internal audit function that is properly resourced. It should operate in accordance with the principles contained in the Auditing Practices Board's auditing guideline "Guidance for Internal Auditors", "Public Sector Internal Audit Standards" and with any other statutory obligations and regulations and professional standards.

3.3.2 Chief Officers are responsible for ensuring that they manage their processes to ensure that established controls are being adhered to and to evaluate their effectiveness, in order that they can be confident of the proper use of resources, achievement of objectives and management of risks.

3.3.3 They should also review existing controls in the light of changes affecting the authority and establishing and implementing new ones. Chief Officers are also responsible for removing controls that are unnecessary or not cost or risk effective – for example, because of duplication.

3.3.4 Chief Officers must ensure that their staff have a clear understanding of the consequences of lack of control.

**CONTACT:** Head of Audit & Governance

### 3.4 Internal Audit

3.4.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs". The Accounts & Audit Regulations (Amendment) (England) 2015<sup>54</sup>, regulation 56, more specifically requires that "a relevant body must undertake an adequate and effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into

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~~account public sector internal auditing standards and guidance' of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".~~

- 3.4.2 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.4.3 Internal Audit is independent in its planning and operation. The Head of Audit & Governance shall have direct access to ~~the Head of Paid Service~~, all levels of management and elected members.
- 3.4.4 Internal Audit will comply with the Public Sector Internal Audit Standards (PSIAS).
- 3.4.5 Internal Auditors have the authority to:
- a) Enter at all reasonable times any Council establishment;
  - b) Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary;
  - c) Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud;
  - d) Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination;
  - e) Require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control;
  - f) Access records belonging to third parties, such as contractors or partners, when required and appropriate;
  - g) Direct access the Chief Executive, Executive Director – Organisation and Members.
- 3.4.6 The Head of Audit & Governance will prepare the strategic and operational audit plans, which will take account of the relative risks of the audit areas and present this to the Audit & Governance Committee for approval.
- 3.4.7 Chief Officers have the responsibility:
- a) Of reporting any circumstances which may suggest the possibility or irregularity affecting cash, stocks or other property of the Council

and any fraud or corrupt activities to the Executive Director - Finance. Further guidance can be found in the Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes;

- b) For ensuring that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purpose of their work;
- c) For ensuring that auditors are provided with any information and explanations that they seek in the course of their work;
- d) To consider and respond promptly to recommendations in audit reports; and
- e) For ensuring that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

3.4.8 The Head of Audit & Governance will develop and maintain a Quality Assurance & Improvement Programme (QAIP) that covers all aspects of the internal audit activity and is designed to evaluate conformance with the PSIAS definition of Internal Audit and Code of Ethics. The QAIP must be an internal on-going assessment report to the Audit & Governance Committee, with an external assessment to be completed in accordance with the frequency as determined by the Audit & Governance Committee (minimum at least every 5 years).

**CONTACT:** Head of Audit & Governance

### 3.5 Treasury Management

3.5.1 The Council will conduct its Treasury Management Activities in accordance with the provisions laid down in statute and specifically as contained within the Local Government Act 2003.

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses:

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
  - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities;
  - The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the

particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This organisation (i.e. full Council) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management and practices to full Council and for the execution and administration of treasury management decisions to the Executive Director - Finance, who will act in accordance with the organisation's policy statement and TMPs and, if they are a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
4. This organisation nominates Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

3.5.2 The Executive Director - Finance may report to Council at any time, as they consider necessary, upon matters relating to treasury management activities.

3.5.3 The Executive Director - Finance shall ensure that all treasury management transactions are recorded and that there is an effective division of duties between operations.

3.5.4 All securities which are the property of or in the name of the Council or its nominees shall be held in the custody of the ~~Head of~~ Legal & Democratic Services Manager, except in the case of externally managed funds which shall be held by an independent custodian approved by the Executive Director - Finance.

3.5.5 Loans must not be made to third parties and interests must not be acquired in companies, joint ventures or other enterprises without the approval of the Cabinet, following consultation with the Executive Director - Finance.

**CONTACT:** Assistant Director - Finance

### 3.6 Prudential Code

3.6.1 Interlinked with the CIPFA Code of Practice for Treasury Management is the Prudential Code for Capital Finance in Local Authorities which plays a key role in capital finance to support Local Authorities in taking their decisions.

3.6.2 The Council is required by regulation to have regard to the said code

when carrying out its duties under part 1 of the Local Government Act 2003.

- 3.6.3 The Prudential Code sets out a clear governance procedure for the setting and revising of prudential indicators. This is done by the full Council.
- 3.6.4 The Executive Director - Finance will be responsible for ensuring that all matters required to be taken into account are reported to the full Council for consideration, and for establishing procedures to monitor performance.
- 3.6.5 In setting or revising their prudential indicators, the Council is required to have regard to the following matters:
- Affordability, e.g., implications for Council Tax/housing rents, including consideration of the impact for all resources (capital and ongoing revenue costs);
  - Prudence and sustainability, e.g., implications for external borrowing and whole life costing;
  - Value for money/potential 'spend to save' schemes, option appraisal;
  - Stewardship of assets, e.g., asset management planning;
  - Service objectives, e.g., strategic planning;
  - Risk and uncertainty needs to be considered;
  - Practicality, e.g., achievability of the forward plan.
- 3.6.6 The Executive Director - Finance is required to establish procedures to monitor both performance against all forward looking prudential indicators and the requirement that Council has adopted the CIPFA 'Treasury Management in the Public Services: Code of Practice and Cross-Sectional Guidance Notes'. The Executive Director - Finance also needs to establish a measurement and reporting process that highlights significant deviations from expectations.
- 3.6.7 When considering capital spending Chief Officers must have regard to the capital process guidance, which includes the requirement to complete a capital appraisal. This appraisal ensures that consideration is given to:
- Full capital cost, including regard to external funding considerations;
  - The revenue implications associated with the project – including costs and any additional income generation;



- Any implications with regard to the prudential code/use of prudential borrowing (including payback periods etc);
- Staffing implications;
- Alternatives which could be considered e.g., leasing;
- Consultation with other officers/organisations;
- Project management and planning in order to ensure delivery in line with approved timescales;
- Evaluation of the project outcomes;
- An assessment of the risks associated with the project – a full risk assessment is required;
- The contribution the project makes towards the achievement of the Council's corporate priorities, corporate capital strategy objectives and Government priorities.

3.6.8 In order to ensure that over the medium term, net borrowing will only be for capital purposes, the Council should ensure that net external borrowing does not, except in the short-term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

3.6.9 The Council shall set and monitor against the specified prudential indicators for capital expenditure, external debt and treasury management in accordance with the due processes to be followed, the matters required to be taken into account, affordability, prudence and in accordance with the definitions specified.

**CONTACT:** Assistant Director - Finance

## 4. REVENUE BUDGETS AND EXPENDITURE

### 4.1 Introduction

The key controls for budgets and medium-term planning are:

- a) Specific budget approval for all expenditure;
- b) Budget managers/Heads of Service to be consulted in the preparation of the budgets for which they will be held responsible and accept accountability within delegations set by the executive for their budgets and the level of service to be delivered;
- c) A monitoring process is in place to review regularly the effectiveness and operation of budget preparation and to ensure that any corrective action is taken.

### 4.2 Incurring Expenditure

4.2.1 Chief Officers and Heads of Service are authorised to incur expenditure:

- a) In accordance with approved Council and service policies; and
- b) In line with the service net revenue budget.

Chief Officers and Heads of Service are authorised to make budget changes.

### 4.3 Budget Monitoring and Variances

4.3.1 The service net revenue budget is the key point for budget monitoring and reporting. The detail contained within the budget book is mainly to assist budget holders manage their budgets. Strict compliance with the detailed budget is not necessarily expected. **The main requirement is that Chief Officers and Heads of Service must seek approval for any change in approved service policy, standards or delivery, or other material departure from the service plan.**

4.3.2 Chief Officers and Heads of Service must monitor their budgets regularly throughout the year. The Assistant Director of Finance and Accountants will provide suitable regular reports giving details of actual expenditure and income compared to the budget. They will notify the Chief Officer/Head of Service of any significant variance which appears to require further attention.

4.3.3 The Chief Officer or Head of Service is responsible for dealing with actual or likely variances from budget and must take appropriate action. For example, they may decide to:

- a) Freeze spending on a discretionary item such as furniture and equipment to deal with a net overspend; or
- b) Meet an overspend under one expenditure heading from one or

- more actual or planned underspends elsewhere (see below); or
- c) Meet an overspend from increased income (within limits set below); or
- d) Do nothing in the case of a windfall increase in income.

In the case of b) & c) the manager should consider whether to adjust the budget through a virement (see below).

4.3.4 There is no limit for budget transfers within individual expenditure headings (cost centres) if there is no change in service policy, no detriment to service standards or delivery and no material departure from the service plan.

4.3.5 Where a significant variance is expected (even after taking appropriate action) the Chief Officer or Head of Service must report the circumstances formally to Members as soon as practicable. The report should indicate the options open to Members and their implications. For example in the case of an overspend it might suggest:

- a) Reducing activity levels, with an impact on service standards, to reduce expenditure; or
- b) Increasing activity on income-generating services or increasing prices to increase income; or
- c) Providing additional resources from an alternative source, e.g. balances.

4.3.6 The report should take into account the likely position in future years as well as the current year.

**CONTACT:** Assistant Director - Finance

#### 4.4 Virement

4.4.1 A virement is defined as “the planned transfer of a budget approved for one purpose for use on a different purpose to that originally intended or approved”. A virement does not create additional budget; it changes the purpose for which the budget will be used compared to that originally intended.

4.4.2 A Chief Officer or Head of Service may authorise the transfer of up to £50,000 of budget (this is a cumulative amount ie., in total for each cost centre for the year and not per transaction) to or from any individual expenditure heading (cost centre) within their service. The Director can approve a virement (up to £50,000) across budgets within service activities within their Directorate and between Directorates with the approval of the Executive Director - Finance. The Chief Officer or Head of Service must notify the Executive Director - Finance in writing of all virements. **No further approval is needed if there is no change in**

**service policy, no detriment to service standards or delivery, and no material departure from the service plan.**

4.4.3 The Executive Director - Finance also has authority to approve virements in excess of the above £50,000 limit – up to a total virement of £100,000 (this is a cumulate amount ie. in total for each cost centre for the year and not per transaction).

4.4.4 **Virements can only be applied to direct expenditure and not to support service costs, capital charges and indirect income (ie. recharges).**

4.4.5 Virements which fall outside of the above criteria will require Cabinet approval.

#### 4.4.6 **Specific Contingency Budget**

Where a budget is identified as contingency and is intended for allocation during the year, its allocation will not be treated as a virement, provided that:

- a) The amount is used in accordance with the purposes for which it has been established;
- b) The Cabinet has approved the basis and the terms, including financial limits, on which it will be allocated. Individual allocations in excess of the financial limits must be authorised by Cabinet;
- c) The release of funding for specific identified contingency items is delegated to the Corporate Management Team in consultation with the Leader of the Council (Scheme of Delegation log);
- d) The release of the contingency is approved by the S.151 Officer (Executive Director - Finance).

#### 4.4.7 **Capital Contingency Budget (Block Allocation)**

- a) Where amounts are required for transfer from Specific Contingency/General Contingency then Cabinet approval must be obtained, including approval of a capital appraisal form detailing the financial and organisational impact of the scheme;
- b) Please note that the impact of drawing from this contingency budget has to be highlighted to Members in order for them to make an informed decision;
- c) These reports will also require S.151 Officer (Executive Director - Finance) sign off (due to their impact on the 5-year budget/balances/forecast).

**CONTACT:** Assistant Director - Finance

#### 4.5 **Income Generation**

4.5.1 Income may be received above the budget level in a number of circumstances. The potential uses for the extra income (within the limits set below) depend on the situation:

- a) Pure windfall income, which is received without any additional service activity or conditions is not available for use by the Chief Officer or Head of Service and they should not normally authorise any additional expenditure from that windfall. The main exception would be to meet an unavoidable overspend. In other cases the excess income would return to Council balances;
- b) Where an increase in demand results in increased service workload, additional income may be used to offset the impact of the extra workload. For example the manager may appoint temporary employees or purchase additional or improved equipment to improve efficiency or working conditions;
- c) Where the Chief Officer or Head of Service expects an increase in income to result from increased activity, the Chief Officer or Head of Service may approve additional expenditure where it will generate enough income to cover the costs;
- d) Where 'ring fenced' grant income is received which requires specific actions/spending, the Chief Officer or Head of Service may approve additional expenditure, where there is no net additional cost to the Council.

4.5.2 Chief Officers/ Heads of Service have authority to approve budget adjustments for excess income up to a limit of £50,000 per occasion. The excess income and additional expenditure must be reported explicitly within the monthly budget monitoring variance analysis;

4.5.3 The Executive Director - Finance also has authority to approve budget adjustments in excess of the above £50,000 limit – up to a total budget adjustment of £100,000 per occasion;

4.5.4 Any budget adjustments above this amount will require Chief Officers and Heads of Service to ask Members for formal budget adjustment to reflect the revised position.

**CONTACT:** Assistant Director - Finance

## 5. CAPITAL BUDGETS AND PROJECTS

### 5.1 Definition of Capital

- 5.1.1 Capital projects include the purchase or construction of assets such as buildings, vehicles and computer equipment and major repairs/refurbishment, which extend the life of an asset or increase its value. In each case the Council must get the benefit from the new or refurbished asset over more than one year. The total cost of the project must also exceed £10,000. This figure includes amounts spent on design and supervision and other fees for professional services (whether provided by Council employees or external contractors). Spending of up to £10,000 on a single project should be treated simply as revenue (except where it forms part of a minor works programme which exceeds £10,000).
- 5.1.2 The [Capital Process Guidance](#) is included within the Corporate Capital Strategy and can be found on the intranet.

**CONTACT:** Director of Finance

### 5.2 Leasing/Rental Agreements

- 5.2.1 The nature of financing should be considered prior to going to the market and options considered at that point.
- 5.2.2 Chief Officers and Heads of Service must consult the Executive Director - Finance before entering into **any** leasing or rental agreement to or from the Authority in order to comply with the International Financial Reporting Standards.
- 5.2.3 **All** lease/hire of equipment/rental agreements, for the use of assets that the Authority has not bought, must be signed by the Executive Director - Finance.
- 5.2.4 Obtaining an asset through a finance lease is regarded as capital expenditure and as such it must be included in the capital programme.

**CONTACT:** Assistant Director - Finance

### 5.3 Authority to Incur Capital Spend

- 5.3.1 The law requires Councils to treat capital spending differently from revenue so different authorisation procedures are used. Chief Officers and Heads of Service are authorised to spend money on a capital project only if the project is included in the capital programme, or for minor projects, they have sufficient revenue funds. In either case special rules apply.

- 5.3.2 The Executive Director - Finance is responsible for ensuring that a capital programme is prepared on an annual basis for consideration of the full Council's policy framework.
- 5.3.3 All capital projects and spending must comply with the guidance on Procurement and Contracts. Expenditure must be in line with the approved scheme (Capital Programme) as agreed by Council and will require an adequately detailed Capital Appraisal Form including any revenue implications arising from the scheme. The Appraisal Form should identify any key processes/deliverables to be incurred with appropriate financial information (i.e., sub projects within the main programme). The detail of projects above £50,000 must comply with the Procurement Strategy. In the event that as part of an approved scheme, there is a contingency amount in excess of £20,000, then prior approval must be obtained from Cabinet for the spend to go ahead. Chief Officers or Heads of Service must then notify the relevant portfolio holder of the preferred tenderer. The Procurement and Contracts Section gives further guidance.
- 5.3.4 If a Chief Officer or Head of Service wishes to incur minor new capital spend (i.e. between £10,000 and £50,000) from a revenue budget the Executive Director - Finance must first be informed in writing and there must be no change in service policy, or detriment to service standards or delivery. If these conditions are not met, Council must be asked to add the project to the capital programme.
- 5.3.5 Council have delegated authority to Cabinet to approve/add new capital schemes to the capital programme where grant funding is received and there is no net additional cost to the Council.
- 5.3.6 Some Chief Officers and Heads of Service are responsible for several capital projects at the same time. Where any single scheme needs up to £50,000 above its capital allocation to complete it, the Chief Officer or Head of Service may approve a virement for the additional spend provided other schemes within his/her control will under-spend by at least that amount.
- 5.3.7 A Chief Officer or Head of Service may authorise the virement of up to £50,000 of budget per occasion to or from any individual scheme within their service. The Director can approve a virement (up to £100,000) across budgets within service activities within their Directorate and between Directorates **with** the approval of the Executive Director - Finance. The Chief Officer or Head of Service must notify the Executive Director - Finance in writing of all virements. **No further approval is needed if there is no change in service policy, no detriment to service standards or delivery, and no material departure from the service plan.**
- 5.3.8 Where 'ring fenced' grant income is received for an existing scheme which requires specific actions/ spending, the Chief Officer or Head of Service may approve additional expenditure up to £50,000 (with a

further £50,000 only with the Executive Director - Finance approval), where there is no net additional cost to the Council. Spending of grants which fall outside of the above criteria will require Cabinet approval.

**CONTACT:** Assistant Director - Finance

#### 5.4 Monitoring

- 5.4.1 Chief Officers and Heads of Service are responsible for delivering capital projects within agreed timescales and within budget. Chief Officers and Heads of Service must therefore continuously monitor both the progress of projects and spend against budget.
- 5.4.2 The Executive Director - Finance and Service Accountants will provide suitable regular reports giving details of actual expenditure and income compared to the budget. They will notify the Chief Officer and Heads of Service of any significant variance which appears to require further attention.
- 5.4.3 Chief Officers and Heads of Service are responsible for dealing with actual or likely variances from budget or from the project delivery plan.
- 5.4.4 Where a significant variance is expected (even after taking appropriate action) the Chief Officer and Heads of service must report the circumstances formally to Members as soon as practicable. The report should indicate the options open to Members and their implications. For example in the case of a projected overspend it might suggest amending the specification to come within budget.
- 5.4.5 Outstanding expenditure relating to the previous financial year should be notified to the Executive Director - Finance as soon as possible after 31<sup>st</sup> March in line with the timetable determined by the Executive Director - Finance.
- 5.4.6 It is required that a post implementation review (PIR) is completed for all capital projects where learning is identified which could assist future projects or where there is a significant financial or political impact. The Asset Strategy Group will decide, on an annual basis, the projects that require a PIR to be completed. Results of the review should be circulated to CMT and, if appropriate Cabinet and/or Scrutiny Committees. More detailed guidance on the Post Implementation Review process can be found in the Capital Process Guidance.

**CONTACT:** Assistant Director - Finance

#### 5.5 External Funding

- 5.5.1 External funding is potentially a very important source of income, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the authority. Local authorities are increasingly encouraged to provide seamless service



delivery through working closely with other agencies and private service providers. Funds from external agencies such as the National Lottery provide additional resources to enable the authority to deliver services to the local community. However, in some instances, although the scope for external funding has increased, such funding is linked to tight specifications and may not be flexible enough to link to the authority's overall plan.

- 5.5.2 Where external funding may be available for a project in the capital programme the Chief Officer or Head of Service is responsible for submitting any bid required. Consultation with the Executive Director - Finance is required before submission.
- 5.5.3 Any bid must match the capital programme approval in all material respects. If the bid differs materially from the capital programme or the project is not in the capital programme, then should the bid be successful, Council approval must be obtained to add the project to the capital programme.
- 5.5.4 Where a project relies on external funding, it must not commence until final written confirmation has been received that the external funding will be provided.
- 5.5.5 If the external funding approval differs materially from the bid, Council approval must be received before any spending on the project is committed. The Chief Officer or Head of Service should seek advice from the Executive Director - Finance as to whether any difference should be regarded as material.
- 5.5.6 Council has delegated authority to Cabinet to approve/ add new capital schemes onto the capital programme where grant funding is received and there is no net additional cost to the Council.
- 5.5.7 Claims for payment must be made as soon as practicable. The budget manager who submitted the bid is responsible for submitting the claim by the due date, unless otherwise agreed with the Executive Director - Finance.
- 5.5.8 The Chief Officer or Head of Service should ensure that the project progresses in accordance with the agreed project delivery plan and that all expenditure is properly incurred and recorded.
- 5.5.9 Copies of all documentation such as bids, approvals, claims and correspondence must be sent immediately to the Executive Director - Finance to ensure that all funding notified by external bodies is received and properly recorded in the authority's accounts and to ensure that audit requirements are met.
- 5.5.10 The Chief Officer or Head of Service must ensure that the key conditions of funding and any statutory requirements are complied with and the responsibilities of the accountable body are clearly

understood. Funds should only be acquired to meet the priorities approved in the policy framework by the full Council. Any match-funding requirements should be given due consideration prior to entering into long-term agreements and future revenue budgets should reflect these requirements.

5.5.11 Further details on external funding can be found in the External Funding Strategy.

**CONTACT:** Assistant Director - Finance

## 5.6 Disposal of Capital Assets

5.6.1 Disposals require the same level of approval as capital spend. Chief Officers and Heads of Service should therefore propose any necessary capital disposals for inclusion in the capital programme. All disposals are required to be approved by the Budget Review Group and Cabinet.

5.6.2 Chief Officers and Heads of Service must obtain the best possible price for disposals, in accordance with section 123 of the Local Government Act 1972 (where relevant), which will normally be the market value. Chief Officers and Heads of Service must consult with the relevant specialist officer before commencing a disposal, e.g. the Director of Assets & Environment for land or buildings and the Director of Technology & Corporate Programmes for IT equipment. In most cases the specialist manager should assume responsibility for the disposal.

5.6.3 The disposal of low value items is dealt with in the Assets and Equipment chapter.

**CONTACT:** Assistant Director - Finance

## 6. PROCUREMENT AND CONTRACTS

### 6.1 Introduction

- 6.1.1 This section supplements the Council's contract standing orders and Procurement Strategy and Procurement Guidance and Procedures on the Intranet (which provide more detailed guidance and requirements on purchasing, procurement and contracting processes).
- 6.1.2 Each Chief Officer/Head of Service is under a duty to "Promote greater efficiency and value for money in all activities including the procurement of goods and services" (Financial Regulation 7).
- 6.1.3 The essence of the system, which must be maintained by all Chief Officers/Heads of Service is to demonstrate that:
- a) Best value for public money spend is achieved;
  - b) No favouritism is shown to any potential supplier; "brand names" or any potential discriminatory requirements/standards are not used;
  - c) The highest standards of integrity are consistently applied;
  - d) There is compliance to legal requirements;
  - e) Non-commercial considerations do not influence any contracting decision;
  - f) Corporate and departmental aims and policies are supported;
  - g) Compliance with the Procurement Strategy is maintained; and
  - h) The arrangements for supply and payment are clear to all parties.
- 6.1.4 This guidance applies to all procurement and purchasing activities undertaken for, or by, the Council including cases where the Council either acts as an agent (e.g. work for Staffordshire County Council) or employs an agent such as an external architect or clerk of works, or acts on behalf of other organisations and bodies working in partnership (for example the Local Strategic Partnership and Crime & Disorder Partnership).
- 6.1.5 Values quoted in this guidance should be considered as the estimated spend on an item, service, or material for the period over which the known requirements exist, or the total value of a one-off supply. Consideration should be given to the "whole life cost" which includes, for example, the cost of associated consumables required, cost of disposal/ decommissioning, etc. In some cases, it is clear that a grouping together of items is both sensible and within the spirit of the regulations. For example, it is appropriate to consider the purchase of desks and chairs as office furniture rather than as individual items. The guidance applies to both revenue and capital items. For more significant items of expenditure it is reasonable to consider the sum total of the Council's requirements for works, services and supplies across Directorates when assessing the estimated value and whole life costs of these requirements.

- 6.1.6 All IT purchases (software and hardware) must be approved by the Director of Technology & Corporate Programmes.
- 6.1.7 All potential contracts and partnership agreements (whether formal or informal) which utilise the handling of the Council's data/information (paper based or electronic) by a third party must ensure formal, contractual provision is made outlining the obligations placed on that third party. The Assistant Director – People must be consulted in any such case at the outset of the process.
- 6.1.8 All proposals, developments, capital works, contracts and changes affecting the information we use, hold and process must have the agreement of the Assistant Director - People or deputy, and, where appropriate, be monitored for compliance.
- 6.1.9 All suppliers, partners, third-party organisations and contractors with whom we have/will have a relationship by which they have access to or process (as defined by the Data Protection Act ~~2018~~<sup>1998</sup>) personal or commercially sensitive information belonging to or under the control of the Council will be required to comply with the relevant principles (e.g. Cyber Security Essentials/ISO27001) either by production of certification or by submission of a statement of compliance. In addition, they must acknowledge and agree their responsibilities and obligations to the Council in relation to Principle 7 of the Data Protection Act (~~2018~~<sup>1998</sup>) in relation to Information Security. Any request to waive these requirements requires the agreement of both the Security Management Group and Cabinet. Implementation of these arrangements is immediate in relation to all contracts not yet let, Invitation to Tenders not yet published, agreements not yet implemented, or proposed contract extensions. At the end of the contract, all information used by the contractor but belonging to the Council will be returned to the Council. Chief Officers are responsible for ensuring that the contractor provides assurance that they do not hold any personal or commercially sensitive information – either manually or electronically, that belongs to the Council. Advice can be obtained from the Assistant Director - People.
- 6.1.10 Any consultants, agents, contractual partners used by the Council shall be appointed in accordance with the requirements of Contract Standing Orders and Financial Guidance. Where the Council uses consultants to act on its behalf in relation to any procurement, the Chief Officer shall ensure that the consultants also comply with these requirements. No consultant shall make any decision on whether to award a contract or to whom a contract should be awarded. The Chief Officer shall ensure that the consultant's performance is monitored.
- 6.1.11 Some definitions of terms used and a list of officers who can provide assistance are shown at 6.17 and 6.18.

- 6.1.12 Quotations/ estimates must be obtained for one-off spends of up to £4,000, these may be verbal for up to £1,999. Any spend between £2,000 and £3,999 must have a minimum of 3 written quotations/ estimates.

All tenders or invitations to quote of £4,000 or above, for works, services, supplies, utilities and design contracts, will be tendered electronically through the e-tendering system, in-tend. Where a tender warrants a detailed specification, then the quick quote process must be used. All transactions associated with such invitations to quote or tenders above £4,000 will be conducted via the e-tendering system from the initial advertisement, expressions of interest, invitation to tender/quote or negotiate submission of quotations/tenders, quotation/tender opening, contract award and subsequent contract management.

The Procurement Team must be notified in writing at least six months before the commencement of any tendering exercise with an expected value of ~~£5100,000~~ £100,000 or over and will give direction as to the procurement route to be followed. This notification will include information for both capital and revenue expenditure proposals as is required under the capital appraisal process, so that an accurate assessment of the requirements can be made. Where the procurement is likely to exceed EU thresholds the period of notice will be at least six months in order to allow compliance with EU timescales.

- 6.1.13 Electronic or e-auctions via the InTend system will be made available to service areas by agreement with the Assistant Director of Finance. E-auctions can be a useful way of securing savings and efficiencies and are best applied where the product or service is capable of being specified accurately and can be provided by a range of suppliers with a common understanding of what the requirement is, for example, paper, IT hardware and consumables, and utilities. E-bidding is another variant, where “once only” bids are sought electronically.
- 6.1.14 The e-tendering/quotation system includes a browser based supplier website where any supplier wishing to register an interest in doing business with the Council can do so electronically, with a password protected, secure area of the website for them to fill out their company details (this includes information on their company, address, contact points, business types, banking, insurance, certificates, accreditation and other details). The supplier is able to update these details whenever it logs on to the e-tendering system. This, together with the introduction of corporate contracts, and partnering arrangements with suppliers, supersedes the practice of having and maintaining an “Approved Supplier” list or lists.
- 6.1.15 Chief Officers should ensure that current and potential suppliers register their company details on the supplier website which can be found at the following internet site <https://in-tendhost.co.uk/tamworthbc>. Relevant

suppliers are also able to use Constructionline to maintain and update key corporate information.

- 6.1.16 New business opportunities are to be advertised on the website via the Procurement Team and therefore must be notified in accordance with the timescales noted above.
- 6.1.17 Where Tamworth BC is conducting a tendering or quotation exercise in partnership with another public or private body (for examples joint procurement of services) then the e-tendering system can be used as part of the normal procurement processes followed by the Council by agreement with the Assistant Director of Finance.
- 6.1.18 Where the Council is funding/assisting a body such as the Local Strategic Partnership or the Crime and Disorder Partnership and there is an expectation on the part of the Council to ensure probity in the use of monies on projects which are publicly funded/routed via Tamworth BC then the e-tendering system can be used as part of the assistance provided by the Council by agreement with the Assistant Director of Finance.

**CONTACT:** Corporate Procurement Officer

## 6.2 Summary of Requirements

- 6.2.1 The following tables show the action needed at differing values. Further detail follows. Before initiating any tender/quote process officers should review the Contract Register to see if there are any comparable contracts or agreements in place which must be used unless there is an auditable reason not to.
- 6.2.2 Please see overleaf.

Value	Contact Other Officers	Process for Obtaining Prices	Contract Issues	Supply Process
£0 - £3,999	Should contact Procurement Team if similar expenditure is likely to be incurred by others to check if a corporate contract is in place or desirable	<b>Must</b> obtain at least 3 quotations or estimates – these may be verbal up to £1,999. £1,999 is cumulative within the financial year.	No requirement for formal written contract. Standard form may be considered in some cases and an annual supply arrangement may be appropriate	Must be via official order generated by General Ledger or as per contract
£4,000 - £9,999	<b>Must</b> consult the Procurement Team to seek guidance as to the appropriate procurement route to follow	Tendering <b>must</b> be considered, alternatively, written quotations must be obtained using Quick Quote (QQ) on the in-tend system using the correct current invitation to quote template. The authorisation form <b>must</b> be completed and returned to the Procurement Team	Condensed contract format to be used and standard quotation documents must be used especially where access to personal/confidential information is involved or warranties or indemnities are given/received	Must be via official order generated by General Ledger or as per contract
£10,000 - £49,000	<b>Must</b> consult the Procurement Team to seek guidance as to the appropriate procurement route to follow	Advice from Procurement and, where appropriate, Legal <b>must</b> first be obtained. Tendering <b>must</b> be considered. <b>Must</b> use the standard quotation/ tender documents. The Authorisation Form <b>must</b> be completed and returned to the Procurement Team	Depending on the complexity, risk and value, a written contract is required, subject to consultation with the Procurement Team and Legal. Above £20,000 a formal written contract which can be signed by the relevant CMT member <b>MUST</b> be used. Consult with Procurement Team as to the relevant type of contract	Must be via printed official order generated by General Ledger or as specified in the contract

Value	Contact Other Officers	Process for Obtaining Prices	Contract Issues	Supply Process
£ <del>5</del> 100,000 and over	<b>Must</b> advise Procurement Team in writing as soon as the spend requirement is identified – this is at least a 6 month period and where spend is going to exceed the EU threshold, a longer period of notice would be expected – the Procurement Team must be contacted for guidance as to the appropriate procurement route to follow. The Procurement Team may direct and/or administer the whole process	<del>Member endorsement of contract brief required.</del> —Use of the Invitation to Tender Documentation <b>must</b> be used. The Authorisation Form <b>must</b> be completed and returned to the Procurement Team	<b>Must</b> be a formal written contract duly approved by the <a href="#">relevant Executive Director in consultation with legal Head of Legal &amp; Democratic Services</a> and executed as a Deed under Seal	As specified in formal contract



6.2.3 Any of the guidance may be applied for purchases at a lesser value. For example, it may be appropriate for certain low value requirements to be purchased by inviting tenders. Similar procedures to those outlined should then be followed. (The guidance does not necessarily cover such situations in full).

6.2.4 If there is an existing contract available for the required goods, services or works, it must be used in the first instance. Some contracts let by other public authorities may also be available (see 6.3.1).

6.2.5 A list of corporate contracts can be found on [PentanaCovalent](#). If it is intended not to use a corporate contract, the Procurement Team must be consulted at the outset.

6.2.6 A suitable contract specification must be completed in all cases. The level of detail required within the specification will be commensurate with the complexity, risk and value of the purchase.

See the following section on Alternative Purchasing Arrangements. Advice in either case is available from the Procurement Team.

6.2.7 Chief Officers **must** maintain a register to record all quotations and estimates (including verbal estimates) up to £3,999. Copies of written versions must be securely retained, and entries should be signed and dated by both the recording officer and the authorising officer. The details contained in any quotation or estimate must not be made known to any other party. All quotations and estimates received should be retained in the register until the Accounts have been signed off for that financial year. The Quick-Quote and Contract registers on [Covalent-Pentana](#) will be used to record details of tenders/contracts awarded.

6.2.8 The most economically advantageous tender must be accepted. Advice on how to determine this can be sought from the Procurement Team.

**CONTACT:** Corporate Procurement Officer

### **Further Guidance**

#### 6.2.9 Under £4,000

Different practices will apply at different levels:

- The petty cash procedure may be used for very minor items. See the section on cash advances etc;
- The three estimates for a supply up to £34,999 may come from telephone contact with companies advertising in the local paper, trade journal or yellow pages;
- Verbal quotations/estimates may only be sought for goods/services up to a cumulative value of £1,999 within the financial year.

#### 6.2.10 £4,000 - £9,999

The Chief Officer must contact the Procurement Team if further similar expenditure is also likely to be incurred by themselves or others to check if a corporate contract is in place or is desirable. Tendering must be considered and the Procurement Team will advise on the suitability of tendering. Alternatively, written quotations must be obtained by using Quick Quote on the in-tend system and using the correct Invitation to Quote template/specification. The Authorisation Form must be completed and authorised, and received by the Procurement Team, and a tender/ QQ reference number established, before the procurement process is initiated on in-tend.

6.2.11 The standard form of contract is particularly recommended in situations where protection against a poorly performing supplier is important or where the procurement carries particular risks e.g. where the supplier would have access to confidential/personal information, or where price is not the only criteria being considered.

#### 6.2.12 £10,000 - £499,999

The Chief Officer should appoint a Project Officer with overall responsibility for the procurement. The Procurement Team must be advised in writing in all cases and guidance sought on the appropriate procurement route to be followed. Tendering must be considered and the Procurement Team will advise where tendering is

not necessary. Where agreed with the Procurement Team, written quotations may be obtained via Quick Quote on the in-tend system using the correct Invitation to Quote template. All tenders/ QCs with an estimated value exceeding £25,000 **must** also be advertised on the Crown Commercial Service's Contracts Finder e-procurement portal. The Authorisation Form must be completed and returned to the Procurement Team, and a tender/ QC reference number established, before the procurement process is initiated on in-Tend. A written specification must be included on the Invitation to Quote/ Tender document. *Formal Terms and Conditions of Contract* must be used.

#### 6.2.13 £5100,000 plus

The Chief Officer must appoint a Project Officer with overall responsibility for the procurement. The Procurement Team must be advised in writing in all cases, at the initiation of the project, and guidance sought on the appropriate procurement route to follow. This is to enable an assessment of whether or not the European Union regulations come into play and to ensure the most appropriate procurement solutions are sought. Where the EU threshold is expected to be exceeded, the Procurement Team should be contacted in the first instance. A supply for an individual Service area may be below the threshold, but similar needs in another Service area may mean EU aggregation rules apply. EU procedures **must** be followed if they apply, and, due to their complexity, the Procurement Team **must** be involved in such projects. A formal tender exercise is compulsory, as is a formal written contract.

The ~~Procurement Team Head of Legal & Democratic Services~~ must have a minimum of 2 weeks notice to consider the draft contract before engrossment.

**CONTACT:** Corporate Procurement Officer

### 6.3 **Alternative Purchasing Arrangements**

6.3.1 Other organisations in the public sector are also under a duty to secure value for money in terms of purchasing. In the right circumstances and where

provision has been made for the agreement to be used by other authorities, i.e. where it will provide best value and is consistent with other key requirements such as on contract terms and conditions, managers may use their purchasing arrangements.

- 6.3.2 These other organisations may include Crown Commercial Services, ESPO, YPO, Central Government, ~~(via their G-Cat or S-Cat, and L-Cat processes)~~, local authorities such as Staffordshire County Council and bodies such as the National Health Service. Chief Officers/Heads of Service may contract directly with such suppliers but **must** consult with/involve the Procurement Team because of potential issues such as ensuring the agreement has been conducted in full accordance with Public Contract Regulations 2015 for use by other authorities; the requirement to conduct a mini-competition under a framework agreement, delivery charges, minimum order levels and so on. Contract details will also need to be recorded on ~~Covalent Pentana~~ for monitoring purposes and to ensure that details can be reported as part of our obligations under the Local Government Transparency Code.
- 6.3.3 Goods or services may also be procured jointly with other such organisations to obtain best value but must meet the requirements of the Council's own rules on procurement.
- 6.3.4 Other variations of procurement may be considered but officers must approach the Procurement Team for guidance before the commencement of alternative procurement routes.

**CONTACT:** Corporate Procurement Officer

#### 6.4 Appraisal of Potential Contractors

- 6.4.1 It is important that potential suppliers are able to meet the Council's needs. Suppliers should, therefore, be vetted in financial and performance terms (including health and safety) to various levels commensurate with the criticality and risk of the purchase/supply, prior to any firm commitment. **Please contact the Procurement Section for guidance.**

- 6.4.2 The financial appraisal checks that the supplier operates on a sound financial footing by assessment profit levels, the ability to pay bills and so on. It will also assess the supplier's capacity to deliver a contract without incurring unreasonable financial risk and recommend a maximum value contract that should be considered in order to protect the contractor from becoming too reliant on the Council for its business. The Executive Director - Finance will undertake or arrange these appraisals on receipt of the last two years audited accounts. The appropriate Chief Officer is responsible for ensuring that all relevant documents are submitted to the Executive Director - Finance in a timely manner. The Chief Officer must advise the Executive Director - Finance if the contract value exceeds £100,000 since a high level appraisal is then required.
- 6.4.3 In addition to the financial details submitted, the contractor is also required to submit details of Employers Liability, Public Liability Insurance and Professional Indemnity cover which must be appropriate and proportionate to the contract type, size and the nature of the contract, copies of which should be submitted along with the financial details to the Executive Director - Finance. The Chief Officer must check that the certificates are valid for the period of work. If they expire during the period the Chief Officer must check before expiry that they have been renewed. Further advice and guidance can be sought from the Assistant Director - Finance.
- 6.4.4 In terms of performance appraisal, the Chief Officer needs to satisfy themselves that the contractor has a history of sound performance of similar supplies in the recent past. The Chief Officer should therefore request bank references, trade references and make other enquiries deemed necessary to become satisfied.
- 6.4.5 Some contractors are required to hold a valid tax exemption certificate. Certificates should be checked prior to the start of the contract and a copy of the certificate should be forwarded to the Executive Director - Finance. The Chief Officer must check that the certificate is valid for the period of work. If it expires during the period of work the Chief Officer must check before expiry

that it has been renewed. Further guidance is available from the Executive Director - Finance.

- 6.4.6 In addition to the specific issues referred to within this section, the Chief Officer must ensure that appropriate steps are taken in all cases to assess the suitability of prospective suppliers. The risks involved in the procurement should advise the necessary level of assessment. For instance, even for lower value purchases Chief Officer should still consider the need to obtain assurance that a business is bona fide, or has appropriate health and safety arrangements and insurance cover.

**CONTACT:** Corporate Procurement Officer

## 6.5 Supplier Register

- 6.5.1 The names of contractors who have expressed an interest in doing work for the Council are retained on a supplier register within the e-tendering system (in-tend). Any contractor who expresses an interest to be included is automatically added to the Supplier Register. There is no pre-set requirement for contractors when signing up to the register. Appropriate appraisal criteria should be considered at the start of the tendering/quotation stage.

- 6.5.2 All Supplier Registers shall be maintained in an open, fair and transparent manner and be open to public inspection.

**CONTACT:** Corporate Procurement Officer

## 6.6 Framework Agreements

- 6.6.1 The terms of a Framework Agreement must not generally exceed four years and, while an agreement may be entered into with one provider, where an agreement is concluded with several organisations, there must be at least three in number.

- 6.6.2 Contracts based on Framework Agreements may be awarded by either:

- Applying the terms laid down in the Framework Agreement (where such terms are sufficiently

precise to cover the particular call-off) and where value for money can be clearly determined without reopening competition, or

- Where the terms laid down in the Framework Agreement are not precise enough to complete for the particular call off, by holding a mini competition in accordance with the following procedure:
  - Inviting the organisations within the framework Agreement that are capable of executing the subject of the contract to submit written tenders;
  - Fixing a time limit which is sufficiently long to allow Tenders for each specific contract to be submitted, taking into account factors such as the complexity of the subject of the contract;
  - Awarding each contract to the tenderer who has submitted the best Tender on the basis of the award criteria set out in the specifications of the Framework Agreement.

**CONTACT:** Corporate Procurement Officer

## 6.7 Tender Procedures

6.7.1 For contracts over £5100,000 Chief Officers must advise the Procurement Team in writing at the outset but at least six months before the required commencement date. An Invitation to Tender advert is placed to invite potential contractors or suppliers to register their interest in tendering for the relevant requirement.

6.7.2 The Invitation to Tender should contain details of the principal elements of the procurement requirement in order that it primarily attracts those contractors who are in a position to satisfy these requirements. It should therefore contain as a minimum:

- A sufficiently detailed requirement or specification for the type of goods, services or works required;

- A price schedule;
- Standard conditions of contract that will apply in the event of a contract being awarded;
- Instructions to tenderers including the date of commencement of the contract and possible duration; technical and financial information; the closing date for tender submissions, and a list of the evaluation criteria and sub-criterion together with the weightings to be used.

6.7.3 The evaluation criteria together with the weightings must be referred to in the Invitation to Tender and must not be altered after the Invitation to Tender has been issued. All criteria chosen to be used in the evaluation of tenders must be relevant to the service and/or goods required.

6.7.4 The Chief Officer must set a detailed evaluation methodology prior to inviting tenders. They should set out explicitly how price and quality elements will be balanced in the final decision in order to help demonstrate selection of the most economically advantageous tender. Appropriate and sufficient information must be required for inclusion in the supplier's submission to enable all criteria to be evaluated. Advice is available from the Procurement Team.

6.7.5 Large contracts may require the tenderers to submit a schedule of rates. To compare them properly and allow the total cost to be assessed, the Chief Officer should construct a model of work likely to be required over a set period, for example, one year. This model must be set before tenders are invited, and must be issued with the Invitation to Tender.

6.7.6 Contracts awarded will be required to be published in accordance with the Government's Transparency agenda.

#### **European Union Procurement Procedures**

6.7.7 The relevant EU Directives on procurement must be adhered to when awarding a contract where the anticipated value is close to or exceeds the



thresholds indicated below.

Thresholds	Supplies & Services (£)	Concessions (£)	Works (£)	Light Touch Regime Services (£)
Contract Value	£189,330 <del>181,302</del>	£4,733,2 <del>524,551,</del> 443	£4,733,252 <del>4,551,413</del>	£663,540 <del>615,278</del>

- 6.7.8 These figures apply from 1 January 20~~20~~18. The Procurement Team must be advised in writing at least six months in advance of the supply and guidance sought as to the appropriate values and procedures used. Further information on EU Procurement Procedures and guidance on the use of the open, restricted, competitive dialogue, competitive dialogue with negotiation, innovation partnership and negotiated without prior publication procurement routes, together with design contests and works concessions, should be obtained from the Procurement Team. The Procurement Team must be involved in all procurement projects under EU regulations due to the complexities and legal implications involved.
- 6.7.9 In appropriate cases, Chief Officers may engage with the market prior to initiating the tendering process in order to make use of innovative approaches in achieving best value in the provision of a supply or service. This could involve consulting with stakeholders including customers, potential suppliers and interested groups. The Assistant Director - Finance must be fully consulted and involved in any such proposals, which must comply with corporate guidance and EU Procurement Procedures.
- 6.7.10 Under the provisions of the Public Services (Social Value) Act 2012, the Authority is required to have regard to economic, social and environmental well-being in connection with EU public service contracts.

This requires the Authority to consider:-

- a) How what is proposed to procure might improve the economic, social and

environmental well-being of the relevant area;

- b) How, in conducting the process of procurement, it might act with a view to securing that improvement; and
- c) Whether to undertake any consultation regarding a) and b) above.

The provisions require that any actions are relevant and proportionate to the proposed procurement. Further advice and guidance should be obtained from the Corporate Procurement Team.

#### **Development of Contract Brief**

6.7.11 Where there is a variation from the agreed budget each Chief Officer must seek Cabinet endorsement prior to tendering. The report should comment upon:

- a) The detailed proposals for the scheme, including objectives, targets, milestones, design details and its contribution to the corporate and service plans;
- b) The financial appraisal of the revenue and capital implications, prepared in conjunction with the Executive Director - Finance, and compared to budgets;
- c) Risk associated with the scheme;
- d) The tender evaluation mechanism and the decision criteria.

6.7.12 Approval at this stage will normally include authority to invite tenders and to accept the most economically advantageous tender.

6.7.13 Chief Officers should consult the Executive Director - Finance and ~~the Head of obtain~~ [Legal \(as necessary\) & Democratic Services](#) for advice.

#### **Extension to Tender Period**

6.7.14 The ~~Head of Legal & Democratic Services (or their nominated deputy) or the~~ Executive

Director - Finance (or ~~his~~~~their~~ nominated deputy), may approve the extension of a tender period. The Corporate Procurement Officer is authorised to approve the extension of a tender period only if and when none of the above officers are available. The reasons for the extension of the tender period must be recorded on in-tend and all potential tenderers must be informed of the extension to the tendering period.

#### **Amendments to Tenders (by Contractors)**

- 6.7.15 Any amendment a contractor wishes to make to a submitted tender must be received before the closing date and time for responses. In-tend will provide this facility to suppliers.

#### **Tender Opening – Electronic**

- 6.7.16 All tenders for an individual contract must be opened at the same time by at least 2 officers. ~~This should include a representative from Legal Services for purchases that are subject to EU procedures.~~
- 6.7.17 A tender received after the specified time may be only opened and considered at the discretion of the ~~Head of Legal & Democratic Services~~ Executive Director - Finance .

#### **Sub-Contractors and Nominated Suppliers**

- 6.7.18 Nominated sub-contractors and suppliers must not be used where this would be anti-competitive, discriminatory or in breach of procurement regulations.
- 6.7.19 If a Chief Officer wishes to nominate a specific sub-contractor or supplier a written request must be sent to and be approved by the Assistant Director - Finance who will assess any risks involved. The request must show how this will give best value/value for money.

#### **Amendments to Tender Documents (by the Authority)**

- 6.7.20 Minor corrections and amendments to any part of

the Invitation to Tender may be required during the tender period. Chief Officers must consult with Procurement, and where appropriate the Executive Director - Finance, and if necessary the [in consultation with legal, Head of Legal & Democratic Services](#) on such matters, and all tenderers must be advised of all agreed amendments in writing at the same time. Acknowledgement of receipt of the amendments will be recorded on the electronic tendering system. In responding to clarifications and queries, the response should be addressed to all tendering organisations, and issued at the same time via the in-tend system. All correspondence will be sent electronically.

- 6.7.21 The Invitation to Tender amendments must not contain anything which may materially affect the tender process or unduly affect open and fair competition. No fundamental changes to the Invitation to Tender documentation should be made by the information contained within the amendment.
- 6.7.22 A record is retained electronically by in-tend of all correspondence with tenderers throughout the tender process.

#### **Tender Evaluation**

- 6.7.23 Chief Officers must ensure that at least two people carry out the evaluation of tenders. For major contracts involving a project team, the Manager should consider involving the whole team. All tender evaluations carried out must be evidenced with a full audit trail.
- 6.7.24 Tender evaluation must be completed using the spreadsheet available from the Procurement Team. The Procurement Team should be contacted to provide advice and guidance. The tender evaluation spreadsheet must be returned to the Procurement Team for review before the award of the contract, and must be retained with the procurement documents.
- 6.7.25 Tenders must be checked to ensure they are complete and that all price calculations are correct. They must be evaluated objectively in line with the specified evaluation mode, ensuring fair

and equitable treatment for each tender. Reasons for the scores given to each tenderer for each element of the evaluation must be recorded. Where a moderation process is used, any changes to scores must be evidenced and a full audit trail retained.

6.7.26 If an arithmetical error is discovered in the financial submission, the Chief Officer should consult the Corporate Procurement Team. The contractor must be notified in order to enable themselves to:

- a) Agree the amendment; or
- b) Allow the original figure to stand; or
- c) Withdraw the tender.

6.7.27 If a Tenderer notifies the Council of an error/amendment which materially affects the submission, the Chief Officer must consult with appropriate officers, for example, the Corporate Procurement Officer, Assistant Director - Finance ~~and~~; Executive Director - Finance, ~~the Head of Legal & Democratic Services and~~ should normally implement one of the following options:

- a) All other Tenderers are allowed to retender (in the case of the Council's error); or
- b) The Tenderer is required to stand by the original Tender; or
- c) The Tenderer withdraws the Tender; or
- d) (where an error is found before completion of tender evaluation) to correct an error which can be corrected simply by confirming which of two conflicting figures (eg., a multiplier or product, or carried forward or brought forward) is right.

e)

6.7.28 During the evaluation process, clarification may be sought on any of the tenders received. The questions and answers should always be submitted via the in-tend system and incorporated into the tender ~~and contract~~ documentation.

6.7.29 There must be no fundamental change to the contract specification or award criteria. Amendments to the specification or terms of the supply, which do not distort competition or are not considered material changes or fundamental to the contract can be made, and shall be put to all

Tenderers prior to the submission deadline and in good time for them to make any necessary changes to their tender. Guidance is available from the Corporate Procurement Team ~~or~~ Executive Director - Finance ~~or the Head of Legal & Democratic Services~~.

- 6.7.30 At the conclusion of the evaluation process, the Chief Officer should be able to, and is expected to, select the tender which is the most economically advantageous to the Council, as indicated by the evaluation model.

#### **Post Tender Negotiation & Clarification**

- 6.7.31 After the tenders have been returned and evaluated, further clarification from tenderers, in relation to the tender bid may be required. Clarifying information can include the following:

- Price
- Specification
- Delivery date/start date
- Payment Terms
- Software Licenses

- 6.7.32 All tender bids are covered by the [Public Contract Regulations](#) which state all negotiations with tenderers on fundamental aspects of contracts, variations of which are likely to distort competition and in particular on price, shall be ruled out. However, discussions with tenderers may be held, only for the purpose of clarifying or supplementing the content of their tenders or the requirements of the contracting authorities, and provided this does not involve discrimination. There must be no fundamental change to the contract specification or contract award criteria.

- 6.7.33 Where a tender return is unclear or there are minor sections which have been omitted with no explanation included, it is recommended that the tendering organisation is contacted for clarification, this must be done via the n-tend system. In the case of numerous or sizable omissions, guidance must be sought from the Assistant Director - Finance and Procurement before clarification is requested.

- 6.7.34 All tendering organisations must be treated fairly and equally in all circumstances.
- 6.7.35 An electronic record will be kept of any query on a tender on in-tend and any information supplied by the tenderer must also be conducted via the in-tend system.
- 6.7.36 Where it is necessary to meet a tenderer to discuss their submission further, at least two authorised officers must be present and minutes taken. In all instances, the Procurement Team must be consulted.
- 6.7.37 In some cases it may be necessary to vary, by agreement, some minor details of the work required. Consultation with the Procurement Team and [the Head of Legal & Democratic Services](#) must be made prior to any agreement being made.
- 6.7.38 Advice should always be sought from the Procurement Team, Assistant Director - Finance or [the Head of Legal & Democratic Services](#) before entering into clarifications or negotiations.
- 6.7.39 Chief Officers must not enter into negotiations except:
- a) With the preferred tenderer(s) under the evaluation mode and after all unsuccessful tenderers have been informed; or
  - b) When using the negotiated procedure under EU rules, in which case those procedures must be followed.

The Chief Officer must ensure that:

- c) Negotiations are carried out by at least two authorised officers, and guidance on separation of duties is followed;
  - d) The decisions taken at relevant meetings are documented;
  - e) Changes in specification and price are agreed by both parties;
- and
- f) All records are incorporated into contract documents.

- 6.7.40 Where post tender negotiation results in a fundamental or material change to the specification (or contract terms) the contract must not be awarded but re-tendered.

#### **Tender Acceptance**

**Where the tender price exceeds the estimated budget by the lower of £10,000 or 5% the Executive Director - Finance MUST be informed and has the discretion to authorise that the tender be accepted and a contract entered into.**

- 6.7.41 A Chief Officer may accept the winning tender after evaluation if it meets all material aspects of the specification and is within the budget provision. If the amount is higher than budgetary provision, the guidance on Budgets must be followed. If only one tender is received, advice and guidance MUST be obtained from the ~~Head of Legal & Democratic Services and the~~ Assistant Director - Finance of the process to be followed.

- 6.7.42 ~~When requesting approval to procure contracts, officers must ensure that approval is obtained from Cabinet to award the contract to the successful tenderer (in compliance with delegated procedures). With all income generating projects, i.e. the disposal of material operating assets/activities, Cabinet must approve the preferred tenderer.~~

- 6.7.43 Where the procurement is conducted under EU procedures, advice **MUST** be sought from the Assistant Director - Finance or the Procurement Team prior to any notification of an award of contract being issued. All tenderers shall simultaneously be provided with a written standstill notice of the Authority's intention to award the contract to the successful tenderer. The standstill notice must be issued electronically to tenderers (via in-tend), in the name of the ~~Head of Legal & Democratic Services, or, in his their absence,~~ the Assistant Director - Finance. The tenderers must be provided with a period of 10 calendar days to review, and, if considered necessary, to challenge the decision before the contract is awarded. Day one of the period shall commence on the day following issue of the standstill notice. The tenth



day must fall on a working day and the 10 day standstill period must be extended, where necessary, to ensure that this happens. If the decision is challenged, then the contract shall not be awarded and advice must immediately be sought from ~~the Head of Legal & Democratic Services and~~ the Corporate Procurement Team [who may consult with legal](#).

6.7.44 The standstill notice must contain a precise statement of when the 10 day standstill period will end ie., midnight at the end of (date) together with the following information:

- The criteria for the award of the contract;
- Reasons for the decision including the characteristics and relative advantages of the successful tenderer;
- In conjunction with the above, the score of the unsuccessful tenderer (including criterion and sub-criterion) and that of the successful tenderer to be awarded the contract;
- The reasons why (if any) the unsuccessful tenderer did not meet the technical specifications;
- The name of the successful tenderer to be awarded the contract.

The standstill notice **must** always be prepared in consultation with the Corporate Procurement Team.

**CONTACT:** Corporate Procurement Officer

## 6.8 Post Tender and Contracts

### Preparation of Contract

6.8.1 Where a tender has been subject to EU procedures and the standstill period has been completed without a challenge, then all tenderers must be informed once the contract has been awarded. More generally, having decided to accept a tender/quotation the Chief Officer must advise the tenderer of the outcome of the process and must finalise a contract. This might involve simple acceptance of a standard form of contract, minor amendment agreed via correspondence or it

might require meetings with the successful tenderer. Where an industry standard form of contract and terms and conditions are available, e.g. JCT or ICE contracts, they should be used in place of the Council's standard forms (but only if already specified in the Invitation to Tender documents). All agreed amendments must be recorded in writing and formally incorporated into the contract. Advice should be sought from the Corporate Procurement Team, and where necessary, [the Head of Legal & Democratic Services.legal](#).

6.8.2 The Chief Officer should ensure that all approvals that remain outstanding (such as planning permission) are obtained prior to the completion of the contract documents.

6.8.3 In addition, every relevant contract over £~~5~~100,000 must also state clearly as a minimum:

Prices and/or rates together with any adjustment mechanisms that shall apply during the term of the contract;

Invoice procedures;

Performance indicators and/or service levels required;

Conditions of contract that shall include:

- That the contractor may not assign or sub-contract without prior written consent
- Insurance requirements
- Health and safety requirements
- Ombudsman requirements
- Data protection requirements, if relevant
- Charter standards are to be met, if relevant
- Equalities & Diversity Policy requirements
- Children & Adults at Risk of Abuse and Harm Policy requirements, if relevant
- Conflict of Interests requirements
- Freedom of Information Act requirements
- Bribery act requirements
- Right of access to relevant documentation and records of the contractor for monitoring and audit purposes if relevant.

Where agents are used to let contracts, agents must comply with the Council's contract procedures rules.

### Insurance

- 6.8.4 Chief Officers must ensure that the contract has Employers Liability and Public Liability insurance, **normally** to a minimum value of £10 million and £5 million respectively; and should seek the advice of the Executive Director - Finance wherever there is doubt. Other insurances, for example, professional indemnity may be desirable.
- 6.8.5 The responsibility for obtaining contractor insurance details including renewals lies with the appropriate Chief Officer. The Chief Officer should ensure that all insurance details are passed to the Executive Director - Finance without delay.

### Bonds and Parent Companies Guarantees

- 6.8.6 The officer must consult the Executive Director - Finance about whether a Parent Company Guarantee is necessary when a contractor is a subsidiary of the parent company and:

The total value exceeds £250,000, or  
The award is based on evaluation of the parent company, or  
There is some concern about the stability of the contractor.

- 6.8.7 The Officer must consult the Executive Director - Finance about whether a bond is needed:

Where the total value exceeds £1,000,000, or  
Where it is proposed to make stage or other payments in advance of receiving the whole of the subject matter of the contract and there is concern about the stability of the contractor.

### Signing of Contracts

- 6.8.8 The ~~Head of Legal & Democratic Services~~ Chief Executive should check and endorse contracts before engrossment valued at £~~5100~~,000 or above for signature. Contracts below £~~5100~~,000 should be signed by the relevant member of the Executive Leadership Team (ELT). If, in the latter case, a number of members of ELT are involved, then the contract should be signed by the main user.

- 6.8.9 The Officer signing the contract must notify all interested managers it has taken place. The Executive Director -Finance must be notified in every case.

Site Possession

- 6.8.10 On completion of the contract documents the Chief Officer should where relevant arrange a site possession date. Chief Officers must not allow entry onto the Council's land or commencement of work prior to the completion of a written contract. In exceptional circumstances, this may be authorised by the Chief Executive.

Document Retention (all formal contracts)

- 6.8.11 Chief Officers must ensure the original copies of all formal contracts are placed in the Council's strong room for all contracts over 12 months/over £510,000. Where a consultant has been engaged to manage the contract on the Council's behalf, it must be ensured that both the contractor and Chief Officer have necessary access to contract documents to enable their functions to be performed.

Contract Amendments

- 6.8.12 Contracts may need amending after signing. The circumstances will dictate the level of approval needed for the change. The relevant Chief Officer should seek appropriate advice, for example, from the ~~legal Head of Legal & Democratic Services~~, before proceeding.

**CONTACT:** Corporate Procurement Officer, Operations Accountant

6.9 **Project/Contract Implementation & Payment**

- 6.9.1 A separate file should be maintained by the relevant Chief Officer for each project, including copies of such contracts making up the project. The file should contain the following information:-

- a) A record of instalments due and paid;
  - b) The working papers substantiating payments;
- and

- c) The details of payments to consultants, internal fees and other payments.
- 6.9.2 Chief Officers must only authorise payments that conform to the terms of the contract.
- 6.9.3 The Chief Officer must only make payments to contractors for Buildings & Engineering works on the basis of a valuation certificate detailing:
- a) The total value of the contract;
  - b) The value of work executed to date;
  - c) The amount paid to date;
  - d) The amount now certified;
  - e) Any retention monies;
  - f) Whether the work is subject to VAT or Liquidated and Ascertained Damages (together with details of the calculation of damages).
- 6.9.4 Where the work is subject to VAT the Chief Officer must ensure that either a VAT invoice or receipt is obtained in order to substantiate the VAT reclaimed.
- 6.9.5 Where liquidated and ascertained damages are to be deducted, the Chief Officer must ensure that the contractor is notified as soon as possible and given details of the basis of calculation. Any liquidated damages applied at any stage of the contract must be deducted from any subsequent valuation certificate before any payment is made.

Contract Monitoring and Variations (including claims)

- 6.9.6 The Chief Officer must monitor expenditure under a contract and take action where appropriate to ensure the final contract sum or the level of expense incurred in any financial year does not exceed the approved budget/available resources.

During the life of the contract, the officer must monitor in respect of:

- Performance; •
- Compliance with specification and contract; •
- Cost; •
- Any Value for Money requirements; •
- User satisfaction and risk management. •

Contracts of a high value or high risk should be subject to formal monthly review with the contractor.

For contracts over £5100,000, contract managers must:

- Maintain a risk register on the Pentana system during the contract period;
- Undertake appropriate risk assessments and for identified risks;
- Ensure contingency measures are in place.

6.9.7 Subject to the provisions of the contract, every extra cost or variation should be authorised in writing by the Chief Officer. Copies of the approved delegated decision that permits officers to authorise variations or extra costs should be forwarded to the Executive Director - Finance by the Chief Officer or the delegated officer.

6.9.8 If the revised project cost exceeds the budget/available resources, the guidance on capital budgets and projects must be followed.

6.9.9 Where a contract requires a contractor to meet specified outcomes or service levels (e.g. in a partnering-type arrangement) appropriate arrangements must be made by the Chief Officer to ensure that the expected outcomes/service levels are provided or that clear processes exist for reporting and approving any variations from these outcomes/service levels and their financial effect. Any proposals to provide financial incentives or profit sharing arrangements with partners must be subject to appropriate approval and budget processes. Such arrangements must provide appropriate levels of probity and transparency.

6.9.10 Where payment under a partnering arrangement is based upon an agreement of target prices between the Council and the external partner then written evidence shall be provided to demonstrate that the target price represents value for money.

6.9.11 Where a consultant is contracted to monitor a contract on the Council's behalf, the Chief Officer must ensure that the consultant contractor

complies with this financial guidance.

**CONTACT:** Executive Director - Finance, Head of Audit & Governance.

#### 6.10 Final Account

6.10.1 Payment of the final account (where relevant) effectively closes the contract and it must be correct. The Chief Officer must ensure that adequate checks are carried out to ensure the final account/payment is correct and has been accurately calculated. They must also ensure there is adequate separation of duties in preparing and agreeing the final account. Management within the relevant Directorate will, on an annual basis, review the Contract Register maintained by the Executive Director - Finance and sample test a number of payments (this process should be adequately evidenced).

6.10.2 For building and engineering work the relevant project manager must prepare a detailed statement of account before a final certificate (where required) is issued showing variations against the original contract price, payments made to date and any further payments due. It should be sent to the client Chief Officer within one month of the issue of the certificate of practical completion.

6.10.3 The client Chief Officer should approve and agree the contract final account within the retention period and ensure the final payment and certificate are sent to the contractor by the due date. In case of difficulty, advice should be sought from relevant officers, for example, the ~~Head of Legal & Democratic Services or~~ Executive Director - Finance.

6.10.4 Final account outturn should be reported in accordance with the Corporate Capital Strategy.

**CONTACT:** Executive Director - Finance

#### 6.11 Post Contract

6.11.1 Claims from the contract in respect of matters not clearly within the terms of any existing contract should be referred to the relevant Director who

~~should consult with legal – Head of Legal & Democratic Services~~ for consideration of the authority's legal liability.

**CONTACT:** ~~Executive Director - Finance, Head of Audit & Governance, Head of Legal & Democratic Services~~

## 6.12 Partnerships

6.12.1 Partnerships have a key role in delivering community strategies and in helping to promote and improve the well-being of the area. The Authority is and will be increasingly working with others – public agencies, private companies, community groups and voluntary organisations.

6.12.2 The main reasons for entering into partnerships are:

- The desire to find new ways to share risk
- The ability to access new resources
- To provide new and better ways to deliver services
- To forge new relationships

6.12.3 A partner is either:

- An organisation (either private or public) undertaking, part funding or participating as a beneficiary in a project; or
- A body whose nature or status gives it a right or obligation to support the project.

6.12.4 Partners participate by:

- Acting as a project deliverer, provider or sponsor, solely or in connection with others;
- Acting as a project funder, part funder, commissioner or joint commissioner;
- Being a beneficiary group of the activity undertaken in a project.

6.12.5 Partners have common responsibilities:

- To be willing to take on a role in the broader programme appropriate to the skills and resources of the partner organisation;
- To act in good faith at all times and in the best



interest of the partnership's aims and objectives;

- To be open about any conflict of interest that may arise;
- To encourage joint working and promote the sharing of information, resources and skills between the public, private and community sectors;
- To hold confidentially any information received as a result of the partnership activities or duties that is of a confidential or commercially sensitive nature;
- To act wherever possible as ambassadors for the project.

6.12.6 Chief Officers should be aware of:

- Their responsibilities with regard to the Authority's financial regulations and contract standing orders;
- The requirement for them to identify and evaluate all known risks associated with the partner arrangements, and take action deemed appropriate to deal with these risks;
- Ensuring that project appraisal techniques are in place to assess the viability of the project in terms of resources, staffing and expertise;
- Their role in agreeing and accepting formally the roles and responsibilities of each of the partners involved before the commencement of the project;
- Their need to communicate regularly throughout the project so that problems can be identified and shared to achieve their successful resolution.

6.12.7 Managers should ensure that:

- Potential partners are assessed for the financial viability in the same way as contractors;
- Internal audit roles and responsibilities are documented within the contract documentation;
- Partners and contractors are made aware of the Authority's Whistleblowing and Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes;
- Arrangements for ownership after the project has ended are identified and documented;

- Partnership agreements and arrangements are appropriately authorised and documented and do not impact adversely upon the services provided by the Authority;
- Appropriate information is provided to the Executive Director - Finance to enable a note to be entered into the Authority's statement of accounts concerning material matters;
- There are robust and transparent arrangements for partnership governance which comply in all material respects with the Council's own rules on such matters;
- There are sound arrangements for monitoring, reviewing and reporting upon the activities and performance of the partnership;
- They refer to the indemnity and conduct/conflict of interest issues;
- They maintain and update the partnership database for their significant partnerships.

6.12.8 Corporate processes for approving, reviewing and reporting upon partnership arrangements and commitments under these must be complied with.

**CONTACT:** Executive Director - Communities

### 6.13 Orders for Supply from External Sources

6.13.1 Official orders must be issued for all work, goods or services to be supplied to the Council except:

- Where a contract specifies otherwise;
- Supplies of public utility services;
- Payments such as rent or rates;
- Petty cash purchases; or
- Other exceptions approved by the Executive Director - Finance.

6.13.2 Individuals must not use official orders to obtain goods or services for their private use.

6.13.3 Official orders to suppliers for goods and services must be raised on the Efinancials System and promptly issued to the supplier/contractor. This ensures that the commitment is raised on the financial system and so aids the control and monitoring of budgets.

6.13.4 Verbal orders should only be given in urgent

cases, and any such order must be confirmed by an official order and endorsed "Confirmation Order". All authorised signatories together with any restricting financial limits must be notified to the Executive Director - Finance.

- 6.13.5 Orders must detail the work/goods/services ordered, refer to appropriate terms and conditions, be priced in accordance with estimates, quotations and so on, and contain the delivery address which must be a Council property. Expenditure must be coded to the correct detailed budget heading, even if there is no budget under that heading or it has been committed, including those required by statute or court order.
- 6.13.6 Before authorising an order the authorising officer must be satisfied that best value has been achieved, goods/ services are appropriate to the service and genuinely required, appropriate quotations/tenders have been received and that there is appropriate budget provision. For guidance where there is insufficient budget provision, refer to the section on Budgets.

**CONTACT:** Executive Director - Finance

## 6.14 Receiving Goods and Services

### Deliveries

- 6.14.1 Any employee who accepts deliveries of goods must obtain a delivery note, which should be signed by the supplier and receiver at the time. The Chief Officer who ordered the supplies must ensure they are checked as to quantity, quality and compliance with specification at the time of delivery, or as soon as possible thereafter. Where it is not possible to carry out this check at the time of the delivery, the employee should ensure this is made clear on the delivery note.

### Goods Receipting

- 6.14.2 As soon after delivery as possible, the financial system must be updated to show that the goods have been received (refer to the Guidance on Separation of Duties). Receipting goods on the financial system ensures that expenditure is accrued. This enables managers to monitor and

control their budgets more effectively. The employee recording goods receipt on the financial system must be satisfied that the quality, quantity and specification of the goods/services delivered is as ordered.

**CONTACT:** Head Audit & Governance, Operations Accountant

#### 6.15 **Advance Payments**

6.15.1 Advance payments should only be used for minor supplies such as course fees, seminars and publications. Chief Officers should consult the Executive Director - Finance for advice if in doubt. Where advance payment is made and VAT is known to be standard rated they will be processed separately. The Chief Officer must request an authenticated VAT receipt and send it to the Executive Director - Finance, if this is not forthcoming the relevant adjustments will be made to correct the accounting entries.

**CONTACT:** Executive Director - Finance

#### 6.16 **Funding to Voluntary & Community Sector Organisations**

6.16.1 Funding to voluntary and community sector organisations can be paid in advance (where appropriate). Where the provision of services on behalf of Tamworth Borough Council is to be delivered in partnership between a voluntary and community sector organisation and a private sector organisation then, subject to an appropriate partnership agreement being in place, funding can be paid in advance. Performance management arrangements must be stipulated in each funding agreement or contract in accordance with the Tamworth Public Sector Commissioning Framework. Evidence must be obtained for expenditure incurred.

**CONTACT:** Executive Director - Communities

#### 6.17 **Some Definitions**

6.17.1 The following table gives the definition of terms used in this guidance.

<b>Word</b>	<b>Definition</b>	
Quotation	A value for the supply of a service, goods or materials which must be held for a period of time.	
Estimate	A value for the supply of a service, goods or materials which may be varied following the supply. This is appropriate where it is not possible to give a precise quotation prior to the supply.	

**CONTACT:** Operations Accountant

**6.18 Further Advice & Guidance**

6.18.1 The Council employs a number of officers who have responsibilities in a variety of areas connected with procurement and purchasing. The following table is a quick reference guide.

<b>Issue</b>	<b>Contact</b>	<b>Comments</b>
Significant departure (either actual or potential) from this guidance	Executive Director - Finance,	
<b>Issue</b>	<b>Contact</b>	<b>Comments</b>
Procurement and purchasing – general procedures/EU procedures/joint procurement and partnerships	Executive Director - Finance	Chief Officers must not enter into any arrangement for procuring works, goods or services over the £50,000 tender threshold without seeking guidance from the Director of Finance at least six months in advance of the proposed supply. The Procurement Team can provide relevant advice and guidance, including standard forms and procedure details
Advice on control systems and administration	Head of Audit & Governance	
The law and legal opinion and sealing and retention of documents	<a href="#">Head of Legal &amp; Democratic Services</a> <a href="#">Legal &amp; Democratic Services Manager</a>	
Printing Requirements	Communications Manager	Chief Officers must not commit to purchase external printing supplies without consulting with the Communications Manager
Information Technology	Assistant Director - People	Chief Officers must not commit to purchase IT supplies (hardware and software) without consulting the Assistant Director - People
Coding, budgets, insurance, VAT, general ledger issues and financial appraisals	Executive Director - Finance	

**CONTACT:** Executive Director - Finance

## 7. Payment of Accounts

### 7.1 Introduction

- 7.1.1 One of the main requirements of a sound system of expenditure control is that at any point in time, a budget holder knows:
- a) What has been ordered, including the likely costs;
  - b) What has been received, and is therefore due for payment; and
  - c) What has been paid.
- 7.1.2 Small transactions can be dealt with from petty cash (see the section Cash Advances etc), and in some situations, payments can be made via direct debit or other electronic means – the Executive Director - Finance will advise on these processes. This section of the guidance deals with the most common form of payment, i.e. payment by BACS or cheque drawn on the Council's bank account.
- 7.1.3 All officers must encourage suppliers of goods and services to receive payment by BACS. BACS payments are secure and certain (to facilitate accurate cash management and reduce fraud) additionally this is the most economical means for the Authority.
- 7.1.4 Corporate credit cards can be used in the day to day business of the Authority and are intended to facilitate transactions only in limited circumstances. Corporate credit cards are to be used chiefly to provide an alternative means of sourcing and paying for goods/ services in connection with official business of the Authority, and may be used for purchases to obtain benefit of discount, payment via the Internet etc. The Corporate Credit Card Procedures must be followed.
- 7.1.5 All requests for direct debits against the Authority's bank account should be made via the Accountancy Section.

**CONTACT:** Executive Director - Finance

### 7.2 Security & Good Practice

- 7.2.1 The Council's credit payment system is set up so that the 3 stages of order, goods receipt and payment to be separately processed with password input and authorisation controls in line with the appendix on Separation of Duties. Passwords are often used in place of actual initials and signatures and must not be made known to any other person (see also the Information Security Policy).

7.2.2 Each Chief Officer must inform the Executive Director - Finance, in writing, of the names of employees permitted to undertake each of the stages, to input orders, authorise orders and confirm goods receipt. The Manager must promptly notify the Executive Director - Finance of any changes, for example, resignations. The Executive Director - Finance should annually prompt each Chief Officer to review the named employees.

7.2.3 Chief Officers may also wish to limit the values input or authorised by some employees, and/or restrict the expenditure codes which some employees can access. This information should also be passed to the Executive Director - Finance.

7.2.4 The Executive Director - Finance must ensure that the payments system:

- a Conforms with the controls contained in the appendix on Separation of ) Duties; and
- b Checks budget availability.

)  
**CONTACT:** Operations Accountant

### 7.3 Invoice Processing

#### 7.3.1 Receiving Goods and Services

##### Deliveries

Any employee who accepts deliveries of goods must obtain a delivery note, which should be signed by the supplier and receiver at the time. The Chief Officer who ordered the supplies must ensure they are checked as to quantity, quality and compliance with specification at the time of delivery, or as soon as possible thereafter. Where it is not possible to carry out this check at the time of the delivery, the employee should ensure this is made clear on the delivery note.

##### Goods Receipting

As soon after delivery as possible, the financial system must be updated to show that the goods have been received (refer to the Guidance on Separation of Duties). Receipting goods on the financial system ensures that expenditure is accrued. This enables managers to monitor and control their budgets more effectively. The employee recording goods receipt on the financial system must be satisfied that the quality, quantity and specification of the goods/services delivered is as ordered.

7.3.2 Each Chief Officer must ensure that the receipt of any service, material or item of goods is promptly recorded on the payment system, and that, where applicable, stock records and inventories are updated immediately.

7.3.3 Suppliers must be advised to send invoices to accounts, preferably by e-mail to [creditors@tamworth.gov.uk](mailto:creditors@tamworth.gov.uk). If invoices are received in departments each



Chief Officer must ensure that they are promptly passed to Finance Directorate for processing. Any disputed invoices should be notified to the Executive Director - Finance immediately to aid performance monitoring.

- 7.3.4 Before any order is goods receipted, the officer receiving the goods/services must satisfy themselves that the payment is properly due, and that the work, goods or services have been received and/or carried out in accordance with the order/contract/schedule of rates and this has been evidenced.
- 7.3.5 Officers must ensure that in respect of charges for gas, electricity, water etc adequate records are maintained to ensure the charges are correct and the following checks are undertaken:
- i) Any standing charges are correct;
  - ii) Consumption is charged on the correct tariff;
  - iii) That the consumption recorded is reasonable in light of current and ) previous readings.
- 7.3.6 Officers should ensure that all credit notes are immediately claimed against invoices or a cheque reimbursement should be requested.
- 7.3.7 The Accountancy Section will check the payee, prices, quantities, trade discounts, other allowances, credits and tax are correct, not previously paid, properly incurred and within the budget provision. They will also check any copy/facsimile invoices to ensure that they have not been previously paid and that payments are not made against suppliers' statement of accounts.
- 7.3.8 The Accountancy Section will ensure that where the invoice includes VAT, it is correctly calculated. Where a VAT invoice is not supplied, the full cost of the invoice including the VAT must be charged to the budget code. The Chief Officer must ensure that an authenticated VAT receipt is subsequently obtained to support this payment and passed to the Accountancy Section immediately on receipt so that the accounting entry can be adjusted.
- 7.3.9 The controls over invoice processing also applies to work done on our behalf by partners.

#### Amendments

- 7.3.10 VAT invoices must not be amended. If an incorrect VAT invoice is received, the supplier must be asked to send:
- a A corrected invoice, or )
  - b A credit note. )
- 7.3.11 Any amendment to a non-VAT invoice must be made in ink and initialled by the officer making it, stating reasons briefly where they are not self-evident.

#### Year End

7.3.12 Each Chief Officer must ensure that where goods and services (goods, materials, services and works, including electricity, gas, water etc) have been received by 31<sup>st</sup> March, that commitment orders and goods receipt notes have been processed within the financial system.

7.3.13 Each Chief Officer must, as soon as possible after 31<sup>st</sup> March and not later than 15<sup>th</sup> April in each year notify the Executive Director - Finance of all outstanding expenditure relating to the previous financial year. Outstanding expenditure consists of the value of all goods, materials, services and works (including electricity, gas, water etc) that has been received at 31<sup>st</sup> March, but has not yet been paid.

**CONTACT:** Operations Accountant

#### 7.4 Electronic Payment Mechanisms

7.4.1 Payments to suppliers must be completed by BACS transfer, as it is the most cost effective, secure and certain payment method to facilitate cash management and reduce fraud. Payments will be made by cheques in exceptional circumstances.

7.4.2 Information relating to suppliers bank details should be directed to the Executive Director - Finance.

**CONTACT:** Operations Accountant

## 8. Payment of Salaries & Allowances

### 8.1 Salaries

8.1.1 Salaries and other reimbursements are paid by the Executive Director - Organisation on behalf of each Chief Officer. The Executive Director - Organisation is responsible for maintaining the establishment list of the Authority, and for the details of standing payments to make. All forms of payment must conform with Council policy and Chief Officers should consult with the Executive Director - Organisation if change is sought.

8.1.2 It is the responsibility of Chief Officers to ensure that adequate and effective systems and procedures are operated so that:

- a) Payments are only authorised to bona fide employees;
- b) Payments are only made where there is a valid entitlement;
- c) Conditions and contracts of employment are correctly applied;
- d) Employees names listed on the payroll are checked at regular intervals to verify accuracy and completeness.

8.1.3 Each Chief Officer must tell the Executive Director - Organisation immediately of any changes to their employees or the basis upon which they are employed. The Chief Officer is accountable for any losses to the Council or hardships incurred by an employee resulting from a failure to notify changes promptly.

Examples are:

- i Appointments, resignations, dismissals, suspensions, secondments and transfers;
- ii Sickness and other absences apart from approved leave with pay;
- iii Changes in pay etc, other than normal increments and general pay awards;
- iv Any changes that may affect pensions of employees/former employees.

8.1.4 Chief Officers must ensure that all forms used to generate payments are either as supplied by the Executive Director - Organisation or are reviewed and sent annually for approval to the Executive Director - Organisation. They must ensure that completed forms are checked, calculations confirmed and payments properly authorised. Otherwise payment will not be made. Claims for payroll payments more than three pay periods old, will not be considered unless approval is made by the Executive Director - Organisation or the Executive Director - Finance. Claims that do not meet pay deadlines (as advised by the Executive Director - Organisation) may not be paid until the following pay period.

- 8.1.5 In exceptional circumstances, for example, if likely to suffer severe hardship, an employee may request their Chief Officer for an advance of salary. The Chief Officer may wish to seek advice from the Executive Director - Organisation or Executive Director - Finance. If the request is supported, the Chief Officer should ask the Executive Director - Organisation to make the arrangements. The Executive Director - Organisation should ensure that any advance is recovered from the next payment due.
- 8.1.6 A Chief Officer may certify payment of overtime to officers on spinal column point 35 and above only where prior written approval is obtained from a member of the Executive Leadership Team. This would normally be in exceptional circumstances for work of a specific nature such as in covering for a long-term vacancy.
- 8.1.7 Chief Officers may request additional payments such as honoraria for additional responsibility incurred by employees. These must be approved by the Chief Executive for a period of up to six months..
- 8.1.8 All payroll transactions should be processed through the payroll system. Chief Officers should give careful consideration to the employment status of individuals employed on a self-employed consultant or subcontract basis. All such matters should be referred to the Executive Director - Organisation for guidance.
- 8.1.9 The Executive Director - Organisation must be notified of details of any employee benefits in kind, to enable full and complete reporting within the income tax self assessment system.

**CONTACT:** Payroll Manager

## 8.2 Intermediaries Legislation (IR35)

- 8.2.1 Changes to the way the current intermediaries' legislation (IR35) applied to off-payroll working in the public sector came in to effect from April 2017. Where the rules apply, people who work in the public sector through an intermediary will pay employment taxes in a similar way to employees.
- 8.2.2 Chief Officers are required to complete the following duties:

Determine whether off-payroll working rules should apply and when there are contractual changes, if the rules continue to apply.

Where using an agency or other third party to provide labour, notifying them whether off-payroll working rules should apply to the contract they have with the worker

Where it does not reply to the written request from an agency or third party as to whether the off-payroll rules apply within 31 days,

becoming responsible for accounting for PAYE as if it were a fee-payer

- 8.2.3 If you are requesting a supplier to carry out services or labour on your behalf you will need to carry out a check as to whether the supplier should be paid as if they were an employee under the IR35 legislation. Detailed guidance on IR35 is available [here](#) and must be followed.

**CONTACT:** Assistant Director - People

### 8.3 Allowances and Expense Claims

- 8.3.1 Employees must submit expense claims in the pay period after which they were incurred in order to assist budget monitoring. Because of the difficulty in verifying old claims, claims more than three pay periods old, will not be considered unless approval is made by the Executive Director - Organisation or the Executive Director - Finance. Claims that do not meet pay deadlines (as advised by the Executive Director - Organisation) may not be paid until the following pay period. All car allowance claims must be supported with a VAT invoice for the fuel used.
- 8.3.2 Managers must only authorise claims they can certify as being correct – i.e. journeys were authorised, expenses necessarily incurred and claims are properly payable by the Council. The accuracy of any mileage claims and any calculations must be checked. Therefore, it is essential that all car allowance claims forms must show details of the trip undertaken, including postcodes (where appropriate and feasible to do so), the duties carried out, both the opening and closing odometer readings and the deduction of any “ordinary commuting miles” (if applicable). Managers must also ensure that officers claiming both casual and essential allowances have appropriate and up to date documents to include a valid driving licence, certificate of motor insurance that covers business use, valid MOT and vehicle registration document.
- 8.3.3 Chief Officers should ensure that the most appropriate means of travel in terms of cost and benefit is used. For example, long journeys may be better undertaken by train, for example, to reduce the length of the working day or allow the employee to work during the journey (see guidance on Subsistence Policy).
- 8.3.4 Where subsistence and other associated travel expenses are claimed, they must be supported by VAT receipts. The Council will not reimburse any expenditure relating to alcohol. Guidance on subsistence rates that can be claimed can be found in the Subsistence Policy which is appended to this guidance. The maximum limits will be updated on an annual basis in line with the RPI.

8.3.5 Claims relating to Post Entry Training must be sent to the Executive Director - Organisation to authorise the claim. The Chief Officer must ensure the scheme is authorised and an agreement has been signed by the employee. Where the scheme provides for the repayment of expenses, the Executive Director - Organisation must arrange recovery of any sums due before the employee leaves. The Organisational Development Unit will supply guidance on amounts that can be claimed on an annual basis.

8.3.6 Personal expenses incurred in entertaining guests will not be reimbursed without the prior approval of the Executive Director - Finance.

**CONTACT:** Payroll Manager

#### 8.4 **Members Allowances**

8.4.1 The ~~Head of~~ Legal & Democratic Services Manager must check and certify claims submitted by Members. They must give the Executive Director - Organisation details of regular payments, such as responsibility allowances, and must immediately notify any changes. Expenses claims must be submitted monthly to aid budget monitoring. Expenses claim forms must be completed in full, e.g. detailing journeys made, opening and closing odometer readings and any other expenses claimed. Claims can only be made for approved duties as defined in the Constitution. All car allowance claims must be supported with a VAT invoice for the fuel used. Claims in excess of three months will not be considered unless approved by the Executive Director - Finance or the Chief Executive.

8.4.2 Members wishing to attend a conference etc must advise the ~~Head of Legal & Democratic Services,~~ Executive Director – Organisation after consultation with the Cabinet if necessary, who may approve the payment of the cost of attendance at Conferences and training events and the payment of travelling, subsistence and attendance allowance(s) in the rates prescribed by the Secretary of State.

8.4.3 Wherever possible the Chief Officer should arrange overnight conference accommodation on behalf of Members and ensure invoices are sent direct to the Council.

**CONTACT:** ~~Head of~~ Legal & Democratic Services Manager

## 9. Cash Advances, Cash Floats and Petty Cash

### 9.1 Purpose

9.1.1 Small amounts of cash currently need to be held in service units to:

- a) Provide a cash float in tills;
- b) Pay minor expenses.

### 9.2 Processes

9.2.1 A Chief Officer needing a cash advance must send a written request to the Executive Director - Finance. The manager receiving the cash advance must sign for the receipt of all cash advances. A copy of the receipt must be forwarded to the Finance section for accounting purposes. They are responsible for the security of the cash and may be held responsible for making good any shortages.

9.2.2 Only minor items of expenditure may be paid out of petty cash. Petty cash must not be used to carry out recurring purchases of a similar nature. Chief Officers must not authorise any individual payment over £100 without the agreement of the Executive Director - Finance or the Assistant Director - Finance. Where reimbursement of expenditure exceeds £100, this should be processed through the payroll system. Claims for expenses should be completed using the expenses claim form. VAT receipts for all expenses must be attached. Expenses will be reimbursed through the Payroll system with salary payments.

9.2.3 Payments out of petty cash must be supported by a receipt or other voucher. Wherever possible a VAT receipt should be obtained. Income received must not be paid into a petty cash account.

9.2.4 The Chief Officer must keep full records of all transactions. Records must be kept fully up-to-date, showing the current balance in the account. The expenditure details and receipts/vouchers must be sent to the Executive Director - Finance with the claim for reimbursement.

9.2.5 The Chief Officer must ensure that the balance is checked at least monthly by an officer without other responsibilities for petty cash. All checks made should be evidenced. Any discrepancies must be investigated and reported as necessary.

9.2.6 At 31<sup>st</sup> March each year the officer carrying out the check must send written confirmation to the Executive Director - Finance of the balance held and an explanation of any discrepancy.

9.2.7 No float should be used to cash personal cheques or make personal loans. The only payments in to the account are for the reimbursement of the float and any change relating to purchase where an advance has

been made.

9.2.8 Any transfers of floats between officers should be evidenced by signature of both parties involved and a copy retained by the transferor. A copy should be sent to the Executive Director - Finance to ensure that records remain up to date.

**CONTACT:** Executive Director - Finance



## 10. Income, Charging and Debts

### 10.1 Fees & Charges

- 10.1.1 Directors **must** consider charging policies and current levels of charge each year as part of the service and financial planning process. The presumption is that the value of fees and charges will be maintained in real terms over time and reviewed annually, as a minimum, with necessary adjustments.

The setting and reviewing of fees, charges and other income sources must be carried out annually in line with the requirements of the Fees and Charges Policy and must be authorised in accordance with the detail set out in the Constitution and the Scheme of Delegation.

- 10.1.2 Proposals for new fees and charges must be considered within the financial planning process, or, where necessary, as an in-year change authorised in accordance with the detail set out in the Constitution and the Scheme of Delegation.

Proposals for new fees and charges **must** be analysed using the guidance set out in the Fees and Charges Policy. This guidance is to be used as the authorisation process for the setting of fees and charges and **must** be authorised by an authorised officer in accordance with the Constitution and Scheme of Delegation.

- 10.1.3 Chief Officers must ensure that all relevant charges are clearly displayed at service payment points. Employees must charge all people using the service the approved amounts.

- 10.1.4 All VAT due should be correctly identified and accounted for.

**CONTACT:** Executive Director - Finance

### 10.2 Receiving Payment

- 10.2.1 The Council accepts payment by cheque, debit card, credit card and cash (cash is only accepted at certain locations). Officers handling payments must follow the procedures below and any local procedures, including those needed for computerised systems. They must complete all records fully and accurately at the time. Chief Officers must ensure adequate local procedures are in place at all stages, having sought necessary advice from the Executive Director - Finance.

- 10.2.2 Ideally, subject to adequate controls, income should be received in advance or at the time of service provision.

- 10.2.3 Where possible, a forged note detector should be used.
- 10.2.4 Cash drawers should be closed in between transactions.
- 10.2.5 Supervisory keys for cash registers should be held by supervising officers and not by cashiers.
- 10.2.6 All voids, refunds and exceptions should be reviewed by the supervising officer and this review should be evidenced.

#### All Methods

- 10.2.7 The officer must immediately issue an official receipt or ticket. Change may only be given for payment of cash.
- 10.2.8 All official receipts should be properly controlled and accounted for.
- 10.2.9 All official receipts should be in a format approved by the Executive Director - Finance.
- 10.2.10 Transfers of cash between staff must be evidenced by signature of both staff involved and a copy retained by the transferor.

#### Cheque Payment Against An Invoice/Account

- 10.2.11 The officer must ensure the cheque is:
  - a) Made payable to "Tamworth Borough Council" (and should be crossed account payee only);
  - b) Dated correctly;
  - c) The correct amount;
  - d) Signed;And the officer must:
  - e) Record on the back of the cheque the receipt number (and location if necessary) and payment/invoice reference.

#### Cheque – Other Payment

- 10.2.12 As well as the above requirements the officer must ensure:
  - a) The cheque is signed at the counter;
  - b) The cheque card is presented with
    - The same signature
    - The same code number as the cheque
    - A valid expiry date
    - A limit sufficient to cover the chequeAnd the officer must:
  - c) Record the card number on the back of the cheque.

#### Debit and Credit Cards

10.2.13 For payments in person the officer must ensure:

- a) The card has not expired;
- b) The receipt signature matches the card signature;
- c) The card is not on a current stop listing (or if so, follow the instructions with the listing);
- d) The receipt number is recorded against the transaction;
- e) The credit card surcharge is recovered in line with approved policy.

10.2.14 For telephone payments the officer must ensure:

- a) That payments are processed at the time of call;
- b) All relevant security checks are completed.

**CONTACT:** Operations Accountant

### 10.3 Postal Payments

10.3.1 All post is to be opened centrally in the designated post room. Exceptions to this include private and confidential post and where it is deemed that post should not be opened.

10.3.2 Post must only be opened when two officers are present.

10.3.3 All income received through the post should be recorded immediately on to the cash receiving system.

**CONTACT:** Assistant Director - People

### 10.4 Cashing-Up Procedures

10.4.1 At each payment point, the Chief Officer must ensure there are adequate daily cashing-up procedures. The two stages should be carried out by two different employees. The cashier should total the contents of the till and, by deducting the cash float, find out the day's takings. A second officer should confirm the actual cash takings with the total takings recorded on the receipts given out. Signatures of both officers involved should be recorded on the paying in slip. The local supervisor must immediately investigate any material discrepancies and advise the Chief Officer, the Executive Director - Finance and the Head of Audit & Governance. All discrepancies must be recorded in a cashier's over/unders book, signed daily by the supervisor.

**CONTACT:** Head of Audit & Governance

## 10.5 Depositing Money

- 10.5.1 All money received must be banked direct. Employees must follow guidance from the Executive Director - Finance on cash collection, control, deposit and records.
- 10.5.2 Chief Officers/employees must ensure that all money received is deposited in full, without anything being deducted. For example cash from a till must never be used to meet petty cash expenses or to top-up petty cash.
- 10.5.3 If there is a need to depart from this rule, the Chief Officer must given the written authorisation of the Executive Director - Finance.
- 10.5.4 Takings should be banked daily. Where this is not practicable Chief Officers may agree an alternative arrangement with the Executive Director - Finance, provided:
- a) Takings are banked at least weekly; and
  - b) Maximum cash holdings specified by the Executive Director - Finance (for insurance purposes) are not exceeded.
- 10.5.5 The cashier must prepare a daily cash summary/ return and attach relevant till readings or equivalent. The return must detail the amount of cash and the amount in cheques. A supervising officer must verify this return.
- 10.5.6 Chief Officers must in any event ensure maximum cash holdings are not exceeded.
- 10.5.7 The cashier must certify the paying in slip, which should be checked and evidenced by a supervising officer.
- 10.5.8 Where banking bags are used, seals and the authority's details should be recorded in accordance with the collection company's procedures.

**CONTACT:** Operations Accountant

## 10.6 Money Laundering

- 10.6.1 Money laundering is the term used for a number of offences involving the proceeds of crime and terrorist funds. The following acts constitute the act of money laundering:
- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, or from Scotland, or from Northern Ireland;
  - Becoming concerned in an arrangement in which someone knowingly suspects or facilitates the acquisition, retention, use or

control of criminal property by or on behalf of another person;

- Acquiring, using or possessing criminal property.

10.6.2 Although the term “money laundering” is generally used when describing the activities of organised crime – for which the legislation and regulations were first and foremost introduced – to most people who are likely to come across it or be affected by it, it involves a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

10.6.3 A likely indicator that money laundering may be taking place is the deposit of large amounts of cash. **To help prevent money laundering, the Council has set a cash payment of £15,000. No cash payments above £15,000 are to be accepted by any Council service.** Any large cash payments that raise concern below this amount should be brought to the attention of the Head of Audit & Governance, however attempt to pay above this amount must be approved by the Head of Audit & Governance or, the Executive Director - Finance.

Commented [NR3]: In accordance with anti money laundering policy

10.6.4 The Council will do all it can to prevent, wherever possible, the organisation and its staff from being exposed to money laundering to identify potential areas where it may occur, and to comply with all legal and regulatory requirements; especially with regard to the reporting of actual or suspected cases. However, it is every member of staff's responsibility to be vigilant.

10.6.5 The Head of Audit & Governance is the nominated officer to act as the Council's Money Laundering Reporting Officer.

10.6.6 If a case of money laundering is suspected, the Head of Audit & Governance should be consulted immediately.

**CONTACT:** Head of Audit & Governance

## 10.7 Invoices, Debtors and Other Sums Due

10.7.1 It is the responsibility of each Service Unit to ensure that income for services etc is received prior to the service being completed. Where payment in advance is not possible, all necessary information in order to raise an account should be obtained from the customer prior to the provision of the service, except where statute dictates otherwise.

10.7.2 All Service Units must maintain a record of why the account has been raised. All accounts must be accurately created either prior to the service being delivered or, in the case of post-service charging, within 5 working days of the delivery of the service. Where possible, debtor accounts should not be raised for less than £100 in accordance with the Corporate Credit Policy.

- 10.7.3 It is essential that all accounts issued are timely; therefore, accounts raised after the service has been completed should be raised within five working days.
- 10.7.4 Timescales for the recovery process are detailed in the Corporate Credit Policy.
- 10.7.5 At the start of each financial year, Chief Officers must promptly supply information to the Executive Director - Finance on amounts due where a debtors account has not yet been raised for the previous financial year within the required deadlines.

Credit Policy

- 10.7.6 Cabinet, on 25 April 2007, approved a new Corporate Credit Policy. Chief Officers must ensure appropriate local guidance is in place and employees must follow the Policy and the local guidance.

**CONTACT:** Head of Revenues

**10.8 Debt Write-Off**

- 10.8.1 Debts can only be written-off in line with the appropriate policy – e.g., the Corporate Credit Policy.
- 10.8.2 Except where an approved policy dictates otherwise, the following authorisations are needed to write-off debt:

<u>Authority</u>	<u>Limit</u>
Chief Officer (or authorised delegated officer)	Up to £5,000
Executive Director - Finance	£5,001 - £10,000
Cabinet	Over £10,000

Note that these limits apply to each transaction.

All write-offs should be completed with adherence to the Accounts & Audit Regulations 2011.

An annual report of write-offs between 5,001 and £10,000 should be submitted to Council for information.

**CONTACT:** Head of Revenues

## 11 Assets and Equipment

An up to date asset register is a pre requisite for proper fixed asset accounting and sound asset management. Assets need to be valued in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom: (CIPFA/LASAAC based on International Financial Reporting Standards)*. Any assets purchased with a value of over £10,000 should be notified in writing to the Executive Director - Finance so that they can be added to the asset register.

**CONTACT:** Assistant Director - Finance

### 11.1 Responsibilities

11.1.1 Each Chief Officer is responsible for the records, use and storage of all assets and equipment within their control and/or used in their service delivery. Each Chief Officer must ensure that a physical check of all significant assets and equipment is undertaken on at least an annual basis to confirm their location and condition and to ensure that inventory records are accurate. This check should be evidenced.

11.1.2 Each Chief Officer must ensure that inventory records are maintained for all assets and equipment in any format specified by the Executive Director - Finance, to ensure the details shown below are included in each case and that all appropriate items are clearly and securely marked.

Inventory details:

- Description
- Purchase date
- Purchase price
- Serial number (if applicable)
- Asset number (if applicable)
- Condition
- Date of disposal

11.1.3 Chief Officers should ensure that contingency plans for the security of assets and continuity of service in the event of a disaster or system failure are in place.

11.1.4 In order to comply with the International Financial Reporting Standards, managers are required to consult with the Executive Director - Finance prior to entering into an agreement on **any rentals, leases or use of assets to or from the authority**, especially where financial/operating leases are entered into as more advantageous financing could be sought.

**CONTACT:** Assistant Director - Finance

## 11.2 Scope

11.2.1 All furniture, fittings, equipment and plant and machinery with an original and individual value of £50 or more should be included, with the sole exception of Information Technology (IT) hardware and software, which must be recorded by the Assistant Director People. Chief Officers should consider whether it is appropriate to include other items of a portable and desirable nature which may have a lower value.

11.2.2 Any change in the use or location of any IT hardware and software must be completed by the Technology & Corporate Programmes Service who will update their records accordingly.

## 11.3 Use

11.3.1 Items are only to be used on Council business and in line with accepted procedures and manufacturers instructions, and must not be removed without the specific approval of the Chief Officers.

## 11.4 Disposal

11.4.1 The disposal of all surplus items must be in line with the following guidelines which should be applied by:

- a) The Assistant Director - People for all IT equipment;
- b) The Chief Officer for all other items;
- c) The Executive Director - Finance for all other items with a value in excess of £1,000.

11.4.2 Each Chief Officer must record the disposal details on the inventory records and must maintain adequate records such as receipts and formal bids. Disposals should be notified to the Executive Director - Finance to ensure that appropriate accounting entries are made to remove the value of disposed assets from the authority's records and to include the sale proceeds if appropriate.

### Disposal Guidelines

11.4.3 A disposal policy is in place for the disposal of land and property (Asset Disposal Policy). The Asset Disposal Policy must be followed in these instances.

The disposal of any other surplus assets or equipment should be arranged in the manner most useful to the Council, taking into account the value, condition and usefulness of the item. Further guidance is appended.



11.4.4 All IT equipment must be passed to the Technology & Corporate Programmes Service for disposal to ensure that all information retained on disk drive is deleted in accordance with the Data Protection Act ~~1998~~[2018](#).

11.4.5 Particular care must be taken to ensure the Council is not exposed to risk, for example by passing on unsafe items to another body. Any internal sale must be scrupulously fair and open. The guide to the disposal of assets (excluding land and buildings) is appended to this guidance. Advice is available from the Head of Audit & Governance or the Executive Director - Communities.

**CONTACT:** Executive Director - Finance, Head of Audit & Governance, Executive Director - Communities

## 12. Stocks & Stores

### 12.1 Responsibilities

12.1.1 The aim of controls over stocks and stores is to ensure:

- a) Necessary materials are available when they are needed;
- b) Purchase costs are minimised;
- c) Stock holding costs are minimised;
- d) Waste and other loss is minimised;

To achieve this Chief Officers must ensure:

- a) The correct quantities are purchased at the correct times (to gain discounts and avoid delivery and administration costs);
- b) Excessive levels are not held (taking account of shelf life, storage costs and service needs);
- c) Stocks are held and handled securely;
- d) Adequate records are maintained including:
  - i) purchases and additions
  - ii) issues
  - iii) write-offs.

12.1.2 The Executive Director - Finance can advise on these matters, particularly on the financial records.

12.1.3 Chief Officers must also ensure that movements of stores are properly authorised and documented and that the records note the employee(s) involved in the process. The Head of Audit & Governance can advise on these aspects.

**CONTACT:** Head Audit & Governance

### 12.2 Stocktaking

12.2.1 **All** stock must be checked at least once a year at the end of the financial year in order to compare actual levels to recorded levels and Chief Officers should consider more frequent checks of valuable, desirable and portable items. Large stores, such as those held at the depots, could achieve this by an agreed process of rolling stocktakes. The Head of Audit & Governance will advise if necessary.

12.2.2 Stocktakes must be monitored and checked by employees who are independent of the storekeeping roles. This checking role must include the comparison of actual stocks to the recorded levels.

12.2.3 All discrepancies should be investigated by the line manager. Any material discrepancies (over £100 or desirable commodities) should be reported to the Executive Director (Finance) who will advise on the

appropriate procedures to follow, and who may inform the Head of Audit & Governance of the facts.

**CONTACT:** Head of Audit & Governance

### 12.3 **Obsolete and Unserviceable stock**

12.3.1 The disposal of stocks and stores should be in line with the guidance contained in the section on Assets and Equipment.

12.3.2 Obsolete/damaged stock should be written off prior to year-end and should not be included in year-end stock balances.

### 12.4 **Intellectual Property**

12.4.1 Intellectual property is a generic term that includes inventions and writing. If these are created by the employee during the course of employment, then, as a general rule, they belong to the employer, not the employee. Various acts of Parliament cover different types of intellectual property.

12.4.2 Certain activities undertaken within the Authority may give rise to items that may be patentable, for example, software development. These items are collectively known as intellectual property.

12.4.3 Chief Officers must ensure that controls are in place to ensure that staff do not carry out private work in Council time and that staff are aware of an employer's rights with regard to intellectual property.

**CONTACT:** Head of Audit & Governance, Assistant Director - People

### 13. Security

- 13.1 All staff must wear their ID pass at all times within Council establishments. Identification should be requested for all visitors to Council establishments. Where applicable, visitors must sign the visitors book both on entry and exit of the building. If appropriate, the visitor must be provided with an identification badge which must be returned on departure. The person issuing the badge should ensure that the badge is returned.
- 13.2 All temporary identification badges should be retained securely.
- 13.3 All building alarms should be linked to the Police Station or directly to the alarm company. Managers should ensure that these links are maintained.
- 13.4 The knowledge of alarm codes should be restricted to relevant staff. Each member of staff must have their own ID for the alarm. If a member of staff leaves the Authority, their ID should be deleted from the system.
- 13.5 Alarm usage reports should be generated on a regular basis. These reports should be reviewed by management who must evidence this review.
- 13.6 All cash handling areas should be secured. All access to cash areas should be locked and access restricted to authorised staff.
- 13.7 Safes should be located out of sight of the public and should be locked at all times. Access to safes must be restricted to authorised personnel. Each member of staff needing access to the safe must be issued with a key. The issue of safe keys should be documented detailing the date issued and the holder. The holder must sign for the receipt of the key. Safe keys **must not** be retained on the premises overnight. Retention of safe keys on unoccupied premises renders the insurance invalid.
- 13.8 Any transfer of keys between staff should be recorded. On termination or transfer of employment, all keys issued to that member of staff should be handed back to the line manager. The key register should be updated to reflect the hand over.
- 13.9 Managers are responsible for ensuring that the cash limit for the safe is not exceeded.
- 13.10 Where a cash collection company is used, managers are responsible for ensuring that the names and signatures of the cash collection staff are up to date.
- 13.11 Further guidance on physical and environmental security is contained within the Information Security Policy.

**CONTACT:** Executive Director - Communities

## 14. Data Quality

- 14.1 All employees have a responsibility for ensuring the information we process is accurate and up to date. The Data Quality Policy addresses this.
- 14.2 The consequence of poor quality of data impacts not only the way the Council works, but also anyone who conducts their business with us.
- 14.3 Data Quality Standards possess six essential characteristics, these are:
- **Completeness** – Data quality systems should have in place monitoring to ensure that no data is missing, incomplete or invalid records included.
  - **Accurate** – Data should be accurate for the purpose it is intended, and to be captured as close to the source as possible.
  - **Validity** – Data should be compliant with requirements and within the parameters laid down in any criteria.
  - **Reliability** – Data should be consistent across all collection points and over time. Appropriate controls should be in place to check outputs/inputs, sampling and is compliant with the criteria set out.
  - **Timeliness** – Data should be captured as soon as possible, and available to recipients within the agreed timeframe.
  - **Relevance** – Data captured should be relevant to the purpose for which it is used. Reviews need to take place to ensure the quality reflects any changing needs.

**CONTACT:** Assistant Director - People

15 Equality Impact Assessment

<b>Is this a new or existing policy?</b>	Existing
<b>1. Briefly describe the aims, objectives and purpose of the policy?</b>	To promote best value, service delivery and delivery of the Council's vision; To provide sound arrangements for all the Council's financial affairs and to be able to demonstrate that proper controls are in place; To safeguard Members and officers by setting out procedures which meet the Council's expected standards.
<b>2. Are there any associated policy/ procedure/ practice which should be considered whilst carrying out this equality impact assessment?</b>	
<b>3. Who is intended to benefit from this policy and in what way?</b>	TBC Employees Council – improved efficiency, increased resilience Council customers – VFM
<b>4. What are the desired outcomes from this policy?</b>	Transparency, consistency of application
<b>5. What factors/ forces could contribute/ detract from the outcomes?</b>	Different management interpretations of the guidance ICT not available
<b>6. Who are the main stakeholders in relation to the policy?</b>	All employees and Chief Officers of TBC, members, contractors, partners and residents

	of the borough	
<b>7. Which individuals/ groups have been/ will be consulted with on this policy?</b>	Chief Officers, members	
<b>8. Are there concerns that the policy <u>could</u> have a differential impact on racial groups?</b>		N
<b>9. Are there concerns that the policy/ procedure/ practice <u>could</u> have a differential impact due to gender?</b>		N
<b>10. Are there concerns that the policy <u>could</u> have a differential impact due to them being transgender or transsexual?</b>		N
<b>11. Are there concerns that the policy <u>could</u> have a differential impact due to disability?</b>		N
<b>12. Are there concerns that the policy <u>could</u> have a differential impact due to sexual orientation?</b>		N
<b>13. Are there concerns that the policy <u>could</u> have a differential impact due to age?</b>		N
<b>14. Are there concerns that the policy <u>could</u> have a differential impact due to religious belief?</b>		N
<b>15. Are there concerns that the policy <u>could</u> have a differential</b>		N

<b>impact on Gypsies/ Travellers?</b>			
<b>16. Are there concerns that the policy <u>could</u> have a differential impact due to dependant/caring responsibilities?</b>		<b>N</b>	
<b>17. Are there concerns that the policy <u>could</u> have a differential impact due to them having an offending past?</b>		<b>N</b>	
<b>18. Are there concerns that the policy could have an impact on children or vulnerable adults?</b>		<b>N</b>	
<b>19. Does any of the differential impact identified cut across the equality strands (e.g. elder BME groups)?</b>		<b>N</b>	
<b>20. Could the differential impact identified in 8 – 19 amount to there being the potential for adverse impact in this policy/ procedure/ practice?</b>		<b>N</b>	
<b>21. Can this adverse impact be justified:</b> <ul style="list-style-type: none"> <li>• on the grounds of promoting equality of opportunity for one group?</li> </ul>	<b>Y</b>	<b>N</b>	<b>N/A</b>



• For any other reason?			
22. As a result of carrying out the equality impact assessment is there a requirement for further consultation?		N	
23 As a result of this EIA should this policy be recommended for implementation in its current state?	Y		

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# AUDIT & GOVERNANCE COMMITTEE

3 JUNE 2020

## REPORT OF THE HEAD OF AUDIT AND GOVERNANCE & MONITORING OFFICER

### PUBLIC SECTOR INTERNAL AUDIT STANDARDS / QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

#### EXEMPT INFORMATION

None.

#### PURPOSE

To report to the Audit & Governance Committee on Internal Audit's compliance with the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP).

#### RECOMMENDATIONS

**That the Committee endorses:**

- **Internal Audit's compliance with the PSIAS (Appendix 1); and**
- **the QAIP (Appendix 2).**

#### EXECUTIVE SUMMARY

The PSIAS has been in place since April 2013. Internal Audit's compliance with the PSIAS is required under the Accounts & Audit Regulations 2015. The PSIAS require that Internal Audit comply with professional best practice and assess themselves against the requirements on an annual basis and that an External Quality Assessment (EQA) should be completed at least every 5 years.

An EQA was last completed in 2017 and was reported to this Committee. The next EQA is not due until 2022. An overview of compliance with the PSIAS is attached at **Appendix 1** which shows that Internal Audit operations have been self-assessed as being compliant with this code. Confirmation has also been obtained on conformance against the PSIAS from third parties who have delivered audit engagements on behalf of the Council.

Part of the requirement of the PSIAS is for the Head of Audit & Governance to develop a QAIP. Under the QAIP, quality should be assessed at both an individual audit engagement level as well as a broader operational level. A well-developed QAIP is to ensure that quality is built in to, rather than on to, the way Internal Audit operates.

The QAIP should conclude on the quality of the Internal Audit activity and lead to recommendations for appropriate improvements. It is an evaluation of:

- conformance with Definition of Internal Auditing, the Code of Ethics and the Standards;
- the adequacy of the Internal Audit activity's charter, goals, objectives, policies

- and procedures;
- the contribution to the organisation's governance, risk management and control processes;
  - completeness of coverage of the entire audit universe;
  - compliance with applicable laws, regulations, and government or industry standards to which the Internal Audit activity may be subject;
  - the risks affecting the operation of the Internal Audit activity itself;
  - the effectiveness of continuous improvement activities and adoption of best practices; and
  - whether the Internal Audit activity adds value, improves the organisation's operations, and contributes to the attainment of objectives.

Attached as **Appendix 2** is the Quality Assurance & Improvement Programme (QAIP). No actions have been carried forward from last year's QAIP and no further actions have been identified this year.

## **RESOURCE IMPLICATIONS**

None.

## **LEGAL/RISK IMPLICATIONS BACKGROUND**

Non-compliance with the PSIAS means that an effective system of Internal Audit is not in place and therefore we are not fully complying with the Accounts and Audit (England) Regulations 2015.

## **EQUALITIES IMPLICATIONS**

None.

## **SUSTAINABILITY IMPLICATIONS**

None.

## **BACKGROUND INFORMATION**

None.

## **REPORT AUTHOR**

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## **LIST OF BACKGROUND PAPERS**

## **APPENDICES**

**Appendix 1 Public Sector Internal Audit Standards Compliance Overview**  
**Appendix 2 Quality Assurance & Improvement Programme**

# Public Sector Internal Audit Standards Compliance Overview

## Mission Statement, Definition of Internal Auditing and Code of Ethics

Mission Statement & Definition of Internal Auditing



Integrity



Objectivity



Confidentiality



Competency



## Performance Standards

### 1000 - 1322 Attribute Standards

#### 1000 - 1110 Purpose, Authority and responsibility

Purpose, Authority, and Responsibility



Recognising Mandatory Guidance in the Internal Audit Charter



## 1110 – 1130 Independence and Objectivity

Organisational Independence



Independence and Objectivity



Direct Interaction with the Board



Chief Audit Executive Roles Beyond Internal Auditing



Individual Objectivity



Impairment to Independence or Objectivity



## 1210 – 1230 Proficiency and Due Professional Care

Proficiency



Due Professional Care



Continuing Professional Development



## 1300 – 1322 Quality Assurance and Improvement Programme (QAIP)

Quality Assurance and Improvement Programme (QAIP)



Requirements of the Quality Assurance and Improvement Programme



Internal Assessments



External Assessments



Reporting on the Quality Assurance and Improvement Programme



Use of Conforms with the International Standards for the Professional Practice of Internal Auditing



Disclosure of Non-conformance



2000 – 2600 Performance Standards

2000 – 2060 Managing the Internal Audit Activity

Managing the Internal Audit Activity



Planning



Communication and Approval



Resource Management



Policies and Procedures



Coordination



Reporting to Senior Management and the Board



2070 External Service Provider and Organisational Responsibility for Internal Audit

External Service Provider and Organisational Responsibility for Internal Audit



2100 – 2130 Nature of Work

Nature of Work



Governance



Risk Management



Control



2200 – 2240 Engagement Planning

Engagement Planning



Planning Considerations



Engagement Objectives



Engagement Scope



Engagement Resource Allocation



Engagement Work Programme



2300 – 2340 Performing the Engagement

Performing the Engagement



Identifying Information





Analysis and Evaluation



Documenting Information



Engagement Supervision



2400 – 2440 Communicating Results

Communicating the Results



Criteria for Communicating



Qualities of Communications



Errors and Omissions



Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"



Engagement Disclosure of Non-conformance



Disseminating Results



2450 Overall Opinions

Overall Opinions



2500 Monitoring Progress

Monitoring Progress



2600 Communicating the Acceptance of Risks

Communicating the Acceptance of Risks



## Internal Audit Quality Assurance & Improvement Programme

### 1 Introduction

Internal Audit's Quality Assurance Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders (the Board, Senior Management, the External Auditor and Operational Managers etc) that Internal Audit:

- conforms with the Definition of Internal Auditing, the Code of Ethics and the Standards;
- has an adequate Internal Audit Activity's Charter, Goals, Objectives, Policies and Procedures;
- contributes to the organisations governance, risk management and control processes;
- has complete coverage of the audit universe;
- complies with applicable laws, regulations and other standards that the internal audit activity may be subject to;
- has identified the risks affecting the operation of the internal audit activity itself;
- has an effective continuous improvement activity in place and adopts best practice; and
- adds value to improve the organisations operations and contributes the attainment of the organisations objectives.

The Chief Audit Executive (CAE), who at the Council is the Head of Internal Audit & Governance, is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consultancy and those engagements delivered by a third party. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

The QAIP is reviewed on an annual basis.

### 2 Internal Assessments

Internal Assessments are made up of both ongoing reviews and periodic reviews.

#### Ongoing reviews

Ongoing reviews provide assurance that the processes in place are working effectively to ensure that quality is delivered on an audit by audit basis. This includes continuous monitoring of:

- Engagement planning and supervision (preapproval of the audit scope, innovative best practices, budgeted hours, and assigned staff).
- Standard working practices (including working paper procedures, sign off, report review, checklists to ensure that the audit process has been followed).
- Feedback from other clients and stakeholders.
- Analysing performance metrics to measure audit plan completion and stakeholder value.

#### Periodic reviews

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, Definition of Internal Auditing, the Code of Ethics, the quality of the audit

work and supervision, policies and procedures supporting the internal audit activity, the added value to the organisation and the achievement of performance standards.

Periodic assessments will be conducted through:

- Working paper reviews for conformance to the definition of Internal Auditing, the Code of Ethics, the Standards, and internal audit policies and procedures
- Self-assessment of the internal audit activity with objectives established as part of the QAIP components – Governance, Professional Practice and Communication
- Review of internal audit performance measure and benchmarking of best practices. Periodic activity and performance reporting to the board and other stakeholders as deemed necessary.
- Annual self-review of conformance to the PSIAS.

The periodic self assessment should identify the quality of ongoing performance and opportunities for improvement and to check and validate the objectives and criteria used in the QAIP. The self assessment will be completed on an annual basis and the results reported to the Board and Senior Management.

### **3 External Assessment**

The External Assessment will consist of a broad scope of coverage that includes the following .

- Conformance with the Standards, Definition of Internal Auditing, the Code of Ethics, and internal audit's Charter, plans, policies, procedures, practices, and any applicable legislative and regulatory requirements.
- Expectations of Internal Audit as expressed by the Board and Senior Management.
- Integration of the Internal Audit activity into the governance process.
- The mix of staff knowledge, experiences, and disciplines, including use of tools and techniques, and process improvements.
- A determination whether Internal Audit adds value and improves the Council's operations.

An external assessment will be conducted every five years by a qualified, independent assessor from outside the Council. The assessment will be in the form of a full external assessment, or a self-assessment with independent external validation. The format of the external assessment will be agreed with the Board.

### **4 Assessment scale**

The scale to assess the level of conformance of the Internal Audit activity with the standards is as follows:

Generally Conforms/Partially Conforms/Does Not Conform  
(IIA Quality Assessment Manual Scale)

### **5 Reporting on the Quality Programme**

Internal Assessments – reported to the Board and Senior Management on an annual basis. The internal assessment report will be accompanied by a written action plan in response to significant findings and recommendation contained in the report.

External Assessments – reported to the Board and Senior Management. The external assessment report will be accompanied by a written action plan in response to significant findings and recommendations contained in the report.

Follow up – The CAE will implement appropriate follow up actions to ensure that recommendations made in the reports and action plans developed are implemented in a reasonable timeframe.

<b>Quality Assurance &amp; Improvement Programme</b>			
<b>Ongoing Monitoring of Performance</b>			
<b>Activity</b>	<b>Frequency</b>	<b>Responsibility</b>	<b>Reporting</b>
Review of the audit universe to ensure complete	Annual	Head of Audit & Governance	N/A
Identification of risks affecting the operation of the Internal Audit Service	Quarterly	Head of Audit & Governance	N/A
Review of audit engagements	Each engagement	Head of Audit & Governance/ Where audit engagements are delivered by a third party, their Quality Review processes will be used, with all final reports requiring CAE sign off.	N/A
Progress against the audit plan	Quarterly	Head of Audit & Governance	Quarterly report to Audit & Governance Committee
Progress against Key Performance Indicators	Quarterly	Head of Audit & Governance	Quarterly report to Audit & Governance Committee
Discuss performance of internal audit activity	Monthly	Head of Audit & Governance and Chief Executive	Annual report to Audit & Governance Committee
Customer survey/questionnaire	For each engagement	Head of Audit & Governance	Annual report to Audit & Governance Committee
Review of Internal Audit Charter, goals, policies & procedures	Annual	Head of Audit & Governance	Annual report to Audit & Governance Committee
Personal Development Review	Annual	Appropriate line manager	Documentation to HR
Continuous	Continuous	Head of Audit &	Annual report to the

improvement activity and adoption of best practice		Governance	Audit & Governance Committee
Identification of added value to the authority's operations	Continuous	Head of Audit & Governance	Annual report to the Audit & Governance Committee
<b>Periodic Self Assessments</b>			
Self assessment against the Public Sector Internal Audit Standards (PSIAS)	Annual	Head of Audit & Governance	Annual report to the Audit & Governance Committee
Compliance with applicable laws, regulations and other standards that the Internal Audit activity may be subject to	Continuous review	Head of Audit & Governance	Report to Audit & Governance Committee when applicable
Benchmarking review of Internal Audit Services	When practical	Head of Audit & Governance	Report to Audit & Governance Committee
<b>External Assessments</b>			
Assessment against the PSIAS	Every 5 years	Head of Audit & Governance and external reviewer	Report to the Audit & Governance Committee

## AUDIT & GOVERNANCE COMMITTEE

3 June 2020

### ANNUAL REPORT OF THE AUDIT & GOVERNANCE COMMITTEE 2019/20

#### EXEMPT INFORMATION

None.

#### PURPOSE

This report presents the proposed Annual Report of the Audit & Governance Committee 2019/20 and seeks the Audit & Governance Committee's endorsement prior to its submission to Council.

#### RECOMMENDATIONS

- 1. That the proposed Annual Report of the Audit Committee 2019/20 be endorsed and that the Chair of the Audit & Governance Committee circulate the report to Council.**

#### EXECUTIVE SUMMARY

Audit Committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.

CIPFA recommend that Audit Committee's produce an annual report to promote the role and purpose of the Committee, account for the Committee's performance, evaluate whether the Committee is continuing to meet its terms of reference and document how the Committee adds value. The Audit & Governance Committee's annual report fulfilling these requirements is set out at **Appendix 1**.

#### RESOURCE IMPLICATIONS

None.

#### LEGAL/RISK IMPLICATIONS BACKGROUND

The Council is not obliged by law to appoint an Audit & Governance Committee, however, this has been done in line with good governance practice and CIPFA guidance.

#### EQUALITIES IMPLICATIONS

None.

#### SUSTAINABILITY IMPLICATIONS

None.

## **BACKGROUND INFORMATION**

None.

## **REPORT AUTHOR**

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## **LIST OF BACKGROUND PAPERS**

- Audit Committees in Local Authorities and Police (2018), CIPFA
- Audit Committee agendas, minutes and reports for the Committee year 2019/20.

## **APPENDICES**

**Appendix 1 – Annual Report of the Audit & Governance Committee 2019/20**



## Annual Report of the Audit & Governance Committee 2019/20

### 1. Introduction from the Chair of the Audit Committee

I am pleased to present the Annual Report of the Audit Committee for the 2019/20 Committee year.

It is important that the Council is able to demonstrate to our residents, stakeholders and partners as well as other elected members, the significance of the Audit & Governance Committee's role and the positive contribution it makes to the Council's overall governance arrangements.

I would like to remind everyone that Audit Committee meetings are open to members of the public and for 2020/21 will now be held remotely via Teams 'Live' Events. I would encourage all to 'log on' and see our work in action.

This year has been one of change. We sadly said goodbye to Councillor Greatorex who passed away in October 2019. Councillor Greatorex made an invaluable contribution to the work of the Committee. In December 2019, we welcomed our new committee member, Councillor Pritchard, who joined us following the December by-election.

While our External Auditor remained the same (Grant Thornton), we welcomed a new Lead engagement team during 2019/20. We also welcomed a new Head of Audit & Governance, who has since implemented a co-sourced arrangement for Internal Audit with current delivery partner HW Controls Assurance Ltd.

Both audit providers have brought a fresh approach to these functions and have brought much added value to the work that they do. The Committee has appreciated the support and assurance they have given.

Looking ahead to 2020/21, while the early programme of our work has been impacted by restrictions imposed on us by the Covid-19 crisis, the Committee has continued to operate remotely and our first remote meeting is due to place in July 2020. For 2020/21, we have an extensive programme of work planned, which will include seeking continuing assurance against the Council's response to Covid-19, the significant financial challenges facing us, as well as continuing to ensure the Council's overall governance framework remains fit for purpose.

Finally, I would like to take this opportunity to thank all those members and officers who have contributed to the work of the Audit & Governance Committee over the last 12 months.

**Councillor M Summers,  
Chair of the Audit & Governance Committee 2019/20  
3 June 2020**

### 2. Terms of Reference

The terms of reference, which the Committee operated to during 2019/20, is detailed at Part 2, Article 9 of the constitution which can be found at the following link:

<http://democracy.tamworth.gov.uk/documents/s25701/Constitution%20-%2018th%20Edition.pdf>

### 3. Member and Officer Attendance

The Audit & Governance Committee met 4 times during 2019/20. The meeting due to be held on 26 March 2020 was cancelled due to the Covid-19 lockdown restrictions.

Membership of the Audit & Governance Committee during 2019/20 and their attendance is detailed at below:

Audit & Governance Committee Member	Date of Committee			
	6/6/2019	25/7/19	24/10/19	13/2/20
Councillor M Summers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Councillor M Bailey	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	
Councillor C Cooke	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	
Councillor J Faulkner		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Councillor M Greatorex	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
Councillor M Oates	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Councillor S Pritchard				<input checked="" type="checkbox"/>
Councillor P Thurgood	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

A number of Audit Committee Members also sat on various other Committees. There were no reports received during the year that necessitated members absenting themselves.

In reviewing the effectiveness of the Audit & Governance Committee, Members considered whether effectiveness could be further strengthened by appointing Independent Members to the Audit & Governance Committee. The Committee Terms of Reference currently enables up to 2 independents to be appointed. The Committee are assessing the pros and cons of this and will form a decision in the new Committee year.

Senior officers from the council also attend the Audit Committee as appropriate, including the Executive Director Finance (Chief Finance Officer), Assistant Directors and the Head of Audit & Governance. Our External Auditor also attends.

### 4. Training & Effectiveness

Audit & Governance Committee receive appropriate and proportionate training. At the meeting in June 2019, the External Auditors presented an overview of the role of the committee. A general training session for all Councillors was held in September 2019 on the role of the Committee; the internal control environment, governance, risk management and counter fraud. In November 2019 all Members had the opportunity to receive a tailored briefing on treasury management.

### 5. Sources of Assurance during 2019/20

In fulfilling its terms of reference, the business conducted by the Audit Committee during 2019/20 is detailed at **Appendix A** per the following themes:

- Internal Audit
- External Audit / Inspection
- Financial Management
- Risk Management
- Corporate Governance.

The Committee gained assurance in 2019/20 from these themes as follows:

### **Internal Audit**

In respect of the 2018/19 financial year, a positive Internal Audit Opinion was given from the Head of Audit & Governance as follows:

'I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation's risk management, control and governance processes.

Overall in my opinion, based upon the reviews performed during the year, the Authority has:

- adequate and effective risk management arrangements;
- adequate and effective governance; and
- has adequate and effective control processes.

Specific issues:

There were no specific issues highlighted through the work of Internal Audit in the fourth quarter of the 2018/19 financial year that would need to be highlighted as a corporate risk'.

Audit Committee received internal audit's performance reporting during the year indicating that the service was performing well against its performance measures.

The Council can be assured that no issues have been identified in the 2019/20 work completed which impacts materially on the overall system of internal control.

### **External Audit / Inspection**

The main responsibility of the External Auditor is to report on the council's accounts and whether the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Grant Thornton reported on the 2018/19 accounts. In Grant Thornton's Annual Audit Report, they concluded that:

'In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### **Financial Management**

The Committee scrutinised the 2018/19 statement of accounts and also received reports on accounting policies. The Committee also received regular Internal Audit progress reports, including a number giving assurance on financial management and controls during the period (e.g. bank and cash, income management, council tax, NNDR, payroll and housing rents).

## **Risk Management**

The Committee has received quarterly updates on the Council's risk management arrangements via review of the corporate risk register. This included oversight and constructive challenge on risks such as finance (ensuring the Council is financially sustainable as an organisation); modernisation and commercialisation agenda (developing and implementing continuous improvement); governance (ensuring policies, processes and procedures and the authority is held to account); community focus (safety, health and well being of our citizens); economic growth and stability; information safeguarding (our information is protected) and Brexit (the impact of Brexit on the Council).

The risk environment has ultimately transformed in the wake of Covid-19 and this will dominate risk management arrangements going forward in 2020/21.

## **Corporate Governance**

The annual governance statement (AGS) and review of effectiveness for the 2018/19 financial year, concluded that the effectiveness of the system of internal control was fit for purpose overall.

The Committee also:

- undertook a review of its own effectiveness in line with CIPFA good practice;
- received updates on the Council's use of the Regulation of Investigatory Powers Act 2000;
- received assurance via the Local Government and Social Care Ombudsman Annual Review;
- received assurance on the Council's Modern Slavery and Human Trafficking Statement; and
- approved a suite of refreshed counter fraud policies (Whistleblowing Policy, Counter Fraud & Corruption Policy Statement, Strategy and Guidance Notes, Anti Money Laundering Policy).

Regular updates on the adequacy of the council's counter fraud arrangements were also taken, and a work programme of activity agreed, which will be implemented and monitored during 2020/21.

## **6. Conclusion**

The Committee has been able to confirm that there were no areas of significant duplication or omission in the systems of governance in the authority that had come to the Committee's attention during 2019/20 that were not being adequately resolved.

Through members receiving this report, the role and purpose of the Committee has been promoted and it has demonstrated that the Committee has continued to perform, meet its terms of reference and added value. This work will continue in 2020/21 with the Committee's refreshed work programme.

**Summary of Audit & Governance Committee Work Plan by Assurance Theme  
2019/20**

Meeting Date	Report	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
6/6/19	Annual Governance Statement and Code of Corporate Governance					<input checked="" type="checkbox"/>
	Internal Audit Annual Report and Quarter Update Report	<input checked="" type="checkbox"/>				
	Public Sector Internal Audit Standards & Quality Improvement Programme	<input checked="" type="checkbox"/>				
	Counter Fraud Update				<input checked="" type="checkbox"/>	
	Committee Self Assessment					<input checked="" type="checkbox"/>
	Regulation of Investigatory Powers Act 2000					<input checked="" type="checkbox"/>
25/7/19	Audit Findings Report		<input checked="" type="checkbox"/>			
	Management Representation Letter		<input checked="" type="checkbox"/>			
	Annual Statement of Accounts			<input checked="" type="checkbox"/>		
	Risk Management - Quarter Update				<input checked="" type="checkbox"/>	
	Modern Slavery and Human Trafficking Statement 2018/19					<input checked="" type="checkbox"/>
	Regulation of Investigatory Powers Act 2000					<input checked="" type="checkbox"/>
	Counter Fraud Update				<input checked="" type="checkbox"/>	
	Internal Audit Quarter Update Report	<input checked="" type="checkbox"/>				
24/10/19	Annual Audit Letter 2018/19		<input checked="" type="checkbox"/>			
	Review of Annual Report on Treasury Management and Actual Prudential Indicators 2018/19			<input checked="" type="checkbox"/>		
	Risk Management - Quarter Update				<input checked="" type="checkbox"/>	
	Local Government and Social Care Ombudsman Annual Review					<input checked="" type="checkbox"/>
	Regulation of Investigatory Powers Act 2000					<input checked="" type="checkbox"/>
	Counter Fraud Update				<input checked="" type="checkbox"/>	
	Review of Counter Fraud & Corruption Policy Statement, Strategy and Guidance Notes				<input checked="" type="checkbox"/>	
	Review of Whistleblowing Policy				<input checked="" type="checkbox"/>	
	Review of Anti Money				<input checked="" type="checkbox"/>	

Meeting Date	Report	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	Laundering Policy					
13/2/20	Audit Plan		<input checked="" type="checkbox"/>			
	Regulation of Investigatory Powers Act 2000					<input checked="" type="checkbox"/>
	Risk Management - Quarter Update				<input checked="" type="checkbox"/>	
	Internal Audit Quarter Update Report	<input checked="" type="checkbox"/>				
	Audit Committee Effectiveness Review					<input checked="" type="checkbox"/>



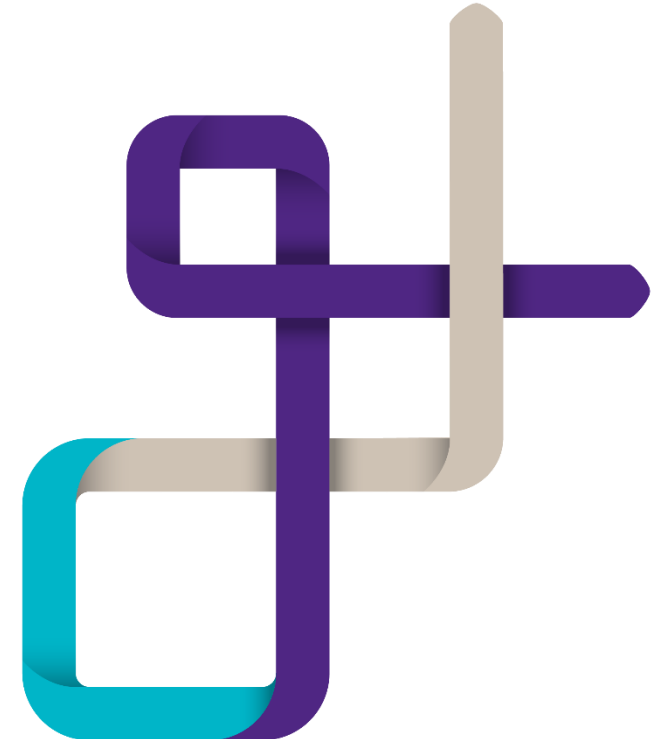
# External Audit Plan update

*Year ending 31 March 2020*

Tamworth Borough Council

22 April 2020

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# Introduction & headlines

## Purpose

This document provides an update to the planned scope and timing of the statutory audit of Tamworth Borough Council ('the Authority') as reported in our Audit Plan dated January 2020, for those charged with governance.

## The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far as we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

## Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

## Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk relating to Covid-19, as described overleaf; and
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

## Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

## Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.



# Significant risks identified – Covid-19 pandemic

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Covid-19</b></p>	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach;</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise;</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely;</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances;</li> <li>• Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.</li> </ul>

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# Informing the audit risk assessment for Tamworth Borough Council 2019/20

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors and the Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- General Enquiries of Management;
- Fraud;
- Laws and Regulations;
- Going Concern;
- Related Parties; and
- Accounting Estimates.



## General Enquiries of Management

This section includes a series of questions which we have posed and the response we have received from the Council's management.

The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>No major issues are envisaged. Areas of significant spend in 2019/20 include Assembly Rooms refurbishment (c.£3m), the regeneration/development of affordable housing at Tinkers Green and Kerria (c.£10m) and acquisition of HRA dwellings (c.£4m).</p> <p>All HRA dwellings will be subject to a desktop valuation in 2019/20 (as at 31<sup>st</sup> March 2019).</p> <p>Pensions – there is the potential for material movement but not unexpected.</p>
2. Have you considered the appropriateness of the accounting policies adopted by the Council?	Accounting Policies are reviewed by Executive Director Finance each year as part of the final accounts process – no material changes for 2019/20. They are due to be reported to Audit and Governance Committee in March 2020.
3. Have there been any events or transactions that may cause you to change or adopt new accounting policies?	No.
4. Is there any use of financial instruments, including derivatives?	There is no use of derivatives but the Council does report on its use of financial instruments in line with the code - comprising investments in property funds, banks, building societies and Local Authorities.
5. Are you aware of any significant transaction outside the normal course of business?	No.
6. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.

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## General Enquiries of Management

Question	Management response
7. Are you aware of any guarantee contracts?	No.
8. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
9. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>During the year, the Council has been supported by the legal team at South Staffordshire District Council (SSDC). With effect from January 2020, the Council entered into as a Legal shared service arrangement with SSDC and Lichfield DC.</p> <p>Ongoing support was received during the year regarding the NHS Trusts NNDR claim via LGA appointed solicitors.</p> <p>Have a copy of the report used to monitor legal spend.</p>
10. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No.
11. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Various advisors used in the year on a range of projects including Gungate masterplanning, Assembly Rooms, Repairs and Investment tender, CCTV Service review, Future High Streets project.

# Fraud

## Issue

### Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

# Fraud risk assessment

Question	Management response
1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?	The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an on-going risk of fraud being committed against the Council, clear and effective arrangements are in place to prevent and detect fraud. No material instances of fraud, have been identified in 2019/20.
2. How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?	<p>The Council has in place strong controls over its financial transactions in order to prevent fraud. Internal audit 's planned programme of work also targets fraud through key financial systems audit work.</p> <p>The Audit &amp; Governance Committee receive regular reports on counter fraud arrangements (fraud response plan, fraud risk register, outcomes from MFI matches) and also recently approved the newly refreshed:</p> <ul style="list-style-type: none"> <li>• counter fraud and corruption policy statement, strategy &amp; guidance notes</li> <li>• whistleblowing policy</li> <li>• anti money laundering policy</li> </ul> <p>In addition, an anti-fraud information and whistleblowing campaign and drop in session was held, widely publicised to all staff in November 2019.</p>
3. How do the Council's risk management processes link to financial reporting?	Corporate Risks are reviewed on a quarterly basis by CMT and reported to Audit and Governance Committee. This includes financial risk and the associated actions.

## Fraud risk assessment

Question	Management response
<p>4. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>There have been no material instances of fraud identified during the year. There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> <li>• Council tax</li> <li>• Council tax reduction</li> <li>• Single person discount</li> <li>• Housing waiting list</li> </ul> <p>These areas are targeted by National Fraud Initiative data matching undertaken by the Council's Corporate Anti Fraud Officer. Outcomes identified are routinely reported to the Audit &amp; Governance Committee.</p>
<p>5. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p>	<p>No; management would be made aware of any actual or alleged instances of fraud via the following:-</p> <ul style="list-style-type: none"> <li>• S151 Officer is informed of (and takes appropriate action in relation to) suspected or alleged areas of fraud from the following sources:             <ul style="list-style-type: none"> <li>• Whistleblowing / informants,</li> <li>• Benefits Fraud Investigations including single person discounts, housing benefit, business rates, housing and the Local Council Tax Reduction Scheme</li> <li>• Management identification of irregularities</li> <li>• Internal Audit reports / reviews</li> </ul> </li> <li>• Any areas of actual fraud will be / are reported to the Audit &amp; Governance Committee as part of the normal annual report as well senior management and police (where appropriate);</li> <li>• Requirement of Managers / Officers / Members to report to S151 any suspicions / allegations of fraud for appropriate investigation.</li> </ul>

## Fraud risk assessment

Question	Management response
6. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Via routine reporting of counter fraud activity and Corporate Risks to the Audit & Governance Committee and through the Chair of the Audit & Governance Committee's annual report to Council. Regular internal communications from CMT.
7. Have you identified any specific fraud risks?	These are detailed within the fraud risk register which is subject to regular review and is reported routinely to the Audit & Governance Committee.
8. Do you have any concerns there are areas that are at risk of fraud?	No.
9. Are there particular locations within the Council where fraud is more likely to occur?	Fraud is more likely to occur in cash handling facilities. These are subject to robust internal controls and regular audit reviews as part of the risk assessed audit plan.

# Fraud risk assessment

Question	Management response
<p>10. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>The newly refreshed whistleblowing policy encourages employees to report any suspicions of fraud or irregularity, and explains the procedures to follow. The newly refreshed counter fraud and corruption policy statement, strategy &amp; guidance notes detail the processes in place to respond to the risk of fraud.</p> <p>These policies are available to all staff via the Council's intranet, and are included as part of the induction programme for new staff.</p> <p>Training is available to all staff via Astute Use of Net Consent to update all policies</p>
<p>11. How would you assess the overall control environment for the Council, including:</p> <ul style="list-style-type: none"> <li>• the process for reviewing the effectiveness the system of internal control; and</li> <li>• internal controls, including segregation of duties exist and are working effectively?</li> </ul> <p>If not where are the risk areas and what mitigating actions have been taken?</p>	<p>The overall control environment is assessed via the outcome of internal audit's planned programme of work and the production of the annual governance statement (including management assurance statements).</p> <p>Where risk areas are identified during audit work, action plans are in place to address at risk control issues identified. A new approach to audit follow up has been endorsed by CMT and the Audit &amp; Governance Committee this year to enhance overall arrangements in this area.</p>
<p>12. What other controls are in place to help prevent, deter or detect fraud?</p>	<p>None other than previously mentioned.</p>
<p>13. Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>No potential for override of controls or inappropriate influence over the financial reporting process has been identified during the period.</p>



# Fraud risk assessment

Question	Management response
14. Are there any areas where there is potential for misreporting?	No areas have been identified where there is potential for misreporting.
<p>15. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Available on the intranet, is the employees' code of conduct and the below key counter fraud policies for all staff to access:</p> <ul style="list-style-type: none"> <li>• counter fraud and corruption policy statement, strategy &amp; guidance notes</li> <li>• whistleblowing policy</li> <li>• anti money laundering policy</li> </ul> <p>All employees are required to be aware of these policies at induction and reminders are held for existing staff intermittently (anti-fraud information and whistleblowing campaign and drop in session was held, widely publicised to all staff in November 2019).</p> <p>Procurement rules within the Financial Guidance are regularly reviewed providing staff with guidance and encouragement to conduct procurements in an open, transparent and fair manner. The standard procurement T&amp;Cs used by the council include clauses relating to the timely payment of sub-contractors; behaviour of personnel; compliance with diversity &amp; equality legislations; commission, bribery and corruption; counter-terrorism &amp; security act; data protection; H&amp;S and adherence to safeguarding policies and procedures. Depending on the value and risks of a contract, we regularly conduct suitability checks which may include financial and insurance appraisals; modern slavery checks; H&amp;S checks; safeguarding policy checks; accreditations &amp; qualifications etc.</p>



# Fraud risk assessment

Question	Management response
<p>16. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>From a fraud and corruption perspective, high-risk posts would routinely be those that handle cash and are involved in financial transacting. The risk of these post holders committing fraud is mitigated via internal control such as segregation of duties, management supervision (1<sup>st</sup> line), exception and report monitoring (2<sup>nd</sup> line) and internal / external audit (3<sup>rd</sup> line) assurance activities</p>
<p>17. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Not aware of any related party relationships or transactions that could give rise to instances of fraud.</p> <p>Risk of this is mitigated via:</p> <ul style="list-style-type: none"> <li>• Annual declarations of interest are required from Senior Managers and all Members of the Council to inform the related party note in the accounts.</li> <li>• All members have to disclose any interest when making decisions.</li> <li>• Monitoring officer keeps a register of members interests.</li> <li>• Transparency requirements / publications &amp; public interest disclosures.</li> </ul>





## Fraud risk assessment

Question	Management response
<p>18. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements for this year?</p>	<p>The Audit &amp; Governance Committee receive regular counter fraud updates (including the fraud risk register). The terms of reference of the Committee clearly sets out its responsibility in terms of counter fraud and they receive routine internal audit progress reports, including the Head of Internal Audit &amp; Governance's opinion on internal control.</p> <p>For 2019/20, no matters of material concern have been identified.</p>
<p>19. Are you aware of any whistle blowing potential complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No.</p>
<p>20. Have any reports been made under the Bribery Act?</p>	<p>No.</p>

# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p> <p>Page 179</p>	<ul style="list-style-type: none"> <li>• Quarterly reports are received from the H of AG on systems reviewed. High risk areas are identified.</li> <li>• The Annual Governance Statement assurance gathering process involves assessing against the objectives and managers providing assurance statements.</li> <li>• The Monitoring Officer's independent reporting on relevant compliance with laws. The Monitoring Officer also attends the Audit and Governance Committee meetings and advises appropriately.</li> <li>• The External Auditor review and assurance opinion on the financial affairs (management processes) of the Authority.</li> <li>• For Council &amp; Cabinet reports both the Monitoring Officer and Finance Officer are required (subject to options) to sign-off the reports prior to members approving recommendations and to identify that proposed actions comply to legislative requirements.</li> <li>• Periodic update to Officers / Members on new legislative requirements.</li> <li>• Regular update by the External Auditor on potential compliance issues / understanding.</li> <li>• Undertaking NFI Anti Fraud initiatives indicates potential fraudulent violations.</li> <li>• Pro-active Internal Audit Plan focused on provision of assurance reports on status of management control processes.</li> <li>• Regular review and update of Financial Guidance and Counter Fraud Policies.</li> </ul>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer's independent reporting on relevant compliance with laws. The Monitoring Officer also attends the Audit and Governance Committee meetings and advises appropriately.</p>

## Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	No.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No.
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Once identified, all claims are considered for their impact on the accounts, with appropriate action taken (e.g. reserve, provision, contingent liability etc.)
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.



# Going Concern

## Issue

### Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

## Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council? What was the outcome of that assessment?</p>	<p>The Councils MTFS is prepared following detailed considerations by the Corporate Management Team, Executive Management Team and Cabinet including a 5 year projection of likely balances and associated action planning.</p> <p>The Executive Director Finance (as s151 Officer) is satisfied that the budget and Medium Term Financial strategy (MTFS) proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy reviewed by all Members and approved by Council in February each year.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</p>	<p>The Financial Plan (MTFS) is agreed at the same time as the Corporate Plan. The financial plan makes clear reference to the Corporate Plan as the basis for the financial considerations in setting the medium term budget. The financial assumptions are therefore consistent with the Council Plan. Reports in year are consistent with the budget set.</p>
<p>3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>The financial plan considered explicitly the government changes in terms of grants. The plan sets out the likely implications of the Governments Resources Review (including welfare benefit reform and localisation of council tax support and business rates) and other changes to local government finance. Policy changes are detailed within the report. Sensitivity analysis for grant and other income and expenditure included.</p>

## Going concern considerations

Question	Management response
<p>4. Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No.</p>
<p>5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>No.</p>

## Going concern considerations

Question	Management response
<p>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes; Regular one to ones, PDR process and person specifications include assessment of relevant skills. Capacity issues are raised and discussed on a regular basis including in risk assessments e.g. dealing with benefits claims.</p>
<p>7. Does the Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>The Executive Director Finance (as s151 Officer) is satisfied that the budget and Medium Term Financial strategy (MTFS) proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy reviewed by all Members and approved by Council in February each year.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>No.</p>
<p>9. Are arrangements in place to report the going concern assessment to the Audit and Governance Committee?  How has the Audit and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The Executive Director Finance (as s151 Officer) is satisfied that the budget and MTFS proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy. This was reported in the Medium Term Financial Strategy reviewed by all Members and approved by Council in February each year.</p>



# Related Parties

## Issue

### Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>• Maintenance of a Register of interests for Members and a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</li> <li>• Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and that they state the details of any known related party interests.</li> <li>• Challenge from public</li> </ul>
<p>2. What are the Council's related parties, including changes from the prior period?</p>	<p>The Council discloses its related parties under the following headings:</p> <ul style="list-style-type: none"> <li>• Government. Central government has controlling influence over the Council as the Council needs to act in accordance with its statutory responsibilities.</li> <li>• Precepts &amp; Levies. These parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy.</li> <li>• Joint Operations / Ventures. The Council has the potential to influence the other parties through a joint relationship.</li> <li>• Assisted Organisations. The provision of financial assistance by the Council to such parties or voluntary organisations may give the Council influence on how the funds are to be administered and applied.</li> </ul>
<p>3. Has the Council entered into any transactions with these related parties during the period, and if so, what was the type and purpose of these transactions?</p>	<p>There are no further material transaction other than those the Council discloses as related parties within the statement of accounts.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates

Question	Management response
1. How are transactions, events, and conditions identified that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements?	Identified through a review of the code requirements, attendance at the final accounts planning workshops and regular update meetings with External Audit.
<span data-bbox="92 405 142 587" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 108</span> 2. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No – all included within Appendix A.
3. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
4. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?	The significant accounting estimates are reported, as part of this report and included within the notes to the accounts, to Audit & Governance Committee. This includes an explanation of the underlying assumptions and likely impact of any variances. External Audit also provide assurance as part of the annual audit / review process.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Valuations are made by the internal valuer (local RICS Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews for significant assets and asset classes.	Assistant Director Finance notifies the valuer of the programme of rolling valuations or any conditions that warrant an interim re-valuation.	Use the Internal local RICS Member. Use of External valuer (Housing stock). ICT Acquisitions. Heritage Assets valuations. Cipfa Asset Manager System.	Valuations are made in-line with RICS guidance (reliance on expert).  ICT: purchases at cost  Heritage Assets: Use of valuation (inflated) or cost	No
Estimated remaining useful life of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> <li>Housing stock 50 years</li> <li>Other Buildings 5 to 100 years</li> <li>Vehicles, plant &amp; equipment 1 to 20 years</li> <li>Community 100 years</li> <li>ICT Equipment 3 years</li> <li>Infrastructure 30 years.</li> </ul>	Assistant Director Finance discusses with the valuer	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock desktop valuations). Cipfa Asset Manager System. DCLG published updated the 'Stock valuation for resource accounting: guidance for valuers 2016'. The guidance included an update of the regional adjustment factors used to calculate the social housing value of their property stock for 2016/17 to take account of changes in the housing market.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS Member.	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	The length of the life is determined at the point of acquisition or revaluation according to: <ul style="list-style-type: none"> <li>• Assets acquired in year are depreciated on the basis of a charge from acquisition date.</li> <li>• Assets that are not fully constructed are not depreciated until they are brought into use.</li> </ul>	No.
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	Assets are assessed in year (e.g. garage sites) and at each year-end as to whether there is any indication that an asset may be impaired.	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	Valuations are made in-line with RICS guidance - reliance on expert.	No
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their external treasury consultants and other finance professionals.	Take advice from finance professionals.	Yes; Link Asset Services/PWLB	Take advice from finance professionals.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	<p>Provisions are made where an event has taken place that</p> <ul style="list-style-type: none"> <li>gives the Council a legal or constructive obligation</li> <li>that probably requires settlement by a transfer of economic benefits or service potential, and</li> <li>a reliable estimate can be made of the amount of the obligation.</li> </ul> <p>Provisions are charged as an expense to the appropriate service line in the CI&amp;ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	Revenues provide the aged debt listing and Finance calculate the provision.	No	Consistent proportion used across aged debt and confirmed as not materially different to the expected credit loss model for impairment as required by the Code. Business Rates: each case (limited number) assessed to determine estimated recoverable amount	No

## Appendix A Accounting Estimates (Continued)

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance collate accruals of Expenditure and Income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Non Adjusting events – events after the balance sheet date	S151 Officer makes the assessment. If the event is indicative of conditions. that arose after the balance sheet date then this is an non-adjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Heads of Service notify the S151 Officer	This would be considered on individual circumstances. Discussions with Link Asset Services/ External auditor	This would be considered on individual circumstances.	N/A





## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension liability	The Council is an admitted body to the Staffordshire Local Government Pension Scheme. The administering authority (the County Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No
Overhead Allocation	The Finance Team apportion central support costs to services based on fixed bases as detailed in the 'Allocation Summary' spread sheet.	All support service cost centres are allocated according to the agreed 'Allocation Summary' spread sheet.	No	Apportionment bases are reviewed each year to ensure equitable	No



## AUDIT & GOVERNANCE COMMITTEE

26<sup>th</sup> March 2020

### Joint Report of Grant Thornton and the Executive Director Finance

#### UPDATE ON AUDIT MATTERS FROM PUBLIC SECTOR AUDIT APPOINTMENTS LIMITED

##### Purpose

To provide an update on the potential implications of External Audit market changes for consideration and discussion.

##### Recommendation

**That Members consider the update from Public Sector Audit Appointments (PSAA), which sets out the changes in the audit market, and associated Future Procurement and Market Supply Options Review as attached at Appendix 1 and Appendix 2 respectively.**

##### Executive Summary

Over the last few months the Council's external auditors have been engaging with the Council on the current state of the audit market and the impact of increased regulation. At the meeting of the Audit and Governance Committee on 13<sup>th</sup> February 2020, Members considered and endorsed proposals for increased audit fees for 2019/20. As set out in the letter, these factors are driving increased work for the auditors and fees for local government. The Committee also discussed the sustainability of the local audit market.

Public Sector Audit Appointments (PSAA) has subsequently written to Section 151 Officers to set out the changes in the audit market and the need for additional fees. It also explains PSAAs approach to the 2020/21 fee consultation and that this will be revisited once there is clarity on the 2019/20 fees and the revised NAO code. The update provides useful context for the discussions the Committee had on audit fees and is attached at **Appendix 1**.

In addition, PSAA has recently commissioned an independent review of the sustainability of the local government audit market - undertaken by an independent consultancy firm. Importantly the document, attached at **Appendix 2**, considers the sustainability of audit supply alongside improvements in audit quality and the associated fee implications. The research concludes that 'almost all of the approved firms have reservations about remaining in the market'. The report goes on to cite that these reservations have arisen as 'fees have not risen to compensate for the higher risks that the firms perceive they face' and secondly because 'the timing of local audits is problematic [given the 31 July deadline]'.

As discussed at the last meeting, it is anticipated that the outcome of the Redmond review of local authority financial reporting and external audit will provide clarity for the future.

## Background Information

The Local Audit and Accountabilities Act 2014 requires Local Authorities to appoint their own External Auditors. At the meeting on 13<sup>th</sup> December 2016, Council approved that the Authority opts into the appointing person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of External Auditors (for the Accounts from 2018/19).

As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. These were due to expire following conclusion of the audits of the 2016/17 accounts, but were extended and meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime under which PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.

PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in must be made by Full Council. The Audit & Governance Committee at the meeting on 27th October 2016 endorsed this approach.

PSAA has recently commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy firm, Touchstone Renard (TR). The full report is attached at **Appendix 2 – Future Procurement and Market Supply Options Review**.

PSAA commissioned this work in its role as the 'appointing person' for the national scheme for the appointment of external auditors to principal local authorities in England.

The TR report draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31<sup>st</sup> July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams.

PSAA are sharing the report publicly to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability. In particular, they hope that this work will be helpful to the review which Sir Tony Redmond is currently conducting.

PSAA have said that this very important report will inform forward planning, especially in relation to future procurement processes. Their independent review has captured the views of firms at a point in time at which the audit industry is subject to extreme pressures. It highlights some of the difficulties which potentially arise downstream if action is not taken to address current uncertainty and instability.

The position will inevitably change as future developments occur. The Government's response to the Kingman, Competition and Markets Authority and Brydon Reviews will hopefully bring welcome certainty for the industry in due course. In addition, the Redmond Review, looking specifically at local audit and accounting, will conclude later in the year and, hopefully, make positive recommendations for the future of local audit.

PSAA's current contracts provide medium term assurance for the audit of relevant local bodies. The TR report will help work with other local audit stakeholders to address the challenge of long term sustainability.

**Equalities implications**

None.

**Legal implications**

None directly from this report.

**Financial implications**

Opting into the appointing person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of External Auditors was considered the most cost effective procurement option. Costs of undertaking our own procurement process would be higher than the PSAA route and offers greater opportunity in achieving a lower audit base fee due to economies of scale and buying power available under joint procurement – and delivered reduced ongoing audit costs as shown below.

<b>Audit</b>	<b>Scale Fee</b>	<b>Additional Fees</b>	<b>Grant Certification Fees</b>	<b>Total</b>
<b>2019/20*</b>	38,375	7,500	18,500	64,375
<b>2018/19</b>	38,375	4,500	14,500	57,375
<b>2017/18</b>	38,375	-	13,573	51,948
<b>2016/17</b>	49,838	-	13,727	63,565
<b>2015/16</b>	49,838	-	13,572	63,410

\* Indicative

**Risk implications**

None directly from this report.

**Report Author:**

Please contact Stefan Garner, Executive Director Finance, extension 242.

<i>Background Papers:-</i>	Council 13 <sup>th</sup> December 2016, Appointment of External Auditor – re Accounts Audit Commencing 2018/19

**Update on audit matters from Public Sector Audit Appointments Limited**

Dear S151 officer,

Given all the turbulence within the audit industry at the moment, it may be helpful to summarise the local audit position in relation to the three financial years spanning 2018-21.

By this time of the year we would normally expect the vast majority of audits of 2018/19 accounts to be a matter of record and consigned to history. However, at the end of January there remain nearly 80 opinions still outstanding. That is an incredibly unsatisfactory position, particularly for all the bodies and auditors concerned, and a significant concern going forward.

In response to the significant challenges, PSAA has recently commissioned independent research into the sustainability of the audit market which we plan to publish soon. As well as informing our own forward planning, we are keen to ensure that this and other research is available to support the work of the Redmond Review.

One of the consequences of the multiple pressures and challenges which have arisen in 2018/19 audits is an increase in the number of proposed fee variations for additional audit work. In previous years the level of such variations has remained relatively stable at around 5% of the sector's aggregate audit fees. However, while PSAA is still awaiting submission of some of the relevant proposals, it is already clear that a higher level of variations is likely to be proposed for 2018/19 than previously.

Meantime, audits of 2019/20 accounts are approaching. In planning for this next round, PSAA has tried to address two of the concerns which featured most frequently in our conversations and exchanges with bodies about their 2018/19 audit experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the 31 July target date for publication of audited accounts, they want to know that is the case at the earliest opportunity. Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, again bodies want early information and explanation.

Against this backdrop PSAA has therefore worked with auditors to address both of these issues - the planned timetable and any likely fee variations - in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.

This theme carries through into preparations for audits of 2020/21 accounts. We are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account.

<https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>. This means having to set the fees ahead of the results of the completion of the 2018/19 round and ahead of the commencement of 2019/20 audits. Additionally, in looking ahead to 2020/21, we can also see a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice. Although these developments will affect all bodies, the impact will vary dependent on the specific local circumstances of each body.

Again, PSAA is encouraging auditors and local bodies to consider these issues in audit planning discussions, to give proper early notice of factors which may require additional work and have implications for fees, and also to allow time for actions which might mitigate risk to the smooth conduct of the audit. We note that the NAO will be consulting on guidance for auditors' work on the new Code of Audit Practice, and so detailed conclusions about how it will affect individual bodies will need to be reserved until the guidance is finalised.

In discussing the fee implications of any factors, whether they relate to developments which affect all bodies or are more specific to an individual local audit, we particularly need the parties to consider both short and long term implications. Some issues will have a one-off impact, affecting a single year. Any resulting variation proposal is for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year. These are likely to point to a need to vary the body's scale fee. **Note 1** below explains PSAA's approach to fees more fully, and sets out the importance of revising scale fees where new developments or other local factors have clear ongoing implications.

It is important to stress that the 2019/20 local discussions on fees are happening at the planning stage, which is earlier than has generally been the case in previous years (perhaps not until the results of the audit were reported to you). One of the advantages of earlier discussion is that it allows more time for scrutiny and reflection. If you are unsure about a proposed fee variation, it can be deferred for any relevant information to be collated and examined with a view to revisiting the matter at an agreed later date. Please remember that PSAA reviews and determines every proposed additional fee, whether agreed or not – this is a statutory requirement.

We hope that this information is helpful to you and would be grateful if you would share it with members of your Audit Committee and any other relevant members and officers.

**Tony Crawley**

**Chief Executive**  
Public Sector Audit Appointments Limited

28 February 2020

## **Note 1**

### **PSAA's approach to fees**

PSAA's position is unusual because, as the appointing person for principal local authorities, the company is required to set a scale of fees spanning more than 480 audits, each of which is unique, reflecting differing levels of size, responsibility, complexity, capacity, capability, risk, etc.

The company's current scale of fees reflects the continuation of a methodology developed by the Audit Commission during its tenure. It is intended to reflect a good representation of the risks associated with the conduct of each of the individual audits within PSAA's jurisdiction, assuming the timely production of draft accounts and working papers of an appropriate standard. However, PSAA recognises that every fee within the scale is subject to a margin for error and is also susceptible to change over time. Accordingly, the company's arrangements in relation to fees are designed to include a number of checks and balances to enable the scale to be adjusted as and when appropriate. These include:

- i) Placing the extant scale of fees at the heart of any tender process and inviting suppliers to express their bids as a proportion of the current scale;
- ii) Pooling winning firms' bids so that the fees of individual bodies are not linked to the bid prices of the individual firm that is appointed as their auditor;
- iii) Consulting with bodies, as appropriate, when firms exercise their right to submit proposals to charge additional fees for additional audit work over and above that assumed in the relevant scale fee;
- iv) Similarly consulting with bodies when firms submit proposals to amend the scale fee of an individual body to reflect an ongoing change to the level of audit work required.

Each of these arrangements is discussed in more detail below.

#### **i). Linking tender prices to the extant scale of fees**

When PSAA goes out to tender for audit services, as it did most recently in 2017, it provides suppliers with details of the then current scale of fees and invites firms to price their bids by reference to that scale. This is a vital opportunity for firms to bring their own experience and judgement to bear about the reasonableness of current scale fees in the context of current and expected future market conditions and risks. If the firm considers the current scale to be generous, it can bid at say, 70 or 80% of scale. Conversely, if current fees are felt to be too low, the firm can bid at say, 120 or 130% of scale. PSAA does not impose any parameters in this process - each firm is completely free to reflect its own considered judgement.

Following a rigorous evaluation of tenders, the contracts awarded to successful suppliers reflect the specific price at which each individual firm has bid.

#### **ii). Pooling firms' costs**

In setting the overall scale of audit fees, PSAA has regard not only to the payments which will be due to firms under the contracts awarded but also the need to fund PSAA's own costs incurred in carrying out its functions - principally letting and managing contracts, appointing auditors and setting a scale of fees.



When re-setting the fees of individual bodies within the scale following a procurement, PSAA does not reflect the specific costs of the particular audit firm appointed to the body. Rather it applies average costs, taking into consideration details of all the contracts awarded to successful suppliers – with the result that, for example in 2018/19, all bodies received the same proportionate fee adjustment. This shares the risk of price variations between firms across the system and also avoids the need to vary a body's scale fees because it has been allocated a new auditor.

### **iii). Charging for additional audit work**

The nature of an audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee.

In such circumstances, the auditor may therefore be entitled to charge for the additional work depending upon the specific drivers which have given rise to it. If, for example, additional work arises because the auditor has not conducted the audit in accordance with expected standards, the auditor must bear the cost. Alternatively, if additional work is necessary because the local body has not met its obligations to deliver accounts and working papers which enable the auditor to reach the required level of assurance, the auditor may be entitled to propose a fee variation to reflect the scale of the work concerned.

Additional work may also be required as a result of the introduction of new accounting or auditing standards, or new regulatory requirements. Where these have arisen after bids have been submitted and could not reasonably have been foreseen, the auditor will usually be entitled to propose an appropriate fee variation.

It is important to emphasise that the process for approving one-off fee variations (and/or ongoing scale fee adjustments - see para 4 below) is itself subject to careful checks and balances. Auditors are required to discuss any relevant proposals with appropriate representatives of the body concerned. All such proposals are subject to approval by PSAA. In making any submissions to PSAA, auditors are required to confirm that proposals have been discussed with the body and to indicate whether or not they have been agreed by the body. In turn, PSAA will consider the legitimacy and reasonableness of the proposals and advise the parties accordingly.

### **iv). Amendments to scale fees**

The vast majority of fee proposals submitted by auditors in respect of additional audit work are limited to one-off fee variations. In some cases it is apparent that this does not reflect possible longer term implications. This is an important conversation which will sometimes alert the body to potential ongoing work and expected further variations which can be avoided by the body taking additional measures or taking other remedial actions. In other circumstances it will highlight the need to adjust the scale fee going forward so that the additional work concerned is properly reflected as a recurring requirement.

By routinely working through longer term implications and engaging in constructive discussions, bodies and firms can play a critically important role in helping PSAA to ensure that the scale of fees is subject to continuous review and, where appropriate, updating.

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**TouchstoneRenard**  
Management Consultants



# **Future Procurement and Market Supply Options Review**

## **Final Report**

Review Team: Harry Machin, Phil Austin  
and Andrew Herbert

Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

Touchstone Renard Limited  
152-160 City Road, London EC1V 2NX

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### Covering statement

This report and its contents have been prepared for PSAA's use as part of the Future Procurement & Market Supply Options Review project. Statements throughout this work are made in good faith on the basis of the information provided by those involved in the review or otherwise made available or disclosed during the period of the project.

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## 1. EXECUTIVE SUMMARY

We were tasked with capturing the views of actual and potential external audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise.

In summary, we have found that sustainability of audit supply will be difficult to achieve and will depend to a great extent on factors that are outside PSAA's control.

PSAA operates in a specific market which covers almost 500 'principal local authorities' with nine approved external audit firms. We have held interviews with all nine of these firms, as well as with six non-approved firms that are active in the government and not-for-profit sectors.

### *Key issues*

Our research has identified a lack of experienced local authority auditors as the main threat to the future sustainability of the market. Across the UK there are only 97 Key Audit Partners (KAPs) who are authorised to act as engagement leads for local audits (which covers both principal local authorities and health audits) and there is also a shortage of audit managers and audit seniors with experience of these audits. It is not clear how the future supply chain of auditors will compensate for the retirement of the current cohort of partners, directors and senior managers.

External auditing is seen as an increasingly unattractive career option, and local auditing is seen as unattractive relative to corporate auditing.

### *Firms that are not currently approved to operate in this market*

Our research shows that it will be difficult to bring the non-approved firms into the market, due to:

- A lack of enthusiasm on their part for getting involved with this market in its current state.
- Barriers to entry, including the accreditation process for both firms and KAPs.
- A lack of belief that they could succeed in winning tenders against the established firms.

If new firms could be encouraged to enter the market, their initial impact would be small – of the order of 5-10 audits per firm for perhaps a couple of firms. New suppliers could improve sustainability in the longer term, but they are not a solution for the next procurement round.

### *Firms that are approved to operate in this market*

Of the nine approved firms, only five have current contracts with PSAA, while four – including KPMG and PwC – do not. The firms that do not have current contracts employ 33 of the 97 KAPs, meaning that 34% of KAPs are not currently active in PSAA's market. If all the approved firms bid for and were awarded contracts in the next procurement round, the market would become more sustainable.

However, our research shows that almost all of the approved firms have reservations about remaining in the market, for two main reasons.

First, the firms perceive that their risks have increased since bids were submitted for the current contracts. Their reasons include:

- The unprecedented scrutiny of the whole external auditing profession, which has made auditing less attractive and riskier for audit partners.
- Regulation and scrutiny have, in their view, become more onerous.
- Audit risk has increased as a result of the impact of austerity, including local authorities cutting back on finance staff and in some cases undertaking more risky commercial ventures.

In this climate, fees have not risen to compensate for the higher risks that firms perceive they face. This makes it harder for local authority audit partners to make the business case to their partners in other sectors and disciplines for continuing to tender in this market.

The firms acknowledge that audit fees are effectively set by the bids which the firms submitted during the 2017 procurement process.

They also recognise their ability to claim for additional work through the fee variations process. Nevertheless, they argue that audit risks have increased since 2017 and that their continued involvement in the market is now much more difficult to justify.

Second, the timing of local audits is problematic. The target date for signing off audits has been set by government as 31<sup>st</sup> July, two months after the working papers should be (but in some cases are not) ready to be audited. This results in a short peak period during June and July, putting pressure on experienced staff and requiring less experienced staff to be drafted in, potentially compromising quality.

#### *Options available to PSAA*

Some of the issues that impact future sustainability are outside PSAA's control, including: the fragmentation of the market for procurement of public sector audits (including different distinctive arrangements in local government, health and central government); the accreditation regime for local audits; the timing of local authority audits; and the regulatory regimes for quality checking of audits. PSAA can, however, lobby for change in some of these areas.

PSAA controls the balance between price and quality in its tender evaluation arrangements. The firms would like to see this balance shifted further in favour of quality and the Kingman report has also expressed concern over this issue. Although it is beyond our remit to comment on the balance of interests between the audit firms on the one hand and audit clients on the other, the firms would like to see higher weightings given to quality aspects of the next procurement, as well as tenders being subjected to close scrutiny on clearly defined and differentiated aspects of quality.

PSAA controls the size and composition of the lots that firms will bid for in the next procurement round. The actual number of audits to be included in the next procurement round will depend on the decisions of eligible bodies about whether to opt into the PSAA national scheme for the next appointing period. Firms would like to see a larger number of smaller contracts, with no one contract accounting for more than 20% of the total market (the two largest lots in the current procurement are for 40% and 30% of the market respectively). In considering any changes to lot sizes PSAA will, of course, need to satisfy itself that it can secure sufficient supplier capacity to ensure the appointment of an auditor to every opted-in body. In our view an ideal outcome would be for PSAA to enter into a sufficient number of contracts to enable all of the approved firms to participate in the market, subject, of course, to them submitting acceptable bids.

The firms almost unanimously agreed that five years was the most suitable duration for the next contract. Although the agreement in itself is positive, there is a risk of resources being eroded from the market if a major approved firm is locked out of the market for a five year period.

Options for attracting new entrants to the market include:

- Introducing 'starter lots' of say 5-10 audits, which would be more attractive if they involve: a) similar types of audit, for example all district councils; and b) locations that are not too widely dispersed.
- Promoting joint audit arrangements between established firms and new entrants. These are more likely to succeed if each firm is responsible for a clearly defined area, such as a stand-alone subsidiary (it should be noted that PSAA has no role in appointing subsidiary auditors, and so this would not be a joint appointment and is a matter for local determination). Approved firms consider this option would increase audit costs.
- Promoting mentoring for the new entrants.

We considered the pros and cons of the option to consider establishing a not-for-profit audit supplier. Perhaps understandably this is not something that would be welcomed by firms. In our view this would be difficult to achieve particularly if the timetable for publication of audited accounts remains unchanged. The timetable alone poses a major threat to the viability of the organisation's business model. The most significant potential benefits of this option would lie in the long term if the organisation was able to develop a strong commitment to training and development of staff specialising in local audit. That might enable it to make an important contribution to mitigating the key threats to sustainability of the market.

## 2. **PURPOSE AND SCOPE**

### 2.1 Overview

This exercise is a review of options relating to PSAA's future procurement approach, in preparation for letting audit contracts for the next appointing period (the five years starting with the audit year 2023/24).

PSAA wish to **capture the views of the current cohort of actual and potential audit providers** on how a future procurement approach and audit contracts could be structured so as to **maximise a sustainable audit supply in the next procurement exercise**, thereby securing a **strong, competitive supply market**.

This work is intended to enable PSAA to contribute to **developing capacity within the audit market** for the next appointing period, providing the evidence from firms currently registered as local audit providers, and the broader audit market, as to the possible options that would support this.

This exercise does not include:

- The prospective decisions from eligible bodies to opt into the appointing person scheme for the next appointing period
- Making recommendations on the procurement approach itself.

### 2.2 Specific issues to be addressed

The starting point for the review was research that PSAA commissioned and published in early 2018 from Cardiff Business School (CBS), as part of a 'lessons learned' exercise. The CBS work reported very positively on PSAA's project to develop and implement its scheme including its handling of the 2017 procurement process. However, it also highlighted a series of challenges for the next PSAA audit procurement cycle, recommending further, more detailed preparatory work to explore several important variables. Key issues identified for further work were:

- Number of lots and lot sizes
- Lot composition
- Length of contracts
- Price:quality ratio

PSAA also cited the following 'options for consideration':

- How more firms can be encouraged to enter the local audit market, including providing advice and support to enable them to do so.
- Tendering on a basis which could offer a number of smaller "starter pack" contracts for new entrants.
- Introducing a number of joint audit appointments to enable new entrants to gain experience of local public audits alongside established audit suppliers.
- Exploring the possibility of a collaborative response with other audit agencies such as the NAO, Audit Scotland and the Wales Audit Office.
- Exploring the possibility of creating a not-for-profit audit supplier to work alongside existing and any new firms entering the market.

### 2.3 Other issues

PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme.



### **3. WORK DONE AND METHODOLOGY**

#### **3.1 Interviews**

In collaboration with PSAA we prepared three interview questionnaires for the three main groups of interviewees identified by PSAA:

- Current contract holders (Grant Thornton (GT), Ernst and Young (EY), Mazars, BDO and Deloitte). We held interviews with all five of these firms.
- Approved firms that do not hold current contracts (KPMG, PwC, Scott Moncrieff and Cardens). We held interviews with all four of these firms.
- Firms that are not approved to operate in this market ('non-approved firms'). We contacted 13 of these firms and held interviews with six of them.

The questionnaires, which were sent in advance to all interviewees, addressed the specific questions arising from the 'lessons learned' exercise carried out by CBS, as well as the further questions posed by PSAA in their specification for our research.

We carried out a mixture of face-to-face interviews and conference calls, according to interviewees' preferences, in which we invited interviewees to begin by addressing the topics that were of most interest and relevance to them and proceeded from there.

We also interviewed representatives of the NAO and CIPFA, seeking their views on specific issues that had emerged from our conversations with the firms.

ICAEW declined our request for an interview, referencing its timing in relation to the Redmond Review. ICAEW's representations to the Redmond review were published on 19<sup>th</sup> December 2019 and included suggestions to improve the sustainability of the local public audit market.

The interviews were carried out on the basis that comments would be unattributable, promoting an environment in which interviewees could talk freely and frankly. We therefore needed to record firms' responses without revealing their sources.

#### **3.2 Analysing responses**

This report presents a set of mainly qualitative findings, structured as follows:

- The views of approved providers
- The views of non-approved firms
- Our comments on the issues raised and options for the next procurement.

## 4. BACKGROUND

### 4.1 The market and PSAA's role

The following comments draw heavily on background notes provided by PSAA, with some additional points that we have added.

#### *Abolition of the Audit Commission*

The Audit Commission (AC) had previously controlled and managed the whole system of audit for local public bodies, including local authorities, other local government bodies, local police and NHS bodies. Its responsibilities included setting the scope of audit (by publishing a code of audit practice every five years), appointing auditors, setting scales of fees, and overseeing the quality of auditors' work.

The AC's own arms-length audit force (District Audit) undertook 70% of local audits, with the remaining 30% undertaken by audit firms contracted by the AC. In 2012 all audit work transferred to audit firms, with many District Audit staff transferred under the TUPE regulations as a result.

The Local Audit and Accountability Act 2014 (the 2014 Act) established the new local audit framework which introduced changes including:

- Relevant bodies were given the power to appoint their own auditors, subject to certain procedural requirements.
- The National Audit Office (NAO) became responsible for publishing the Code of Practice.
- Regulatory oversight of the regime and the work of auditors became the responsibility of the Financial Reporting Council, which has a similar responsibility in relation to listed companies.
- The Secretary of State was given the power to specify an 'appointing person' to make auditor appointments on behalf of principal local bodies and giving them the right to opt to subscribe to its services. Essentially this reflected a value for money argument that a single body procuring multiple audits would deliver significant savings.

#### *Establishment of PSAA*

PSAA was established in August 2014 and, from April 2015, the company undertook transitional functions delegated by the Secretary of State, including making and managing auditor appointments and setting fees for local public bodies in England, under contracts originally let by the Audit Commission.

In July 2016 the Secretary of State appointed PSAA to a long-term role as the appointing person for principal local government bodies as defined by the 2014 Act and including police and fire bodies. The role of the appointing person is to lead the development, implementation and management of a collective scheme for appointing auditors for these bodies and also the setting scales of fees.

The bodies can choose either to make their own auditor appointments (thereby 'opting out') or to join the collective scheme provided by PSAA ('opting in'). Individual NHS bodies, which are also 'local audits' subject to the National Audit Office's (NAO) Code of Audit Practice, appoint their own auditors in the absence of a national collective scheme for Health.

#### *The current appointing period*

The legislation requires the appointing person to discharge its responsibilities for consecutive appointing periods of five years. The first appointing period began in April 2018 and covers the audits of the financial years 2018/19 to 2022/23. Following its appointment, PSAA had a period of eighteen months in which to develop and implement its appointing person arrangements.

PSAA was highly successful in achieving opt-ins of 98% of eligible bodies in 2017, with 484 of the total 494 bodies eligible at that time choosing to opt into the scheme. Once opted-in, an authority remains in the scheme for the duration of the appointing period.

PSAA let audit services contracts to five audit firms in 2017, enabling it to make auditor appointments for all opted-in bodies for the 2018/19 - 2022/23 appointing period.

A further contract was let to a consortium of two further firms, with no guarantee of appointments, however, that contract is now redundant following firm mergers.

Based on the bids received during the procurement exercise, PSAA was able to reduce scale fees for 2018/19 by 23% compared to the previous year. The first audits under these contracts covering the 2018/19 financial statements of opted-in bodies were undertaken during 2019.

#### *Code of Audit Practice*

The National Audit Office (NAO) is required to publish a Code of Audit Practice which defines the scope of local auditors' work. The NAO is required to publish the Code at least every five years and consulted during 2019 on the next Code, which will be operational by April 2020.

The Code is currently principles-based and requires local auditors to comply with the detailed technical and professional standards published by the relevant standard-setting bodies.

The impact of any changes in the Code of Audit Practice will not take effect until audits of the 2020/21 financial year are undertaken in 2021. Their full impact on scale fees may not be clear until PSAA sets the scale fees for 2022/23 or possibly 2023/24 (PSAA will, as required, consult on and publish a scale of fees before the financial year to which the scale applies).

#### *Regulation*

Local audit is now regulated by the FRC. The first local government FRC reviews of audit quality under the local audit framework will be completed in 2020.

The FRC monitors and enforces audit quality for Major Local Audits (MLAs - eligible bodies with income or expenditure in excess of £500 million per year), and those bodies that meet the Public Interest Entity definition (e.g. with listed debt). PIEs are subject to a further regulatory regime which includes specific rules for: auditor selection and tendering; auditor rotation; restrictions on non-audit services; and the FRC's quality monitoring regime.

Sir John Kingman, in his report of December 2018, has recommended that the FRC be abolished and replaced by a new independent body - the Audit, Reporting and Governance Authority (ARGA) - with a new mandate, new clarity of mission, new leadership, wider powers, and a new regime to identify warning signs when auditees may be at risk. Kingman has been critical of the FRC's approach to local audit regulation, for example:

'The FRC's execution of its functions regarding local audit appear based on an assumption that financial audit is a uniform product based on a uniform process, regardless of the body subject to the audit and the landscape within which it sits. The FRC is an expert in private sector corporate audit; and its expertise on, and detailed understanding of issues relevant to local audit are currently limited.'

The Institute of Chartered Accountants in England and Wales (ICAEW) is the Recognised Supervisory Body (RSB), which monitors audit quality for eligible bodies that are not MLAs or PIEs in England and Wales. The Institute of Chartered Accountants of Scotland (ICAS) has the same role in Scotland.

#### *Registration and licensing*

Local public auditors are registered and licensed by the ICAEW in England and Wales, and by ICAS in Scotland. External audits of eligible bodies ('relevant authorities' as defined by the 2014 Act) can, by law, only be carried out by 'registered local auditors'. To become a registered local auditor with ICAEW (ICAS imposes similar requirements in Scotland), a firm must, inter alia: satisfy ICAEW's Audit Registration Committee that it meets certain criteria; comply with the Local Audit Regulations and Guidance; and comply with ICAEW's Professional Indemnity Insurance Regulations.

Individuals who sign local audit reports within a registered local audit firm are called 'key audit partners' (KAPs). To become a KAP, the individual must meet detailed eligibility requirements set by the Act and the FRC's Guidance to RSBs on the Approval of KAPs for local audit.

*Continuing change in the external audit and local audit sectors*

The five years of the current appointing period are likely to require PSAA, its appointed firms and opted-in bodies, to adapt to continuing change.

Implementation of the local audit legislation has occurred in parallel with a period of government and public concern about the role of the auditor, following a number of high profile corporate failures in the private sector, and questions about the financial resilience of some local authorities after a long period of austerity.

Several reviews are relevant, as summarised in the table below:

Author	Publication date	Subject matter / Recommendations
MHCLG / Rand Europe	March 2018	Baselining and scoping work for a possible future evaluation of the impact of reform of local audit in England.
Sir John Kingman	December 2018	Recommendations re overhauling and replacing the FRC. The report was critical of the 'fragmented' nature of local audit regulation and procurement and its potential impact on audit quality.
NAO	January 2019	Recommendations including: <ul style="list-style-type: none"> <li>▪ Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money (VFM).</li> <li>▪ Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.</li> </ul>
The Competition and Markets Authority	April 2019	Recommendations re: <ul style="list-style-type: none"> <li>▪ Separation of audit from consulting services.</li> <li>▪ Mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies.</li> <li>▪ Introduction of statutory regulatory powers to increase accountability of audit committees.</li> </ul>
Sir Donald Brydon	December 2019	Recommendations on quality and effectiveness of audit, including: <ul style="list-style-type: none"> <li>▪ A redefinition of audit and its purpose.</li> <li>▪ The creation of a corporate auditing profession governed by principles.</li> <li>▪ The introduction of suspicion into the qualities of auditing.</li> <li>▪ The extension of the concept of auditing to areas beyond financial statements.</li> </ul>
Sir Tony Redmond	Due 2020	The arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the 2014 Act.

The Redmond review is particularly likely to have a significant bearing on PSAA's work to prepare for its next procurement approach. The review has already sought the views of audit firms as important stakeholders.

#### 4.2 Supply of auditors

The supply market for audits of principal local authorities can be summarised as below. The number of KAPs as stated below are not all available to do local authority audits in England – some are in Scotland, some work only on NHS audits, some will now no longer be available as firms separate audit from other services, and most of them undertake other work besides local audit.

- Two of the firms commonly referred to as the 'Big 4' (EY and Deloitte) currently hold PSAA contracts.

- Of the two other 'Big 4' firms, KPMG have considerable capability remaining, including 21 KAPs. We understand that they are undertaking only one opted-out local government audit. PwC have eight KAPs but are not undertaking any local government audits. Note that some KAPs who do not carry out audits of principal local authorities, are involved in conducting local audits of NHS bodies.
- Three other 'top 10' audit firms (GT, Mazars and BDO) currently hold PSAA contracts. Moore Stephens (which was a top 10 firm, approved to carry out local audits) merged with BDO earlier this year and is therefore no longer a separate firm itself.
- Two of the 'top 10' audit firms (RSM and Smith & Williamson) are not carrying out local audits and have no KAPs.
- Baldwins, a recent entrant to the 'top 10', acquired Scott Moncrieff (SM) earlier this year. SM are approved to carry out local audits and do so in Scotland but not in England and have three KAPs.
- PKF have a large share of the smaller bodies market covering town and parish councils but are not an approved firm for local audit purposes and do not have any KAPs.
- Many of the other 'top 20' audit firms carry out consultancy and other public sector audit work but are not approved firms for local audits and do not have any KAPs.
- There is one other approved audit firm (Cardens), a local SME firm based in Sussex with one KAP who has an Audit Commission career background.

The following table shows work that firms currently carry out for eligible local government bodies and the numbers of KAPs:

Firm	Current work for PSAA eligible bodies	Number of KAPs
<i>Incumbents</i>		
GT	40% by value of opted in bodies (183 audits)	26
EY	30% by value of opted in bodies (162 audits)	15
Mazars	18% by value of opted in bodies (85 audits)	9
Deloitte	6% by value of opted in bodies (31 audits)	8
BDO / Moore Stephens	6% by value of opted in bodies (26 audits)	6
<i>Others</i>		
Scott Moncrieff / Baldwins	Scotland only	3
KPMG	East Hants only	21
PWC	None	8
Cardens	None	1
<b>Total number of key audit partners</b>		<b>97</b>

KPMG and PwC, two firms that do not hold current contracts, between them have 29 (30%) of the 97 registered KAPs, **their absence from the local government audit market significantly reduces the number of active KAPs**. For reference, KAPs are able to and do work in other areas not just local audit.

### 4.3 Audit fees

Scale fees for 2018/19 for all opted-in bodies were reduced by 23 per cent, as a result of the prices tendered by firms in the last procurement.

The Kingman report noted that this 'follows a period from 2012/13 to 2017/18 in which scale fees reduced in two stages by an aggregate of 55 per cent, in part reflecting reductions in the size and scope of the Audit Commission, for example with the closure of its inspection services.' We understand that audit fee reductions determined by the Audit Commission in 2012 and 2014 reflect the progressive downsizing of the organisation and reduction of the scope and scale of its activities in the run-up to the organisation's closure. There is no doubt, however, that the opportunity for firms to bid for much larger contracts than previously has resulted in the submission of increasingly competitively priced tenders.

#### 4.4 Performance in the 2018/19 round of audits

As stated above, 2019 is the first year of audit work on the contracts awarded following the 2017 procurement. PSAA's quality monitoring for 2019 included the following section (abridged by us, with our highlights in bold font) concerning the timeliness of audit reports that were due for delivery by 31<sup>st</sup> July 2019:

"The number of delayed audit opinions in local government has risen sharply this year..... **More than 40% (210 out of 486) of audit opinions on 2018/19 statements of accounts were not available by the target date of 31 July 2019.** The comparable position in relation to 2017/18 accounts was that approximately 13% of opinions were not available by the target date.

A number of factors have driven this deterioration in performance, posing challenges for both auditors and audited bodies. As previously reported, the target date has been missed in some cases because of a shortage of appropriately skilled and experienced auditors. In others the standard and timeliness of draft accounts, and/or associated working papers, has been lacking.

Other delayed opinions arise from difficulties in obtaining responses to and resolving audit queries, and unresolved technical issues including matters arising within group accounts. In a relatively small number of cases 2018/19 opinions are delayed by the fact that prior year accounts await sign off.

Whilst the 31<sup>st</sup> July target date is not a statutory deadline for audit, both audited bodies and auditors strive to meet it wherever possible. The increase in the number of audit opinions not given by the target is therefore a significant concern.

Delayed opinions can result in significant inconvenience and disruption, as well as additional costs and reputational damage for all parties. However, auditors have a professional duty only to give the opinion when they have sufficient assurance. Bodies that do not publish their audited accounts by 31<sup>st</sup> July are required by the Accounts and Audit Regulations 2015 to issue a statement explaining why they are unable to do so."

## 5. THE VIEWS OF APPROVED PROVIDERS

### 5.1 Introduction

This section reports on the views expressed by both the current contract holders (GT, EY, Mazars, BDO and Deloitte) and the approved firms that are not contract holders (KPMG, PwC, Scott Moncrieff and Cardens).

The topics covered by the two questionnaires are identical in most respects.

We summarise below the responses to each of the questions that we asked.

### 5.2 In the current contract, what works well and what works less well? (Contract holders only)

#### *What works well*

Firms believed that one of PSAA's main objectives in the last procurement round was to keep fees lower and ensure a high level of opt-in from eligible bodies, and that PSAA had succeeded very well in those objectives. It is important to note, however, that bodies were required to make decisions about opting in in advance of the completion of the procurement process and the setting of the scale of fees.

Most firms agreed that the length of the contract was appropriate. This is discussed further below.

Some firms considered that PSAA had done a successful job of allocating audits to firms, given the range of different factors involved. This is also discussed further below.

#### *What works less well*

Firms were keen to report a multiplicity of issues that they thought worked 'less well'. The strength of feeling, the lack of positivity and the unanimity with which those views were held were all quite striking.

Some of the key issues identified by current contract holders are beyond PSAA's control but nevertheless have implications for the sustainability of the market. **The target date for completing audits by 31<sup>st</sup> July was mentioned as an issue by every firm, without any prompting from us.** Firms complained about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met – resulting in pressure on the subsequent audits to which staff have been allocated. These pressures contribute to making local audit work unpopular with staff.

Firms perceive a decline in the quality and quantity of finance staff in the authorities, which they believe results in poorer quality of working papers and delays in providing information and answering auditors' questions. At the same time, they perceive higher expectations from the quality regulators and, in some instances, from audit clients too. Firms expressed the view that the risks of operating in this market are higher than they had anticipated when they bid for their current contracts.

The firms identified as another key issue that the rewards have not increased. They stated that if risks are high and rewards are not sufficient, they will find it increasingly difficult to make the case to their colleagues (other partners) for remaining in this market. We will consider this and other issues in more depth below.

### 5.3 Number of lots and lot sizes

**Six out of the nine approved firms said that they would like to see a larger number of smaller lots.** Points that they have made include:

- With potentially nine approved firms bidding for five contracts, some approved firms will be excluded from the opted-in market in each procurement round. This leads to further erosion of scarce resources from the firms that fail to win contracts.
- The 40% and 30% lots have proved excessively challenging for firms in terms of size and demand. The concentration of most of the work into two peak months is seen as contributing to this.
- Suggestions for lot sizes varied considerably and were not consistent but there was no support for any one lot having more than 20% of the market.

- Two firms suggested allowing bidders to bid for and win multiple lots. This suggestion would be consistent with having more, smaller sized lots.

#### 5.4 Composition of lots and the allocation of audits to each firm

Six of the nine approved firms felt that the geographical composition of lots could be improved in the next round of procurement. Suggestions included:

- Reverting to a more regional approach, similar to that adopted by the AC in the 2012 procurement.
- PSAA doing more detailed research into each firm's local coverage and modelling the likely impact of different contract compositions and sizes.
- Communicating more closely with firms to understand their preferences.

Several firms would like to know in advance the detailed composition of the lots they are bidding for, rather than having to adjust their local resources after the contracts have been awarded. If they have to bid 'blind' again in the next procurement round, they would increase their prices to cover unforeseen risks. Two firms said that they could not budget for expenses if they did not know the locations in advance and felt that expenses should be separately remunerated outside the main contract.

Some firms felt that allocations of audits would be fairer if each audit was individually priced based on known factors, including size, known risks and geographical situation. One firm stated that the audits viewed as more desirable were cross-subsidising those viewed as less attractive, and questioned whether this was in accordance with ethical standards.

Only two firms expressed a view on the idea of setting up specialist lots containing similar audits. One firm said that this would help firms to build up knowledge quickly and become experts on the specific issues that arise in their particular market. Another firm pointed out that a lot comprising (say) only police audits would be too widely dispersed geographically to be viable.

There were different views about splitting the audits of financial statements and VFM work, with one firm saying that they were too closely interconnected while another firm thought that they could potentially be separated.

PSAA was clear in its procurement process that auditor appointments would be made in a systematic way by reference to a series of explicit criteria. Overridingly, it must ensure the appointment of an auditor to every opted-in body including those which are based in more remote parts of the country.

#### 5.5 The 5 year duration of the contract and PSAA's ability to extend by 2 years

There was widespread support for the five year duration of the contract. There was no support expressed for a shorter duration - most firms regarded five years as the minimum time needed for them to build and grow their teams and benefit from increasing familiarity with their clients. Only one firm would have preferred a longer duration.

Several firms did not like the 'all or nothing' nature of the current contracts. Points made included:

- Letting all the contracts only once every five years locks any losing bidders out of the market for opted-in firms (currently 98% of the market) for a long period and causes some of their resource to be lost to the market, although they can, of course, remain active in the local audit market for Health bodies.
- There needs to be more flexibility to transfer audits between firms during the period of the contract.
- There needs to be more flexibility to adjust fees in line with changes to clients' risk profiles during the period of the contract. Note: we understand from PSAA that Auditors are able to propose changes to scale fees to reflect changing risk profiles but up to now have rarely taken the opportunity to do so. More frequently they rely upon fee variations to cover the costs of additional work required in response to increased risks.
- PSAA could consider letting say 20% of the total workload every year, over a rolling 5 year cycle. Uncertainty about the number of bodies opting into successive appointing periods would, however, require careful consideration if this model was adopted. More fundamentally, PSAA would need to ensure that the Appointing Person Regulations allow such an approach.



## 5.6 The balance between quality and price used to evaluate the tenders

All the approved firms expressed a wish for more weight to be given to quality relative to price. Various percentages were suggested, ranging from 60:40 to 100:0. Several firms said that they would not wish to bid again if quality had less than 60% of the weighting.

The firms recognize that both price and quality assessment criteria were used in the last procurement. However, several firms made the point that almost all the firms were able to meet the quality criteria and therefore, in their view, supplier selection tended to depend more on price.

Some advocated a more in-depth assessment of each firm's quality offering and track record in the next procurement.

It was suggested that PSAA could consider in more depth which components of quality they should take into account and what weights to give them in the next procurement. Quality might include, for example: track record in this market; resilience of resources at KAP level and at all grades of staff; ability to adapt to new audit clients; sustainability of supply generally; depth of technical resources. We are aware that PSAA did carry out detailed evaluation of various aspects of quality, and that its methodology will be reviewed for the next procurement exercise.

One firm mentioned that the objective of expanding the market might not be compatible with maintaining quality standards. They believed that this was because new entrants to the market would take time to get up to speed and smaller firms might not provide the same quality as the larger, more experienced firms. They suggested that the regulators might need to make allowances in some unspecified way, to encourage larger firms to support smaller firms into the market.

## 5.7 The degree of emphasis on social value / apprenticeships

This topic elicited little spontaneous interest from the firms, and we had to prompt them for responses. Two firms made the point that clients want firms to deliver an efficient and effective audit and have little sympathy with inexperienced staff, whether apprentices or not.

## 5.8 Timing issues

Apart from fee levels, the timing of audits was the most problematic issue for the approved audit firms. The target date for audits to be signed off by 31<sup>st</sup> July (compared to the pre-2017/18 target date of 30<sup>th</sup> September, which still applies in Scotland), was stated as exacerbating the peak workloads between May and July and onwards and the reported impacts on the firms included:

- Difficulties in resourcing the audits, which tends to require resources to be drafted in from other parts of the firm as well as a considerable amount of overtime working.
- 'The shorter the period for auditing, the more staff are needed'. Since experienced local audit staff are a limited resource, firms need to draw in more staff, with less relevant expertise, from other areas. This contributes directly to the quality of the audits experienced by clients.
- Putting undue pressure on staff, especially as regards excessive travel, overtime and weekend working. This contributes to staff leaving local auditing and, in some cases, leaving the profession altogether.
- Typical comments included: 'people are exhausted to the point of breakdown, and even then, we can't deliver'; and 'people have delivered out of professional pride this year, but they will not come back and do it again'.
- Particular pressure on senior staff and partners at the end of each audit.
- Failure to deliver audits within the target date, resulting in a perception of failure by the auditors themselves and by other stakeholders.
- Delays to local audit completions have a knock-on effect, delaying the start of future audits to which the staff have been allocated.

A further reason for auditors not always meeting target dates is when clients are unable to provide adequate papers to review or are unable to react in a timely way to queries.

## 5.9 The Code of Audit Practice

This topic was of some interest but was not at the top of the firms' agendas. Again, we had to prompt for responses.

Three firms expected requirements around VFM, risk and financial sustainability to increase. Two firms welcomed this, because it would enable firms to add value and demonstrate quality in this area. One firm added that the main impact would be on senior managers and partners' time.

## 5.10 CIPFA's Code of Practice for local authority accounting

Three firms commented that local authority accounts are (a combination of) too long, not user-friendly, 'almost impossible for lay people and even non-specialist auditors to understand', and needed to be simplified.

Two firms specifically commented that the Code of Practice put too much emphasis on technical accounting issues that do not affect operations or council tax and are therefore not of great interest to councillors, officers or electors.

## 5.11 The quality monitoring regime

Four firms commented along the lines that the regime had become tougher and that this has changed the balance of risk and reward since they bid for PSAA contracts in 2017.

The FRC regime was regarded as being more onerous than before. For example, firms are now working on the basis that they are expected to achieve scores of at least 2a (limited improvements required) on the 4 point scale used by FRC, whereas under the previous scheme under Audit Commission contracts scores of 2b (improvements required) were considered acceptable. We note that this is further complicated by changes in the definition of 2a and 2b.

## 5.12 Other issues – fees

**All the firms believe that fees are now too low across the board and do not offer adequate rewards to compensate for the risks that they perceive they are taking.** Although they acknowledge that the current fees are based on bids that they themselves have made, they feel that the audit environment has now changed – especially as regards regulatory expectations and technical complexity. PSAA's contracts allow firms to submit fee variations in respect of new regulatory expectations and new (auditing or accounting) technical requirements. We understand from PSAA that a significantly increased number of variation requests are currently being evaluated or are anticipated.

One firm (not Scott Moncrieff) has claimed that fees for comparable audits are three times as high in Scotland as in England. However, it should be noted that the scope of audits is wider in Scotland in relation to Best Value/value for money arrangements.

Firms have also commented that other types of external audit clients are much more profitable than local audit. They stated generally that the lack of profitability changes the way that local audit work is perceived within the firm and that consequently:

- It is harder for an experienced local audit manager to make the desired case for promotion to partner, since their contribution to partnership profits is relatively low.
- Experienced auditors are not attracted by local auditing as a career path.
- Partners in other parts of the firm are questioning whether local auditing is worthwhile, in terms of risks and rewards, for the firm as a whole.

Several firms believe that fees now need to be re-based to reflect the current risks and scope of work for each audit. There was widespread criticism of the level of the current scale fees, though some firms acknowledge their own role in setting fee levels via their bids in the last procurement round.

Some audits are now perceived by firms as being uneconomic – such as Police and Crime Commissioners and the smaller District Councils – while leaving other audits reasonably attractive.

Four firms made particularly critical comments about the systems for approving fee variations.

Their comments included:

- The time delay in checking and approving fee variations was far too long.
- It is too difficult to get fee variations agreed. It was questioned whether PSAA had the capacity to deal with a high number of variations.
- Average fees for additional work caused by overruns are insufficient to breakeven on the resources involved.

#### 5.13 What factors would influence the firm's decision to bid in the next procurement round?

Seven of the nine firms specifically referenced fees in answer to this question. When we commented that they could bid at any price level they wanted, the firms responded that they would need to have a good expectation of winning a contract at higher fee levels to justify the resources they would put into the tendering process.

Four firms said that they were waiting to see what developed, particularly as regards the Redmond review.

Two firms mentioned the target dates for completing audits as a factor that would affect their decision to bid. Other factors mentioned (by one firm each) were:

- Size of lots.
- Codes of audit and accounting practice.
- The firm's staffing levels.
- Their ability to assess TUPE risks (in terms of the costs that they might need to incur to take on staff from another firm).
- Whether their fellow audit partners would approve the business case for continuing in this market.

#### 5.14 Is your firm's capacity to deliver local audits increasing or decreasing?

Two firms made the point that resources are scarce for external auditing generally and that local audit had to compete for these scarce resources. **The shorter the time period available to complete local audits, the more resource has to be borrowed from other parts of the firm and the less capacity there is in the system.** Several firms mentioned that the CIPFA qualification used to provide a pool of qualified public sector staff, but this is becoming less popular with trainees. ICAEW qualified staff are more marketable across all sectors but are less likely to remain in local auditing.

Three firms identified a shortage of KAPs as an issue – one from the perspective that there were not enough KAPs to enable audit engagement partners to be rotated as required. Another firm stated that some of their KAPs were retiring and would not be replaced. A third firm commented that engagement leads were too stretched at the end /sign off of audits when their main contribution had to be made.

Two firms commented on a shortage of experienced audit managers and seniors in charge. This was linked, in their view, to a 'lost generation' of new auditors who were not recruited because recruitment by the AC was put on hold during its final years.

Several firms felt that their overall resources had not declined in terms of the number of staff available, but the quality of these resources had declined, with more trainees and fewer experienced staff being involved.

#### 5.15 Is local auditing an attractive career option?

External auditing in general is perceived as being less attractive than in earlier years, with 'Long hours and criticism from all sides' for audit generally.

**Local auditing is more or less unanimously regarded as being unattractive at present**, for reasons stated, including:

- For newly qualified staff, local auditing is not as well remunerated compared with most of the available alternatives.

- Within auditing, local audit is 'outshone by the corporate sector' and has 'Cinderella status'.
- Colleagues within the firm do not give 'kudos' or respect for doing work on the PSAA contract, mainly because it is less profitable than other work.
- It is hard for a local audit manager to make the case for promotion to more senior levels, especially since promotion depends significantly on the profits made for the firm.
- The peak period for PSAA work is very stressful, with long hours and often time spent away from home.
- The work itself is frustrating, especially for junior staff, because clients are often unprepared and slow to obtain the answers to auditors' questions.
- For those local authorities that meet the criteria for PIEs, the quality standards have become more onerous and reputational risks have increased.

On the positive side, the senior local audit staff we interviewed are clearly committed to the sector and generally find their work worthwhile, interesting and relevant to peoples' lives.

#### **5.16 Would your firm consider participating in a joint or shared audit appointment with a new entrant to the market?**

**Of the seven approved firms that commented on this issue, none would consider participating in a joint audit that required both firms to sign off on the accounts.** Comments included that this arrangement 'would double or triple costs'; would incur additional costs to quality assure the joint auditor; and would leave councils and electors without one clear focal point to address their questions and concerns.

#### **5.17 How can more firms be encouraged to enter the local audit market? What advice and support could / should be provided to enable them to do so?**

Three firms did not comment on this question, while two firms had no interest in mentoring other firms at current fee rates.

One firm, while noting that 'the barriers to entry are significant', said that they would consider mentoring other firms subject to receiving some financial reward and 'risk mitigation from the regulator'. This second point was presumably a way of pointing out one of the risks of mentoring an inexperienced firm, since it seems unlikely that the regulator would reduce its standards to accommodate new entrants to the market. This firm cited support with training, software, quality and ethics as areas where mentoring support could be valuable.

One firm saw some scope for them to use other firms' staff on audits controlled by their own KAPs, and perhaps enabling those staff to build up expertise by learning on the job.

#### **5.18 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?**

Three firms pointed out the practical difficulties of introducing an NFP supplier, including that the senior staff would presumably have to be transferred over under TUPE from existing firms in the market. One firm thought it was a good idea but did not offer any detail as to how it might work alongside the firms in the market.

## 6. THE VIEWS OF NON-APPROVED PROVIDERS

### 6.1 Introduction

**It has been difficult to persuade non-approved firms to engage with our review.** Out of the 13 firms contacted, we have been able to obtain interviews only with five, with one firm completing and returning the questionnaire without an interview.

We summarise below the responses to each of the questions that we asked.

### 6.2 What capability does your firm currently have to carry out local audits?

The firms we interviewed had limited capability to carry out local audits. Experience levels varied from firm to firm and included:

- Internal auditing, consultancy and other services for local authorities and emergency services.
- External auditing including other government bodies, NFP organisations, academies, other educational bodies, NHS bodies and social housing organisations.

### 6.3 Awareness of the local audit environment

Two firms were well aware of the local audit market and its issues; two firms had some knowledge of the local audit framework and PSAA's role in it; while the remaining two firms had very little knowledge of this area.

### 6.4 Would your firm consider bidding for any local audits in the next round of procurement?

**There was limited enthusiasm about bidding for work in the next round of procurement, even amongst the firms that were sufficiently interested to talk to us.**

The following table summarises the position of each of the firms we spoke to:

Firm	Overall position	Comments
1	Mildly interested	Very limited understanding of what local audit involves.
2	Would not rule anything out	The balance of risk and reward is critical. 'If fees are high enough, why not consider it?'. The partnership would have to approve the business case for getting involved. 'The more hurdles there are, the more benefits there would need to be'.
3	Doubtful	They see many obstacles to getting involved in this market. They would need 'very positive assurances' that they had a near certainty of winning some work before they would consider bidding.
4	Negative	'We should stick to our knitting'.
5	Doubtful	Current fee levels would negate any interest.
6	Interested	Would need guidance, support and a small lot(s) to bid for.

### 6.5 How important would the following factors be?

#### *The need to register as an approved firm / key audit partners*

Those firms that were aware of the requirements saw them as a deterrent to entry.

#### *Fee levels and reward structures*

These were seen as unattractive.

#### *The comparative complexity of local government accounts*

This was not specifically seen as an issue by five of the six firms. However, it contributes to the costs of entry, which three firms saw as a deterrent for reasons including:

- A significant 'learning curve'.
- The need to understand the sector and the risks.
- The need to prepare audit programmes.

- Investment in technology.

*If PSAA provided 'starter pack' contracts for new entrants*

This was seen as advantageous. One firm mentioned Parks bodies and another firm mentioned smaller authorities as possible starting points (though it should be noted that these bodies have very little flexibility to accommodate higher fees).

Two firms felt that as newcomers to the market they would find it hard to compete with the established firms as regards quality and that they would need some form of protection to enable them to win any bids.

*Advice and support being available to assist with your entry to the market*

There was a degree of indifference noted in response to this question. Two firms felt that advice and support from an external source could do little to offset the bulk of the work that they would need to do themselves.

However, one firm explained in some detail the support that they would welcome, including:

- Technical advice on emerging / current issues in the market and on VFM auditing
- Practical advice on timing and budgets, to enable them to plan any future bid
- Courses to train staff.

*Other factors*

Three firms mentioned aspects of the tendering process as a deterrent, including the resources needed to make a bid and the need for full TUPE implications information.

One firm said that they saw better opportunities for using their scarce resources in their current markets, while another firm made similar comments but would not dismiss the idea if fees were at an acceptable level.

## **6.6 As regards the procurement itself, would any of the following factors affect your decision to bid?**

*Lot sizes, locations, values and composition of lots*

The main point, made by three of the firms, was that they would be more interested in local lots. Three of the firms said that they would only be interested in smaller lots and a fourth firm implied this as well. One firm said that they would not bid unless they knew the locations in advance.

*The duration of the contract*

All firms agreed that five years is an appropriate term, with one firm expressing a preference for the additional two-year extension in the right circumstances.

*The balance between price and quality used to evaluate the tenders*

Three firms favoured a higher weighting for quality, with 80:20 and 70:30 ratios being advocated. One firm added that 'quality' needed to be clearly defined. However, another firm 'would expect about 50:50' and felt that higher weightings for quality would favour the incumbent firms.

*Whether lots include audits subject to FRC review*

One firm said that 'the FRC is a tough regulator. If your file gets picked it can add 20-25% to time and costs (for that audit)'. Three of the other firms had no comment on the issue and the fifth firm made the general point that 'external reviews increase time and costs' – and, by implication, that they would look for higher fees to compensate for factors like this.

*The legal right of electors to object*

One firm described this as problematic, and said that they would find it more attractive if another auditor could deal with the objections. Other firms did not see it as a major issue.

### 6.7 Is local audit an attractive career option? What would make it more attractive?

The comments from the non-approved firms broadly echoed those made by the approved firms, in that external audit is perceived as an unattractive career option, while local audit is less attractive again.

Positive comments included:

- One firm saw some commonality between NFP and local audit clients, such as the need for both types of client to improve their systems and governance.
- One firm saw local auditing as being less risky than the private sector.
- Two firms mentioned that the social responsibility aspect of local auditing is attractive.

### 6.8 How can more firms be encouraged to enter the local audit market?

One firm summed up the tone of many of our discussions by saying that it would be difficult to encourage new entrants to the market, 'given where we are currently', while another firm saw the image of local government as an underlying problem.

Suggestions made by firms for making the market more attractive included:

- 'Communication and encouragement from PSAA and others; wider dissemination of information about the opportunities.'
- Transfers of technology to smaller firms.
- Reducing barriers to entry.
- Support and information about both technical and practical aspects of these audits.
- Being able to participate in relevant courses.

### 6.9 Would your firm consider participating in a joint audit appointment? On what basis?

**Four of the six firms said they would be prepared to consider a joint audit appointment.** Three firms commented on the need for clear separation of responsibility and identifying which firm would be liable in different circumstances. One of these firms would also look to the 'senior' firm to provide technology transfers and professional indemnity cover.

Another firm stated that they would only be interested in auditing stand-alone commercial subsidiaries, with a joint audit partner taking sole responsibility for the group audit (note that PSAA does not appoint to subsidiaries and so this example would be a matter for local determination). Their comment that 'most people are nervous of joint audits' reflects the tone of our conversations with other firms as well.

### 6.10 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Only two firms commented on this issue. One firm implied that they would not want another supplier such as the AC, while the other firm commented that an issue for the AC was a lack of quality and they would not want to see that situation replicated.

**7. ISSUES AND OPTIONS**

**7.1 Introduction**

The two previous sections of this report have focused on capturing the views of the firms. In this section we provide our own analysis and commentary.

**7.2 SWOT analysis for the market for audits of PSAA’s eligible bodies**

The table below summarises the strengths, weaknesses, opportunities and threats to the market for external audits of PSAA’s eligible bodies, based on both the conversations we have had with firms and our own views. **The most striking aspect of the table is how many weaknesses are apparent from our discussions, and how few strengths.**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ Current fee levels represent good value for eligible bodies.</li> <li>▪ A perception amongst some auditors that local authority work is socially responsible, worthwhile and relevant to people’s lives.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A perception amongst many auditors that local authority auditing is less dynamic and exciting than corporate auditing.</li> <li>▪ Negative perception of external auditing generally.</li> <li>▪ Negative perception of local authorities.</li> <li>▪ Lack of profitability of PSAA contracts compared to other audit work.</li> <li>▪ A limited number of firms approved to operate in this market.</li> <li>▪ Barriers to entry including accreditation; technology; complexity.</li> <li>▪ Indifference and lack of enthusiasm from non-approved firms about entering this market.</li> <li>▪ Specialist nature of the work.</li> <li>▪ Geographical dispersal of the work.</li> <li>▪ Timing of the work in a restricted window during the summer months makes it difficult to resource.</li> <li>▪ Unattractiveness to auditors of aspects of the job, including: timing over the summer months; need to travel; need for overtime work; poor quality of working papers and client staff.</li> <li>▪ Lack of experienced staff, especially at KAP and audit manager level.</li> <li>▪ Complex and poorly coordinated regimes for procuring local audit contracts (separation between PSAA’s eligible bodies and other local audits); quality monitoring (different regimes for PIEs and other bodies).</li> <li>▪ Mismatch between codes of audit and accounting practice and client needs / expectations, especially as regards balance sheet work.</li> <li>▪ Current fee levels are unattractive to firms.</li> <li>▪ Recent increases in regulatory pressure have increased risks and pressures for auditors in relation to local audit work.</li> </ul>



Opportunities	Threats
<ul style="list-style-type: none"> <li>▪ The Redmond review could make recommendations that address the firms' current concerns.</li> <li>▪ The funding climate for local authorities could improve, putting less pressure on their overall finances and making it easier to fund Finance staff.</li> <li>▪ Options to make future PSAA contracts more attractive, as discussed below.</li> <li>▪ To bring other existing approved suppliers back into the market.</li> <li>▪ Separation of external audit and other services should reduce conflicts of interest</li> </ul>	<ul style="list-style-type: none"> <li>▪ Current contract holders withdraw from the market.</li> <li>▪ Failure to attract enough new recruits to work on PSAA eligible bodies.</li> <li>▪ Loss of experienced staff to other disciplines and career paths.</li> <li>▪ Loss of KAPs to retirement.</li> <li>▪ Audit risks may continue to increase as local authorities try to alleviate their financial pressures.</li> <li>▪ Firms being required to separate external audit from advisory and other functions.</li> <li>▪ Possible further increases in regulatory requirements.</li> </ul>

### 7.3 The CBS report revisited

The specification for our work cites the CBS report (published early in 2019) as the starting point for our research. We set out below some selected 'lessons learned' that CBS highlighted in their report and how these relate to our own findings.

CBS 'Lesson'	Our comments / current situation
A number of aspects of the procurement including the price:quality evaluation rating and lot sizes and compositions remain live issues.	This remains the case. Our comments are set out below.
There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market, including...	<b>The challenges have increased since the publication of the CBS report. Firms' experiences of the 2019 audit cycle have contributed to this.</b>
<ul style="list-style-type: none"> <li>▪ the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market).</li> </ul>	<p>These factors remain and are now more strongly felt than before.</p> <p>It is <b>no longer the case that 'firms are intending to stay in the market'</b>. Their position is now less certain and dependent on developments ahead of the next procurement.</p>
<ul style="list-style-type: none"> <li>▪ there is evidence that gaining new entrants will be challenging.</li> </ul>	This remains the case.
<ul style="list-style-type: none"> <li>▪ the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality.</li> </ul>	We have not investigated this because the views of the opted-in bodies are outside the scope of this piece of work. If true, it indicates the importance of a procurement regime that aims to attract all the 'big 4' firms into the market.
Given the above factors, positive 'market making' action may be advisable.	If 'market making' means opening up the market to new entrants then this does not seem an obvious conclusion to draw from the points above, given the preference from CFOs for the larger firms and the market's lack of attractiveness to new entrants.

CBS 'Lesson'	Our comments / current situation
There is evidence that the process of gaining agreement to the fee variations or additional work may be unnecessarily protracted.	This remains a concern for some firms. We understand from PSAA that the new IT system, referenced in their response to the CBS report, has not yet been implemented. The volume of variation requests is expected to increase sharply following the many challenges experienced in the 2018/19 audits. PSAA acknowledge the likely need to strengthen their staffing to process all of the anticipated submissions on a timely basis.
In light of the concerns raised by CFOs regarding future quality standards and their views on what constitutes audit quality there is a need to engender and communicate a common understanding of audit quality.	This concern is shared by the audit firms, who would like the scoring of tender bids to give more weighting to quality.

#### 7.4 Opening up the market to new entrants

##### Issues

Our research suggests that this would be difficult to achieve and would not significantly increase the supply capacity of the market.

Firms that are not currently approved to operate in this market were reluctant to engage with our review, and those that did engage were (with one exception) unenthusiastic. The issues that they raised are covered in detail in section 6 of this report, and several themes stand out:

- **The barriers to entry make it difficult a) to become accredited as a firm and b) to get KAPs accredited.**
- Current fee levels are perceived as unattractive.
- This is a specialised market and new entrants will need advice and guidance with both technical and practical issues.
- The initial impact of any new firm would be small – of the order of say 5 to 10 audits. A package of audits of similar entities – say smaller District Councils – would reduce the learning curve and set-up costs.
- The non-approved firms find it hard to see how they could win a tender against the established firms and would need convincing that such a bid could succeed.

It is important to attract new entrants into the market as part of a longer-term strategy, but this does not appear to be a solution to developing sustainability in the next procurement round.

##### Options for PSAA

Options include:

- **Offering small lots that are attractive to new entrants and making it clear to the interested firms a) that they have a real chance of winning the lots and b) what they have to do to win them.**
- Encouraging approved firms to mentor new entrants to the market and offering incentives for them to do so. 'Mentoring' could include support with technology, training, risk assessment and audit programmes.
- In tendering for public sector contracts in other sectors small and medium-sized firms (SMEs) are assured that a stated percentage of the contracts let will be awarded to them.

In May 2019 the Cabinet Office made the following statement:

**'The government is committed to 33% of central government procurement spend going to small and medium-sized enterprises (SMEs), directly or via the supply chain, by 2022.'**

## 7.5 Supply side resources

### *Issues*

A **lack of experienced staff is the main threat to the sustainability of this market**. If new firms win contracts for PSAA audits, or if a NFP auditor is created from scratch, in the short to medium term they will still be looking to the same limited pool of experienced auditors to lead the work.

The firms already have a shortage of experienced auditors, with bottlenecks at the levels of senior auditors, audit managers and engagement partners. Factors that have contributed to this situation include:

- A 'lost generation' of trainees because the AC stopped recruiting during its final years.
- The growth of the wider ICAEW qualification (which gives newly qualified accountants wider opportunities and mobility across all sectors) at the expense of the CIPFA qualification (which is specifically for the public sector).
- Reduced popularity of external audit generally, including the continuing growth of non-audit career paths within the firms themselves.

This situation is set to get worse as the current cohort of senior managers, directors and partners retires and firms cannot see who will replace them. The **barriers to entry make it difficult to develop new KAPs**.

When firms cease to operate in this market, their experienced auditors are drawn into other work and their capacity diminishes. Local audit staff can remain active in the market for Health bodies (provided that their firms can win enough of these audits), but that can only slow the attrition rate rather than offsetting it altogether.

### *Options for PSAA*

PSAA could consider setting a specific target to keep all the approved firms, especially the 'Big 4', active in the market and plan the next procurement accordingly. However, we acknowledge that a commissioning body would not normally undertake a procurement with targets as to its preferred successful suppliers and that any such approach would have to be contingent on the suppliers concerned submitting acceptable bids

## 7.6 Timing of audits

### *Issues*

The government has set a target date of 31<sup>st</sup> July for the audits of principal local authorities in England to be signed off by their auditors. This is two months earlier than the previous target date of 30<sup>th</sup> September, which still applies in Scotland.

This **target date is causing problems for the audit firms**, as described in section 5 of this report. It is the single most important factor, apart from fees, that makes the market unattractive to audit firms and therefore threatens its sustainability.

One **important effect of the current target date is that it reduces capacity**, which is already stretched, by restricting the number of auditor hours available to a two-month period. This encourages firms to fill the gap with inexperienced resources drawn from other sectors and disciplines, which impacts quality as well.

### *Options for PSAA*

It is hard to see what PSAA can do, other than lobbying for the target date to be extended.

## 7.7 Fees and quality

### *Issues*

The firms have been keen to emphasise the extent to which, in their view, the risks of operating in this market have increased since they submitted their bids in the last procurement round.

**Their unanimous view is that the rewards, in the shape of fees, have not kept pace with the risks.** Where firms perceive that risks and audit costs have increased, they can submit requests for fee variations, but many firms do not trust this mechanism to provide them with adequate compensation on a timely basis.

The Kingman report (paras 6.24 and 6.25) references the reductions in audit fees for principal local authorities (both the 23% reduction achieved by PSAA and earlier reductions which amounted to some 55% compared to previous fees) and states that: 'The Review has serious concern that these arrangements, in practice, may well be prioritising a reduction in cost of audit, at the expense of audit quality. The Review understands that CIPFA has raised publicly its concerns that local public audit fees have been driven too low.'

The audit firms will consider the price:quality ratio as an important indicator of PSAA's intentions as regards fees in the next procurement round. The **higher the weighting given to quality, the more confident they will feel about submitting bids at higher fee levels** – which in several cases is likely to be a precondition for them bidding at all.

#### *Options for PSAA*

**Of all the issues that PSAA can influence, fees are by far the most important to the firms.** Their perception of what level of fees could be acceptable will influence the decisions of most firms whether to bid or not, and at what price level. PSAA can influence these perceptions by the tone and content of their discussions with the firms and by the weighting given to quality compared with price in the next procurement round. It is important to note that the way that the spread of the marks allocated to each category is as important as the headline price:quality ratio.

PSAA must of course act in the interests of the eligible bodies, one aspect of which involves ensuring that audit costs represent good value. This aspect of PSAA's work is outside our brief so we cannot comment on how the potentially opposing interests of audit clients and auditor firms should be balanced.

### **7.8 Number of lots and lot sizes**

#### *Number of lots*

By simple arithmetic, if the number of lots available is fewer than the number of bidders, then one or more of the bidders will not win any work. In a more robust market this might not matter, but in this market, there is a strong case, subject to their bids, for attempting to keep all the key players involved.

PSAA do not yet know how many eligible bodies will opt in to the next procurement. If more bodies opt out then the force of this argument will diminish, as there will be more opportunities for the losing bidders to win work with eligible bodies outside the PSAA contract.

#### *Size of lots*

**All the firms favour smaller lot sizes in the next procurement with no support for any lot being tendered for more than 20% of the total.** Again, if fewer eligible bodies opted in to the next procurement then higher percentage lots would become relatively more manageable because they would involve fewer audits.

The market appears to us to involve three 'sizes' of potential bidders, reflecting the resources and aspirations of the different suppliers:

- Firms capable of handling the larger (say 20%) contracts.
- Firms that are comfortable with the 6-7% / £2m contract size.
- Firms, including those non-approved firms that expressed an interest in the market, that would only be interested in lots of say 5-10 audits.

#### *Options for PSAA*

Actions could include **modelling the potential outcomes for different distributions of lot numbers and sizes**, based on PSAA's knowledge of the different firms' attitudes and intentions. The number of eligible bodies that choose to opt in will be a key variable that can also be modelled for different scenarios.

The possibility of **introducing starter lots**, perhaps restricted to new entrants to the market and/or joint bids involving new entrants, could be considered.

## 7.9 Composition and location of lots

### *Allocation of audits*

PSAA's strategy for allocating auditors to individual audited bodies in the last procurement round was based on the following six principles, illustrating the range of issues that have to be taken into account:

1. Ensuring auditor independence
2. Meeting PSAA's contractual commitments
3. Accommodating joint/shared working arrangements amongst auditees
4. Ensuring a blend of authority types in each lot
5. Taking account of a firm's principal locations
6. Providing continuity of audit firm if possible, while recognising best practice on maximum length of tenure.

Principles 1 and 2 above are non-negotiable. Auditors must be independent, which for some authorities narrows the choice of auditor very considerably (principle 1), and contractual commitments must be met.

Principle 3 is highly desirable for both auditors and clients, as is principle 6.

We would question the need for principle 4 as a separate principle in its own right. The issues facing authorities vary between different authority types, and blending them **in each lot** reduces firms' ability to obtain economies of scale and efficiencies by specialising in particular types of audit. For new entrants to the market there will be less of a learning curve if their initial lots include only one type of authority, say district councils, rather than exposing them to multiple new types of audit at the same time.

Principle 4 appears to be needed to avoid the risk of firms bidding for an averagely onerous lot only to discover in due course that the composition of the lot awarded is skewed in some way to what are perceived to be less attractive audits. Different firms have different perceptions of the factors which make a particular audit unattractive. They include the size of the body, its geographical location, its reputation and audit track record, its fee level and how it is classified (as a PIE or non-PIE) for regulatory purposes.

### *Locations*

Regarding principle 5, some firms believe that PSAA could do more to take their office locations into account, but they may be seeing the issue from their own perspective without understanding the other factors that PSAA must take into account.

Local authorities tend by their nature and purpose to be more widely dispersed to serve communities and to have a higher proportion of remote locations than other types of organisation.

The geographical distribution of the audit firms' resources does not match the distribution of the client locations. Locations like Manchester and London are well served by audit firms, while the opposite applies to more remote areas such as Cornwall, Cumbria and Lincolnshire.

**Combined with the need to rotate auditors, these aspects of the market are always likely to create difficulties for the audit firms in terms of inconvenience and travel expenses.**

In the last procurement round the firms did not know the geographical locations of the audits that they were bidding for, resulting in uncertainty about how much to allow for expenses and increasing the risks associated with each bid. However, they were asked to indicate in advance the regions in which they were prepared to accept audits.

The increasing automation of audit processes is seen by some as potentially reducing the need for on-site working, but not to a significant extent within the current period. However, it may impact the next contract period.

### *Specialist lots*

One point that the firms made against specialist lots is that they would be too widely dispersed geographically. However, this need not necessarily be the case, especially where smaller sized lots (say 5-10 audits) are concerned - for example it would be possible to find groups of district councils or Police / Crime authorities that are reasonably close together and could form the basis for specialist lots, while taking into account principles of joint working and continuity.

### *Options for PSAA*

A re-basing of the scale fees, aimed at making each individual audit equally desirable in terms of risk and reward, would address the imbalances between risks and rewards mentioned above. However, PSAA have pointed out the technical difficulties and resource implications of such an exercise.

The **composition of all or perhaps some lots could be specified in advance, removing uncertainty for the firms.** However, this would potentially disbar firms which have independence conflicts in relation to one or more of the bodies within a lot. PSAA's current methodology enables the composition of lots to be designed around such conflicts.

If the composition of lots cannot be specified in advance, PSAA could devise a mechanism to take some of the risks associated with unknown travel expenses away from the firms, perhaps by enabling expenses to be charged at cost on the basis of agreed guidelines.

Specialist lots could be considered, perhaps as a feature of the starter lots mentioned above.

## **7.10 Contract duration**

### *Issues*

The **5 year contract duration is popular with firms and any shorter period would not be welcomed.** There was little support for a longer duration.

### *Options for PSAA*

PSAA has the option to extend the existing contracts for a further 2 year period. However, firms have indicated little or no support for this option.

## **7.11 Contract structure**

### *Issues*

The last procurement included a lot that was let with no guarantee of appointments, but that contract became redundant following the merger of one of the firms to which it was let. Such a contract provides a ready-made alternative if one of the incumbent firms needs to give up one of their allocated audits for any reason – for example due to a conflict of interest or if a firm's resources become over-stretched. However, this could be difficult to price given comments on pricing for the less attractive audits.

This principle could be extended so that a framework agreement contract becomes the basis for the whole procurement, or a significant part of it, providing PSAA with greater flexibility to offer individual audits or groups of audits to selected firms within the framework agreement.

There are precedents for this approach in the public sector audit market e.g. the Eastern Shires Purchasing Organisation (ESPO) Framework 664 that includes 'Audit Services' within its service offering – PSAA approved audit firms may also be ESPO framework holders.

Also, we note that a procurement notice was issued in July 2019 by Crown Commercial Services, via Contracts Finder, with the purpose 'to establish a pan government commercial agreement for the provision of audit services to be utilised by UK Public Sector Bodies.....including: local government.....'

### *Options for PSAA*

PSAA can consider a range of options involving pre-qualifying firms to carry out audits via framework agreements.

## 7.12 Joint audit options

### *Issues*

**Joint audits, in the sense of audits for which two different firms are equally responsible and for which both firms sign the audit opinion, were not a popular option with the approved firms.** However, not all of these firms would rule them out and several of the non-approved firms said that they would consider them as a route into the market, provided other objections and barriers to entry were resolved.

Firms were more relaxed about having one auditor signing the group accounts of an entity for which other firms have audited discrete units such as stand-alone subsidiaries. One of the non-approved firms, that was otherwise not interested in local auditing, saw the audit of commercial subsidiaries of local authorities as an area that they could become involved with.

The idea that new entrants could carry out the VFM aspects of some audits, while established firms take responsibility for the audit as a whole, did not appeal to most firms. VFM work requires understanding and experience of the local authority environment, which is exactly what new entrants do not have.

### *Options for PSAA*

Consider tendering for joint audits as a potential future option. Consider whether there is potential for 'match-making' between approved and non-approved firms.

## 7.13 Collaborative response with other audit agencies

The current system, with PSAA procuring only the audits of principal local government bodies while other public entities are subject to different procurement and regulatory regimes is, in our view, structurally flawed. Issues include the creation of a brief but very intense peak audit period for the work procured by PSAA, with a lack of other work to occupy specialist local auditors during a prolonged trough period.

Areas where collaboration could be conceivable, under a different structure, are briefly noted below.

### *SAAA*

The Smaller Authorities' Audit Appointments (SAAA) commissions desktop reviews for more than 9,000 smaller authorities. These are not full audits and are not subject to the same Code of Audit Practice and regulation as the principal authorities. They do have certain features in common, such as the requirement to deal with electors' objections. However, firms would still need to be accredited to carry out principal local audits and the audit requirements are of a completely different magnitude compared to those for smaller audits.

### *NAO*

The NAO is responsible for auditing central government departments, government agencies and non-departmental public bodies. The NAO also carries out value for money (VFM) audits into the administration of public policy.

### *Scotland, Wales and Northern Ireland*

Some of PSAA's current contract holders also carry out work in the other jurisdictions. For example, EY, GT, Deloitte and Mazars carry out audits in Scotland, along with Scott Moncrieff and KPMG.

The obstacles to achieving closer co-operation include:

- Different codes of practice – for example the requirements for auditing 'best value' in Scotland are different from those of auditing VFM arrangements in England.
- Different fee structures. One firm stated that fees for comparable audits are higher in other jurisdictions than in England, notwithstanding the differences in the scope of audits.

### *Options for PSAA*

PSAA's options are constrained by the current fragmented structure of the market and by PSAA's precisely defined role within it.

## 7.14 Creating a not-for-profit supplier

### *Issues*

Most firms did not comment on this option. We see its key features as follows:

- In the short to medium term the not-for-profit (NFP) supplier would be competing for the same scarce resources that the firms are currently using and would probably have a more limited appeal than the private firms. It could therefore struggle to recruit and retain the best staff. However, if in the longer term the NFP supplier developed a strong commitment to staff training and development it might be able to make a distinctive contribution to growing local audit capacity.
- It would suffer from the same issues as the current suppliers, especially the peaks and troughs in workloads, without having the same opportunities to redirect its resources to other work during the troughs.
- It would take time and resource to set up.
- To some it might appear as a retrograde step, recreating the direct labour force element of the AC. Its creation would cast doubt on the claims made at the time of the breakup of the AC, about the capacity of the private sector to handle this market.
- The NFP entity might be designed for a particular set of circumstances that then changed due to the ongoing reviews within the sector.

The case for the NFP supplier would involve it working alongside other agencies, such as perhaps CIPFA, ICAEW, the NAO and others, to actively develop resources for this market; and acting as the employer of last resort for staff who would otherwise be lost to the market.

### *Options for PSAA*

If PSAA chooses to pursue this option, it should carry out a careful assessment of the viability of the prospective NFP supplier having regard to the various challenges it would be likely to face.



**GLOSSARY**

Initials	Definition
AC	Audit Commission
ARGA	Audit, Reporting and Governance Authority
AS	Audit Scotland
CBS	Cardiff Business School
CFO	Chief Finance Officer
CIPFA	Chartered Institute of Public Finance Accountants
FRC	Financial Reporting Council
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
KAP	Key Audit Partner
LGA	Local Government Association
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
NFP	Not for profit
PIE	Public Interest Entity
PSAA	Public Sector Audit Appointments Ltd.
RSB	Recognised Supervisory Body
SAAA	Smaller Authorities' Audit Appointments
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
WAO	Wales Audit Office

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## Section 151 update

Dear colleagues,

Following my last update to Section 151 officers, here is a roundup of key developments from CIPFA shaping the world of local government.

### **Conservative electoral win**

As we are all aware by now, the December general election resulted in an overwhelming Conservative majority in parliament. Now, the time has come to see how campaign promises translate into policy that will benefit those who rely on vital public services around the UK. Hopefully this will be revealed in the next budget, which is currently scheduled to be announced on 11 March. There are significant challenges continuing to face the public sector, and we urge officials to provide adequate funding for public services with long-term sustainability in mind.

### **Brexit**

With the successful passage of the Prime Minister's Brexit bill, the United Kingdom is now set to leave the European Union on 31 January. While we have clarity on this, there is still much unknown about how funding challenges facing local government will be addressed. We've expressed our concerns that there has not been an economic impact assessment performed on the Brexit bill as it currently stands. The economy has already been weakened because of the Brexit process, and we can expect that there will be further impacts on the public sector, especially related to immigration and the workforce. In order to engage in long-term planning for these effects, we must have some clarity on future funding.

### **Big issues facing local authorities**

There are quite a few issues facing local government that need to be solved. The majority in parliament might help longer term planning, but without a budget revealed it is difficult to be completely certain. Since austerity began, providers of public services have been successful in making reductions that haven't impacted quality. But the question remains whether these reductions to certain areas are sustainable with the anticipated rise in demand over the next five years.

Last year's [Performance Tracker](#) released in partnership with the Institute for Government revealed large concerns in its predictions for the coming years. We have significant concerns about how the housing and climate crises will be addressed within local authorities in the future.

In addition, pressure on health and social care services for both children and adults continues to increase. Big promises have been made regarding funding in these areas that have yet to be fulfilled.

### **Resilience Index**

Our latest iteration of the Financial Resilience Index for local authorities was released just before Christmas. This online data tool provides information about the financial resilience of local authorities throughout England based on nine key indicators. Fortunately, the Index revealed high levels of financial resilience across local authorities in England.

The Resilience Index is one of the tools that CIPFA provides to ensure high standards for public financial management by supporting decision making at the local level. It's created using publicly-available data with the goal of providing greater transparency and assisting local authorities to prepare for potential financial shocks. The Index is available online and can be found [here](#).

### **Redmond Review**

CIPFA has submitted a [formal response](#) to the call for views by former CIPFA President Sir Tony Redmond in relation to the Redmond Review into local authority audit and financial reporting. We call for the creation of an independent regulatory body to oversee local audit with transparency and public confidence in mind. It's clear that the process for overseeing local audit has become overly fragmented following the dissolution of the Audit Commission.

The exact scope and nature of this regulatory body should be openly debated – but we would recommend reconstituting the responsibilities for audit appointments, standards, enforcement and public reporting on the overall position of councils into one centralised organisation.

The Redmond Review into local authority audit was called last summer, seeking information about whether the existing audit arrangements were performing as expected. It examines if there is an expectation gap between what the general public believe local audit will deliver and what it can in reality. A final report is expected to be published later this year.

### **CBE Award**

I'd like to extend my gratitude to all involved for selecting me as a recipient for a [CBE](#) for services to public sector financial management in December. I'm proud to represent dedicated professionals working in the public sector who provide crucial services to residents of the United Kingdom. I look forward to continuing my work alongside civil servants who serve their communities tirelessly.

## **Business rates reform and fair funding**

There are still challenges on the horizon that we must address - including tackling outstanding business rates reform and fair funding. Following the election when most of this work was put on hold, there is now a need for it to resume. Debates around deprivation and what is included in the resource adjustment all need to reach a conclusion so that organisations can increase their financial planning horizons.

Yours sincerely,

A handwritten signature in black ink that reads "Rob Whiteman". The signature is written in a cursive, slightly stylized font.

Rob Whiteman  
CIPFA CEO

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# Cipfa Financial Resilience Index 2019

## – Results for Tamworth

### Background Information:

- The 2019 CIPFA/IfG Performance Tracker indicated that public satisfaction with local services is largely holding steady.
- The resilience index shows that even in the most challenging of fiscal circumstances, the majority of councils are maintaining a position in which they could weather shock.
- However, there is a tail of perhaps 10% of councils, where there are some signs of potential risk to their financial stability.  
But these are symptoms requiring further scrutiny, not a terminal diagnosis.  
The index is neither predictive nor judgmental. It is designed solely, in the public interest, to support robust discussions around financial decision making by creating a common set of indicators to underpin CFOs' statements on the robustness of budgets.
- Anyone using the index is encouraged not to presume the worst if the data is unpalatable.
- Use it to enhance scrutiny. Robust scrutiny is a core step towards financial decisions that best serve organisations and communities.
- In CIPFA's view, robust benchmark information will improve the quality of local considerations.

Results Breakdown

Indicators of Financial Stress

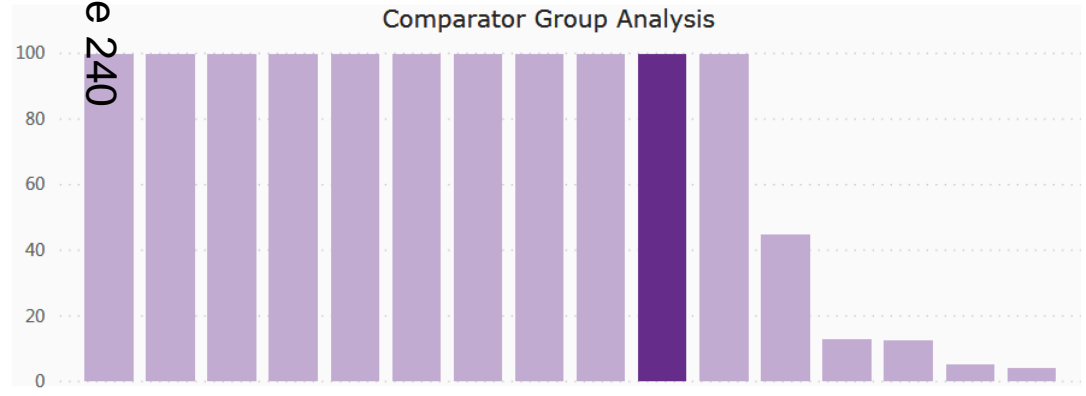


Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	4.09	100.00	100.00
Level of Reserves	40.11%	247.95%	247.95%
Change In Reserves	-42.33%	11.35%	84.13%
Interest Payable/ Net Revenue Expenditure	0.00%	44.99%	44.99%
Gross External Debt	£0k	£63,060k	£130,736k
Fees & Charges to Service Expenditure Ratio	13.26%	16.42%	33.30%
Council Tax Requirement / Net Revenue Expenditure	43.58%	64.86%	76.75%
Growth Above Baseline	17.00%	78.00%	118.00%

Auditors VfM Assessment  
Unqualified

Individual Analysis

Reserves Sustainability Measure

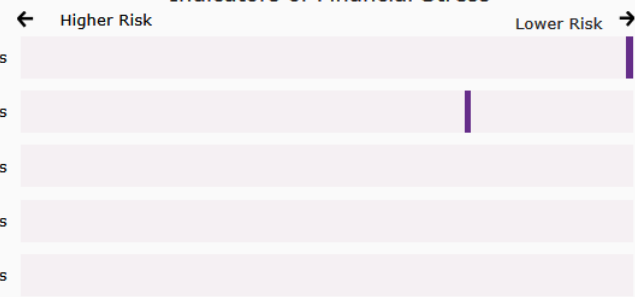


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Results Breakdown

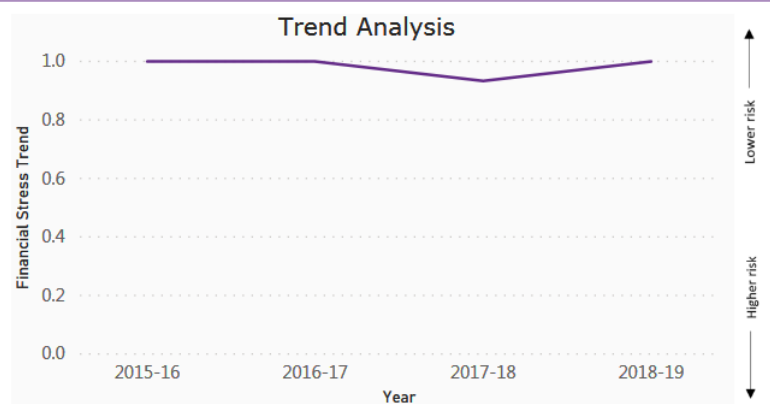
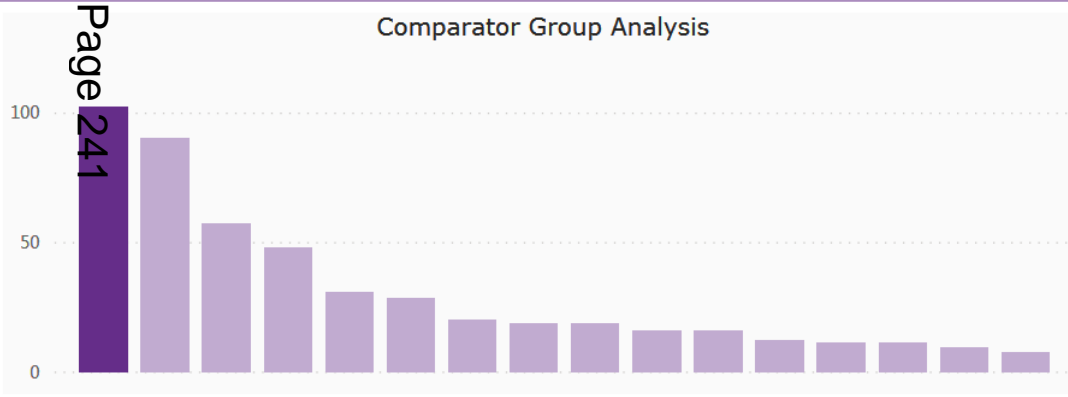
Indicators of Financial Stress



Indicator	Min	Indicator Value	Max
Unallocated Reserves	7.78%	102.66%	102.66%
Earmarked Reserves	14.35%	91.58%	191.58%
Change in Unallocated Reserves	na	na	na
Change in Earmarked Reserves	na	na	na
Change in HRA Reserves	na	na	na

Individual Analysis

Unallocated Reserves



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Results Breakdown

Indicators of Financial Stress

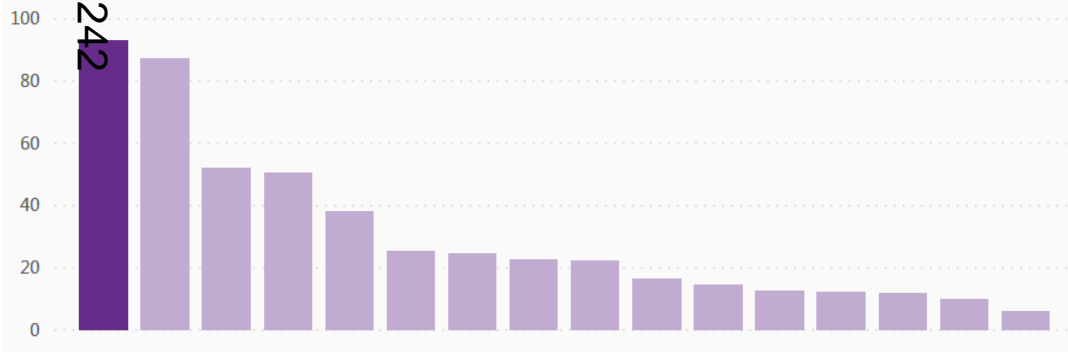


Indicator	Min	Indicator Value	Max
Unallocated Reserves	6.23%	93.31%	93.31%
Earmarked Reserves	21.46%	81.09%	227.81%
Change in Unallocated Reserves	na	na	na
Change in Earmarked Reserves	na	na	na
Change in HRA Reserves	na	na	na

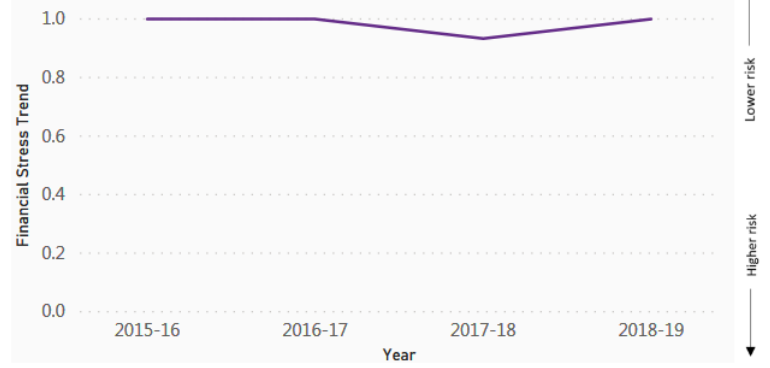
Individual Analysis

Unallocated Reserves

Comparator Group Analysis



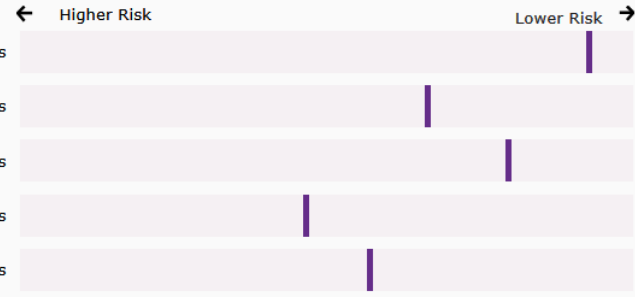
Trend Analysis



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Results Breakdown

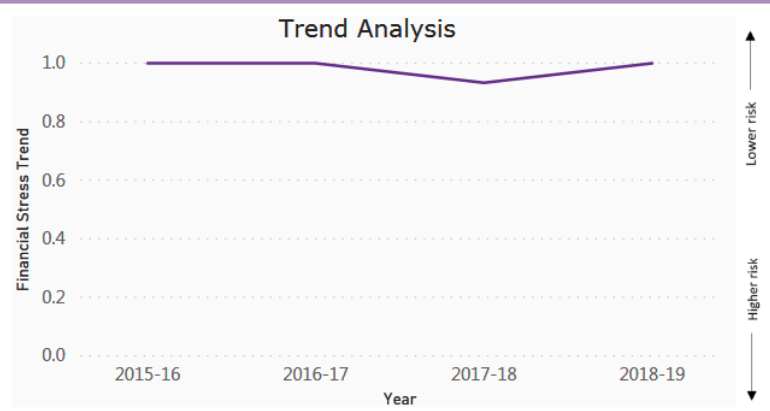
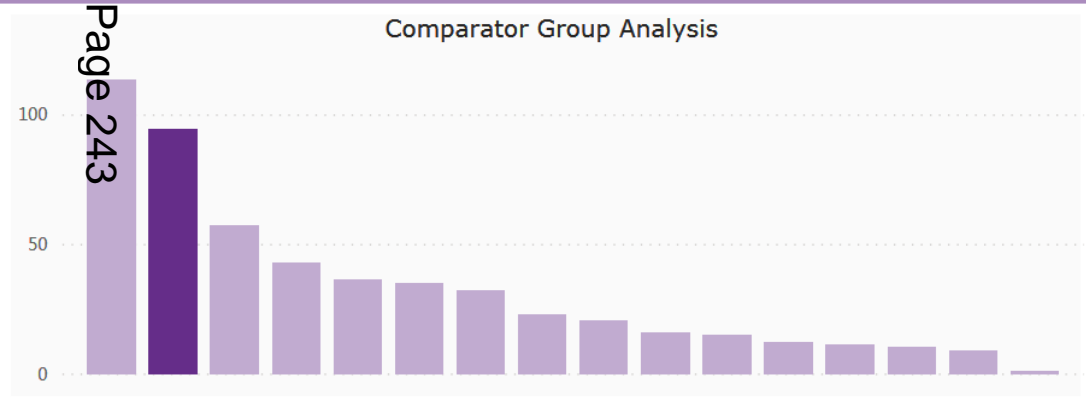
Indicators of Financial Stress



Indicator	Min	Indicator Value	Max
Unallocated Reserves	1.30%	94.70%	113.62%
Earmarked Reserves	18.81%	79.67%	250.72%
Change in Unallocated Reserves	-84.48%	40.81%	151.08%
Change in Earmarked Reserves	-58.90%	-1.66%	122.79%
Change in HRA Reserves	-93.63%	35.33%	64.25%

Individual Analysis

Unallocated Reserves



Results Breakdown

Indicators of Financial Stress

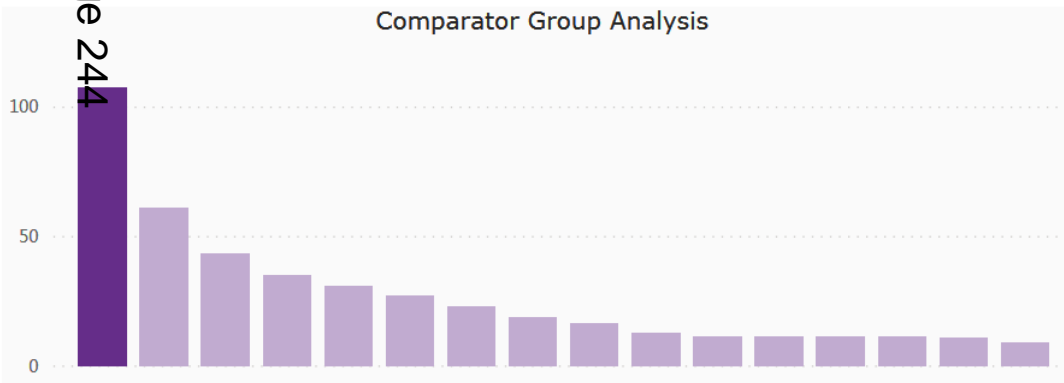


Indicator	Min	Indicator Value	Max
Unallocated Reserves	9.07%	107.68%	107.68%
Earmarked Reserves	21.30%	140.27%	188.93%
Change in Unallocated Reserves	-75.15%	-8.50%	139.04%
Change in Earmarked Reserves	-65.46%	33.61%	253.76%
Change in HRA Reserves	-94.44%	11.79%	317.31%

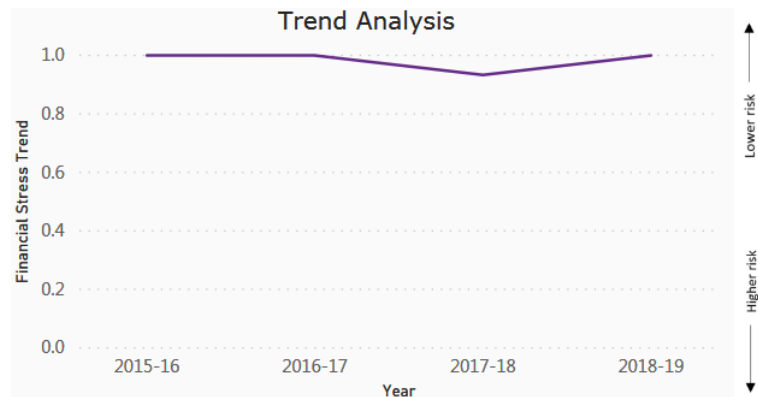
Individual Analysis

Unallocated Reserves

Comparator Group Analysis



Trend Analysis



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Results Breakdown

Indicators of Financial Stress

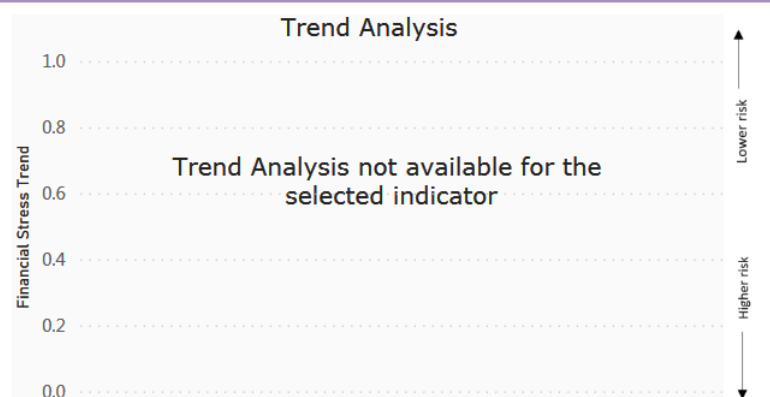
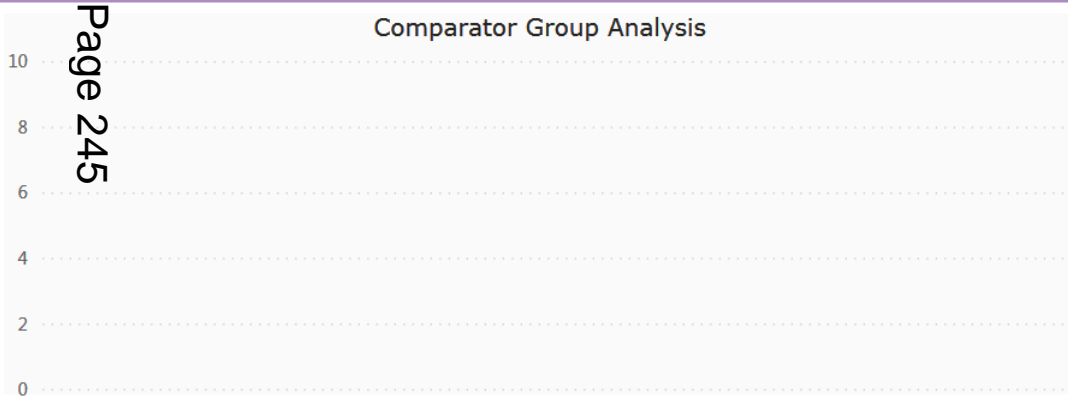


Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	na	na	na
Level of Reserves	9.58%	194.24%	300.00%
Change In Reserves	na	na	na
Interest Payable/ Net Revenue Expenditure	-42.93%	44.48%	181.37%
Gross External Debt	£0k	£65,060k	£449,036k
Fees & Charges to Service Expenditure Ratio	2.30%	14.48%	70.98%
Council Tax Requirement / Net Revenue Expenditure	37.39%	50.28%	100.00%
Growth Above Baseline	-571.00%	50.00%	237.00%

Auditors VfM Assessment  
Unqualified

Individual Analysis

Reserves Sustainability Measure



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Results Breakdown

Indicators of Financial Stress



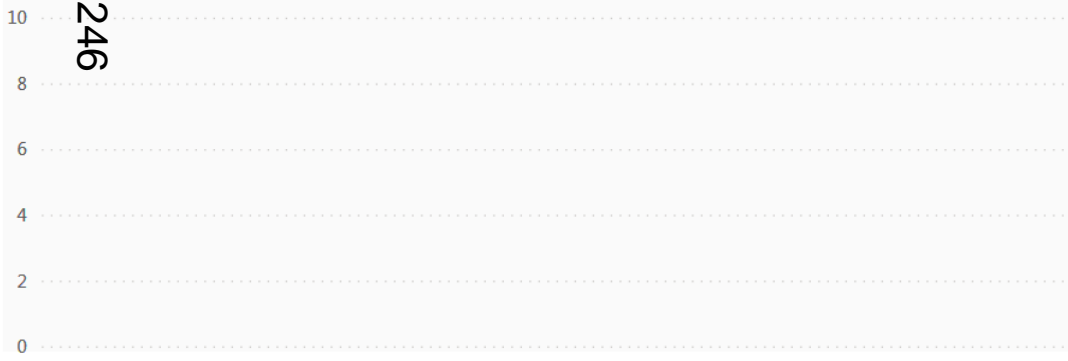
Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	na	na	na
Level of Reserves	9.26%	174.41%	300.00%
Change In Reserves	na	na	na
Interest Payable/ Net Revenue Expenditure	-51.12%	35.40%	152.65%
Gross External Debt	£0k	£63,060k	£607,471k
Fees & Charges to Service Expenditure Ratio	1.93%	16.02%	62.98%
Council Tax Requirement / Net Revenue Expenditure	32.75%	47.88%	100.00%
Growth Above Baseline	-256.00%	57.00%	596.00%

Auditors VfM Assessment  
Unqualified

Individual Analysis

Reserves Sustainability Measure

Comparator Group Analysis



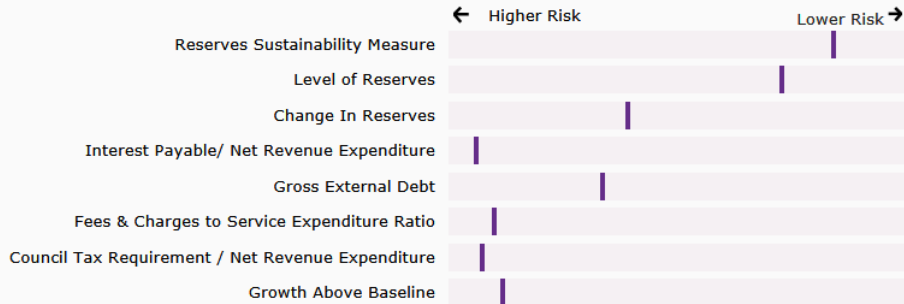
Trend Analysis



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Results Breakdown

Indicators of Financial Stress

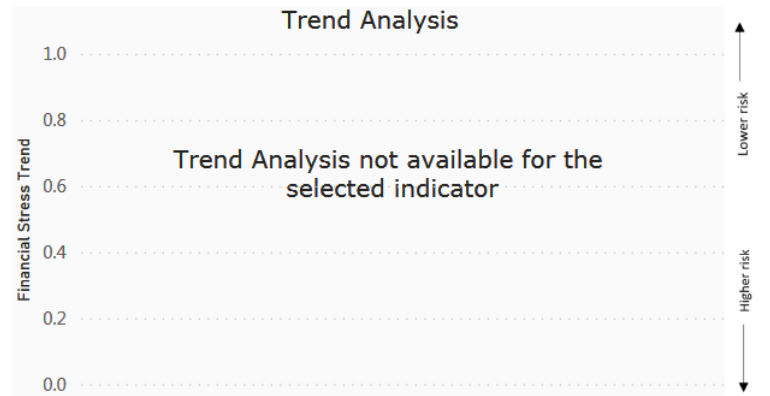
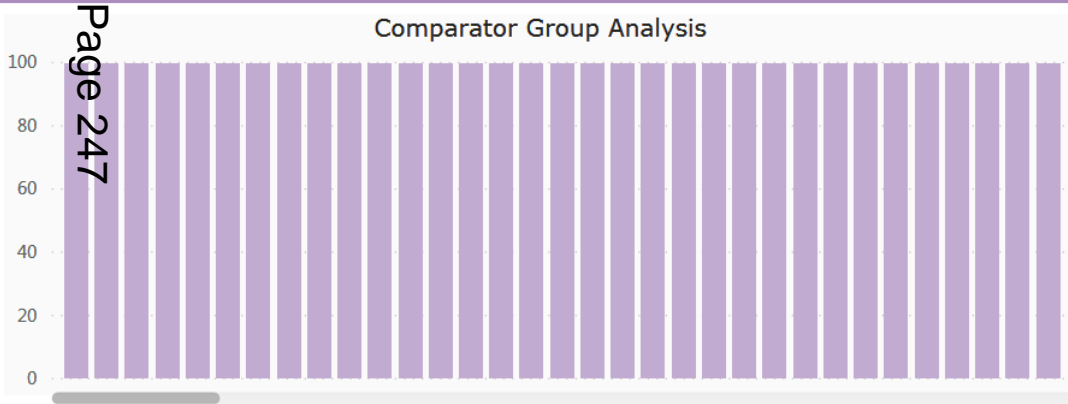


Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.06	100.00	100.00
Level of Reserves	16.56%	174.37%	300.00%
Change In Reserves	-59.24%	17.61%	360.85%
Interest Payable/ Net Revenue Expenditure	-365.94%	36.82%	234.09%
Gross External Debt	£0k	£63,060k	£840,365k
Fees & Charges to Service Expenditure Ratio	1.95%	13.22%	98.82%
Council Tax Requirement / Net Revenue Expenditure	37.03%	48.15%	100.00%
Growth Above Baseline	-109.00%	109.00%	344.00%

Auditors VfM Assessment  
Unqualified

Individual Analysis

Reserves Sustainability Measure



Results Breakdown

Indicators of Financial Stress



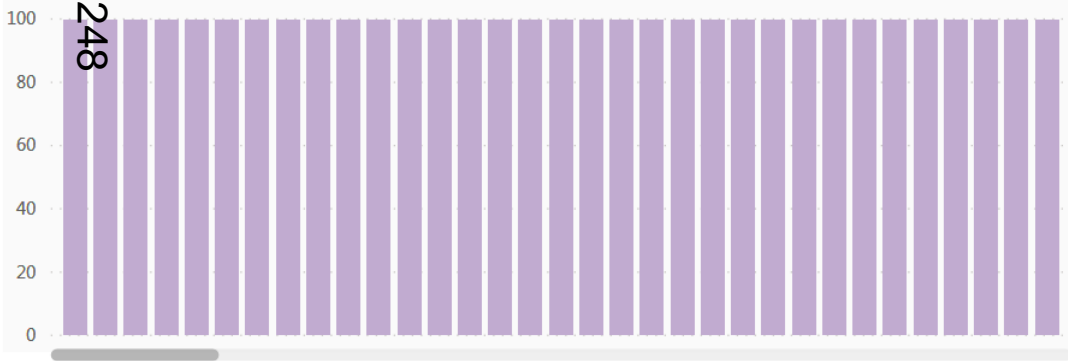
Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.86	100.00	100.00
Level of Reserves	23.28%	247.95%	300.00%
Change In Reserves	-51.16%	11.35%	490.83%
Interest Payable/ Net Revenue Expenditure	-7.13%	44.99%	525.04%
Gross External Debt	£0k	£63,060k	£1,212,343k
Fees & Charges to Service Expenditure Ratio	1.58%	16.42%	70.32%
Council Tax Requirement / Net Revenue Expenditure	36.95%	64.86%	100.00%
Growth Above Baseline	-129.00%	78.00%	287.00%

Auditors VfM Assessment  
Unqualified

Individual Analysis

Reserves Sustainability Measure

Comparator Group Analysis



Trend Analysis



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Results Breakdown

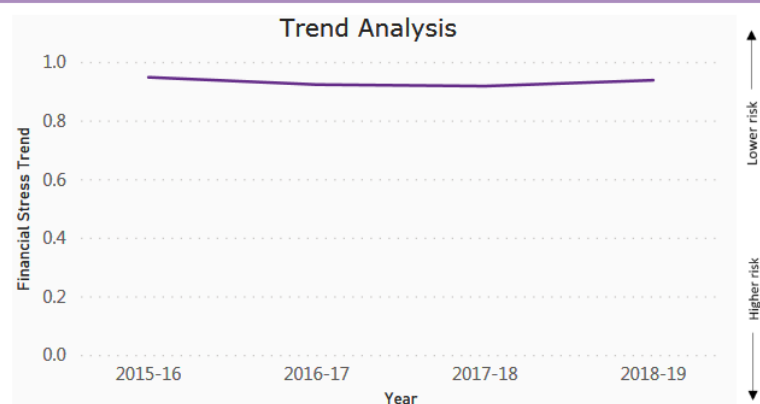
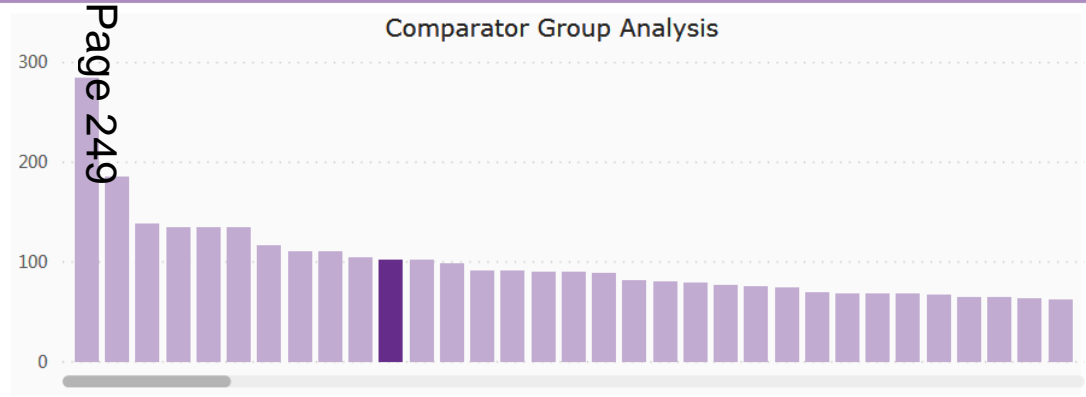
Indicators of Financial Stress



Indicator	Min	Indicator Value	Max
Unallocated Reserves	0.00%	102.66%	285.50%
Earmarked Reserves	0.54%	91.58%	300.00%
Change in Unallocated Reserves	na	na	na
Change in Earmarked Reserves	na	na	na
Change in HRA Reserves	na	na	na

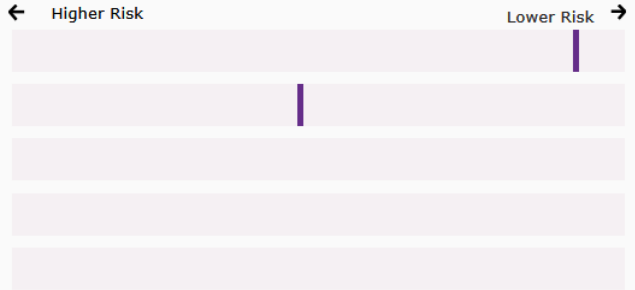
Individual Analysis

Unallocated Reserves



Results Breakdown

Indicators of Financial Stress

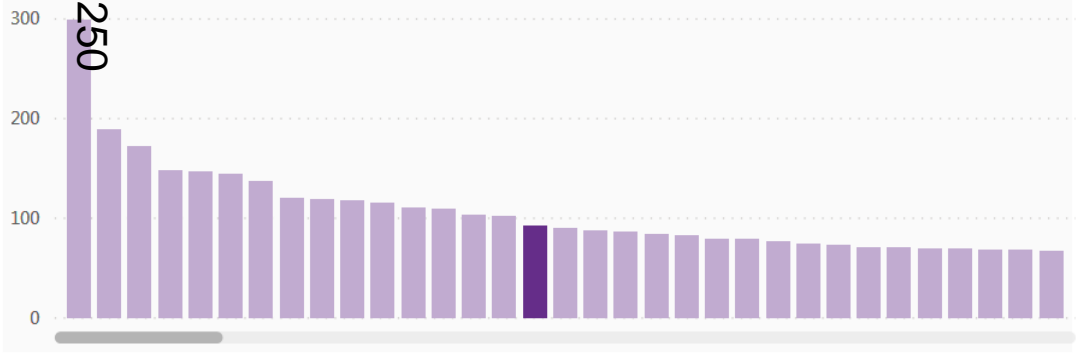


Indicator	Min	Indicator Value	Max
Unallocated Reserves	0.00%	93.31%	300.00%
Earmarked Reserves	0.42%	81.09%	300.00%
Change in Unallocated Reserves	na	na	na
Change in Earmarked Reserves	na	na	na
Change in HRA Reserves	na	na	na

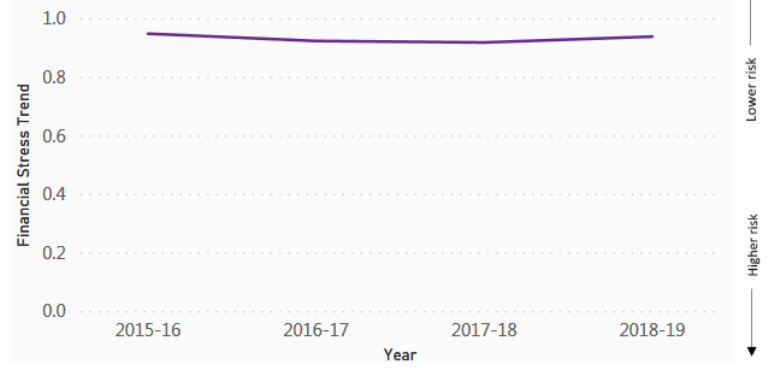
Individual Analysis

Unallocated Reserves

Comparator Group Analysis



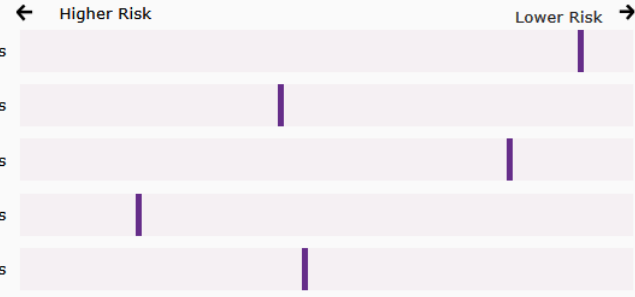
Trend Analysis



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Results Breakdown

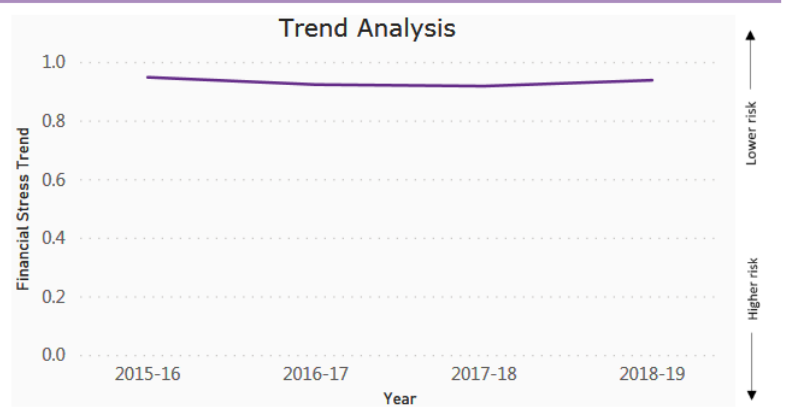
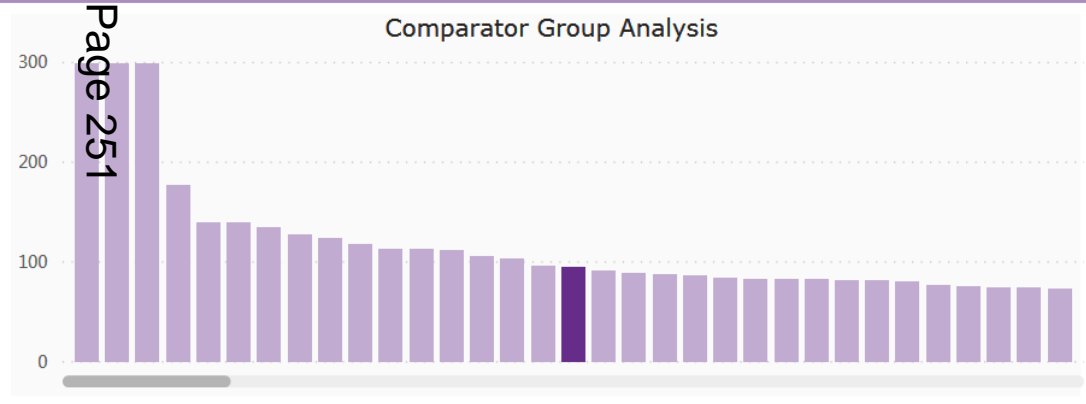
Indicators of Financial Stress



Indicator	Min	Indicator Value	Max
Unallocated Reserves	0.00%	94.70%	300.00%
Earmarked Reserves	6.45%	79.67%	300.00%
Change in Unallocated Reserves	-84.48%	40.81%	400.50%
Change in Earmarked Reserves	-63.19%	-1.66%	1,946.28%
Change in HRA Reserves	-504.34%	35.33%	798.25%

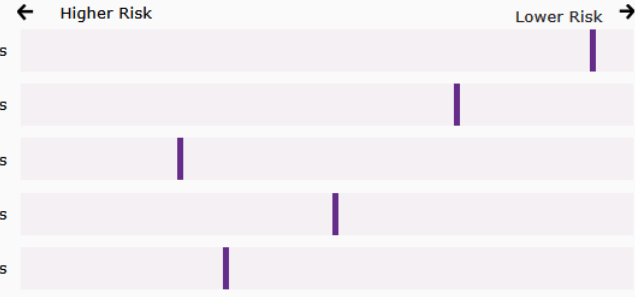
Individual Analysis

Unallocated Reserves



Results Breakdown

Indicators of Financial Stress

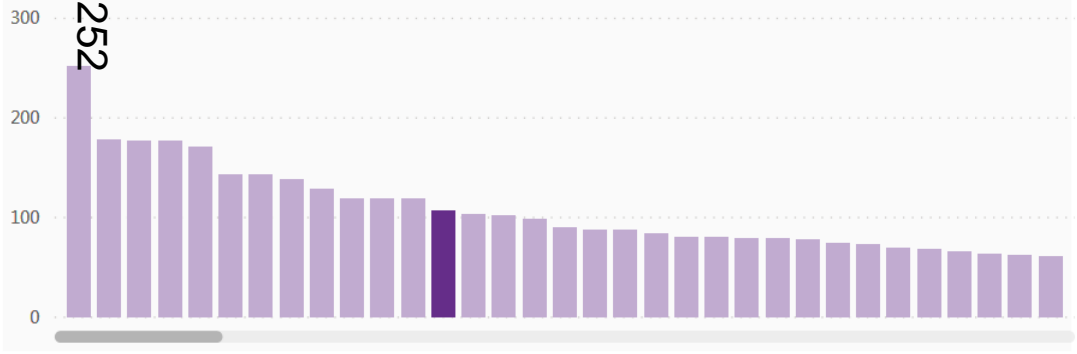


Indicator	Min	Indicator Value	Max
Unallocated Reserves	0.00%	107.68%	252.00%
Earmarked Reserves	3.31%	140.27%	300.00%
Change in Unallocated Reserves	-85.78%	-8.50%	353.84%
Change in Earmarked Reserves	-84.31%	33.61%	4,967.16%
Change in HRA Reserves	-316.00%	11.79%	754.70%

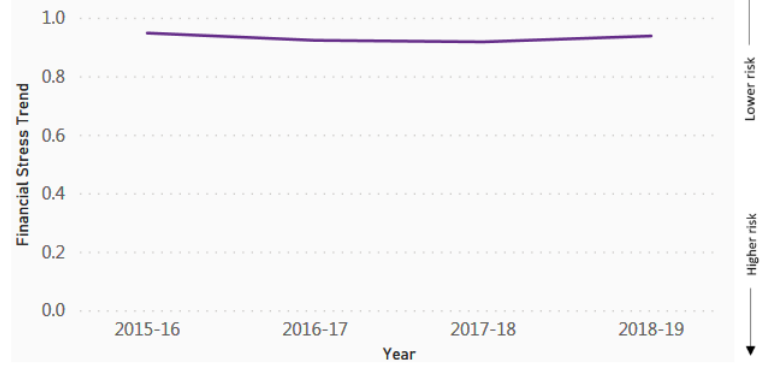
Individual Analysis

Unallocated Reserves

Comparator Group Analysis



Trend Analysis



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## AUDIT & GOVERNANCE COMMITTEE

26<sup>th</sup> March 2020

### Report of the Executive Director Finance

#### **REVIEW OF THE TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2020/21 and the TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2019/20**

#### **Purpose**

To review the Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2020/21 and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2019/20 approved by Council on 25<sup>th</sup> February 2020 and 10<sup>th</sup> December 2019 respectively.

#### **Recommendation**

**That Members consider the Treasury Management Reports, as detailed within the reports attached at Appendix A and Appendix B and highlight any changes for recommendation to Cabinet.**

#### **Executive Summary**

At its meeting in February each year, the Council approve the Treasury Management Strategy and Prudential Indicators including, as required by the Code, that the Audit & Governance Committee be given the opportunity to scrutinise the strategy and policies, as well as receiving regular monitoring reports.

With regard to the appointment of a Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies, the code suggests:

- This involves reviewing the Treasury Management policy and procedures and making recommendations to the responsible body;
- Public Service Organisations have a responsibility to ensure that those charged with governance have access to the skills and knowledge they require to carry out this role effectively;
- Those charged with Governance also have a personal responsibility to ensure they have the appropriate skills and training in their role;
- The procedures for monitoring Treasury Management activities through audit, scrutiny and inspection should be sound and rigorously applied, with an openness of access to information and well-defined arrangements for the review and implementation of recommendations for change; and
- This includes the provision of monitoring information and regular review by Councillors in both executive and Scrutiny functions.

In compliance with the above, a copy of the Treasury Management Strategy and Prudential Indicators for 2020/21 is attached at **Appendix A**, together with a copy of the Mid-year Report on the Treasury Management Service 2019/20 at **Appendix B**.

## **Equalities implications**

There are no equalities implications arising from the report.

## **Legal implications**

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

## **Resource and Value for Money implications**

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

## **Risk implications**

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

## **Report Author:**

Please contact Jo Goodfellow, Management Accountant or Stefan Garner, Director of Finance, extension 241 or 242.

<i>Background Papers:-</i>	Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2020/21 (Including Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2019/20, and Corporate Capital Strategy, Council 25 <sup>th</sup> February 2020)
	Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2019/20, Council 10 <sup>th</sup> December 2019

**TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2020/21**

**Purpose**

To comply with the requirement of the Council's Treasury Management Policy in reporting to Council the proposed strategy for the forthcoming year and the Local Government Act 2003 with the reporting of the Prudential Indicators.

**Executive Summary**

The Local Government Act 2003 requires the Council to produce prudential indicators in line with the Prudential Code.

This report outlines the Council's prudential indicators for 2020/21 – 2022/23 and sets out the expected Treasury operations for this period. This report and associated tables fulfil the statutory requirement of the Local Government Act 2003 by:

- Reporting the prudential indicators as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities;
- Setting the Council's Minimum Revenue Provision (MRP) Policy, which defines how the Council will pay for capital assets through revenue contributions each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
- Setting the Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management;
- Adopting the Council's Treasury Management Policy Statement as recommended within the CIPFA Code of Practice 2017;
- Setting the Investment Strategy (in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance); and
- Affirming the effective management and responsibility for the control of risk and clearly identifying our appetite for risk. The Council's risk appetite is low in order to give priority to **Security**, **Liquidity** then **Yield** (or return on investments).

Under the requirements of the CIPFA Code of Practice and associated Guidance Notes 2017, the following four clauses have been adopted:

- a) This Council will create and maintain, as the cornerstones for effective treasury management:

A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

Suitable treasury management practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

- b) This Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- c) This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Executive Director Finance, who will act in accordance with the organisation's policy statement and TMPs.
- d) This Council nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **Equalities Implications**

There are no equalities implications arising from the report.

### **Legal Implications**

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

### **Resource and Value for Money Implications**

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy and Capital Strategy.

### **Risk Implications**

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

A Glossary of terms utilised within the report can be found at **ANNEX 9**.

**Report Author** Please contact Jo Goodfellow, Head of Finance, ext 241 or Stefan Garner, Executive Director Finance, ext 242



<b>Background Papers:-</b>	<b><i>Budget &amp; Medium Term Financial Strategy 2020/21</i></b>
	<b><i>Mid-year Treasury Report 2019/20 Council, 10/12/19</i></b>
	<b><i>Annual Treasury Report 2018/19 Council, 10/09/19</i></b>
	<b><i>Treasury Management Strategy Statement, Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement &amp; Annual Investment Statement 2019/20 Council 26/02/19</i></b>
	<b><i>Treasury Management Training slides 20<sup>th</sup> November 2019</i></b>
	<b><i>CIPFA Code of Practice on Treasury Management in Public Services 2017</i></b>
	<b><i>DCLG Guidance on Local Government Investments March 2010</i></b>
	<b><i>Local Government Act 2003</i></b>
	<b><i>Treasury Management Practices 2020/21 (Operational Detail)</i></b>

## 1. INTRODUCTION

### 1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

### 1.2 Reporting Requirements

#### 1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

### **1.2.2 Treasury Management Reporting**

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

#### **Prudential and Treasury Indicators and Treasury Strategy** (this report) –

The first, and most important, report is forward looking and covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

### **A Mid Year Treasury Management Report**

This is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

### **An Annual Treasury Report**

This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

### **1.3 Treasury Management Strategy for 2020/21**

The strategy for 2020/21 covers two main areas:

#### **Capital Issues**

- the capital expenditure plans and the associated Prudential Indicators;
- the Minimum Revenue Provision (MRP) policy.

#### **Treasury Management Issues**

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

### **1.4 Training**

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Detailed Treasury Management training was most recently provided in November 2019, and will be provided as and when required.

The training needs of Treasury Management officers are regularly reviewed.

## 1.5 Treasury Management Consultants

The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for Treasury Management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

It also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 2. THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

The Council's Capital Expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 2.1 Capital Expenditure

This prudential Indicator is a summary of the Council's Capital Expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £m	2018/19 Actual	2019/20 Predicted Outturn*	2019/20 Re- profiling	2020/21 Estimate**	2021/22 Estimate	2022/23 Estimate
<b>Non-HRA</b>	3.376	3.781	1.816	1.579	1.356	0.831
<b>HRA</b>	9.266	26.897	2.453	10.246	9.502	8.377
<b>Commercial Activities/Non- Financial Investments ***</b>	7.139	4.135	8.726	-	-	-
<b>Total</b>	<b>19.781</b>	<b>34.812</b>	<b>12.995</b>	<b>11.825</b>	<b>10.858</b>	<b>9.208</b>

\* Actual Projected at Period 9

\*\* excludes projected slippage from 2019/20

\*\*\* commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties & investments in property funds.

The projected slippage into 2020/21 of £12.995m relates mainly to Gungate development, Gateways projects, Castle Mercian Trail, Amington Woodland & Cycleway, Property Fund investments and Solway LATC, High Rise lifts and Tinkers Green and Kerria redevelopment.

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding (borrowing) need.

<b>Capital Financing (GF/HRA)</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>Actual</b>	<b>Predicted Outturn*</b>	<b>Re-profiling</b>	<b>Estimate**</b>	<b>Estimate</b>	<b>Estimate</b>
Capital Receipts	8.198	9.095	8.923	1.533	1.230	1.410
Capital Grants	2.822	0.659	0.113	0.424	0.424	0.424
Capital Reserves	3.605	13.310	0.534	6.010	5.442	4.306
Revenue Reserves	5.061	5.391	0.853	3.015	3.005	2.816
Revenue Contributions	0.095	0.118	0.300	-	-	-
<b>Net financing need for the year</b>	-	6.24	2.27	0.84	0.76	0.25
<b>Total</b>	<b>19.781</b>	<b>34.812</b>	<b>12.995</b>	<b>11.825</b>	<b>10.858</b>	<b>9.208</b>

\* Actual Projected at Period 9

\*\* excludes projected slippage from 2019/20

However, it should be noted that due to receipt of Homes England grant of c.£5m, it is likely that the planned borrowing for the Regeneration of Tinkers Green and Kerria will be reduced to c.£2m.

The net financing need for commercial activities/non-financial investments included in the above table against expenditure is shown below:

<b>Commercial Activities/Non-Financial Investments</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>Actual</b>	<b>Predicted Outturn*</b>	<b>Re-profiling</b>	<b>Estimate**</b>	<b>Estimate</b>	<b>Estimate</b>
Capital Expenditure	7.139	4.135	8.726	-	-	-
Financing Costs	(7.139)	(4.135)	(8.726)	-	-	-
<b>Net financing need for the year</b>	-	-	-	-	-	-
Percentage of total net financing need %	-	-	-	-	-	-

## 2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2018/19 Actual	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
<b>Capital Financing Requirement</b>					
CFR – non housing	0.828	1.986	2.806	3.373	3.380
CFR - housing	68.041	73.065	75.255	75.255	75.255
CFR - commercial activities/non-financial investments	-	-	-	-	-
<b>Total CFR</b>	<b>68.869</b>	<b>75.052</b>	<b>78.061</b>	<b>78.628</b>	<b>78.634</b>
<b>Movement in CFR</b>	<b>(0.057)</b>	<b>6.182</b>	<b>3.010</b>	<b>0.567</b>	<b>0.006</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	-	6.239	3.116	0.757	0.252
Less MRP/VRP and other financing movements	<b>(0.057)</b>	<b>(0.056)</b>	<b>(0.106)</b>	<b>(0.189)</b>	<b>(0.246)</b>
<b>Movement in CFR</b>	<b>(0.057)</b>	<b>6.182</b>	<b>3.010</b>	<b>0.567</b>	<b>0.006</b>

\* CFR 2017/18 £68.926m

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Council's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

## 2.3 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Fund Balances/Reserves	35.009	23.861	18.055	14.078	10.205
Capital Receipts	23.409	15.356	6.637	6.774	6.882
Provisions*	1.815	1.815	1.815	1.815	1.815
Other	-	-	-	-	-
<b>Total Core Funds</b>	<b>60.233</b>	<b>41.032</b>	<b>26.507</b>	<b>22.666</b>	<b>18.903</b>
Working Capital**	14.337	12.375	15.691	18.197	20.855
(Under)/Over Borrowing	(5.809)	(11.991)	(15.001)	(15.568)	(15.574)
<b>Expected Investments</b>	<b>68.761</b>	<b>41.415</b>	<b>27.197</b>	<b>25.295</b>	<b>24.184</b>

\* Includes full provision for NNDR appeals

\*\* Working capital balances shown are estimated year end; these may be higher mid year.

## 2.4 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund Capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For Capital Expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former MHCLG regulations (option 1);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.



There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

**MRP Overpayments** – a change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The Council has made no VRP overpayments.

### 3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The Treasury Management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

#### 3.1 Current Portfolio Position

The overall Treasury Management portfolio as at 31<sup>st</sup> March 2019 and for the position as at 31<sup>st</sup> December 2019 are shown below for both borrowing and investments.

	TREASURY PORTFOLIO			
	ACTUAL AT 31/3/19		CURRENT AT 31/12/19	
	£m	%	£m	%
<b>Treasury Investments</b>				
Banks	50.520	73.47	33.000	47.21
Building Societies	-	-	-	-
Local Authorities	-	-	21.000	30.04
DMADF (H M Treasury)	-	-	-	-
Money Market Funds	4.421	6.43	6.124	8.76
Certificates of Deposit	10.000	14.54	6.002	8.59
<b>Total Managed in-House</b>	<b>64.941</b>	<b>94.445</b>	<b>66.126</b>	<b>94.61</b>
<b>Property Funds</b>	3.820	5.56	3.770	5.39
<b>Total Managed Externally</b>	<b>3.820</b>	<b>5.56</b>	<b>3.770</b>	<b>5.39</b>
<b>Total Treasury Investments</b>	<b>68.761</b>	<b>100</b>	<b>69.896</b>	<b>100</b>
<b>Treasury External Borrowing</b>				
PWLB	63.060	100	63.060	100
<b>Total External Borrowing</b>	<b>63.060</b>	<b>100</b>	<b>63.060</b>	<b>100</b>
<b>Net Treasury Investments/(Borrowing)</b>	<b>5.701</b>		<b>6.836</b>	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

<b>Treasury Portfolio</b>	<b>2018/19 Actual £000's</b>	<b>2019/20 Estimate £000's</b>	<b>2020/21 Estimate £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>
<b>External Debt</b>					
Debt at 1st April	63.060	63.060	63.060	63.060	63.060
Expected change in Debt	-	-	-	-	-
<b>Actual gross debt at 31st March</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>
<b>The Capital Financing Requirement</b>	<b>68.869</b>	<b>75.052</b>	<b>78.061</b>	<b>78.628</b>	<b>78.634</b>
<b>Under / (over) borrowing</b>	<b>5.809</b>	<b>11.991</b>	<b>15.001</b>	<b>15.568</b>	<b>15.574</b>

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Executive Director Finance (the Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### **3.2. Treasury Indicators: Limits to Borrowing Activity**

**The Operational Boundary** - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

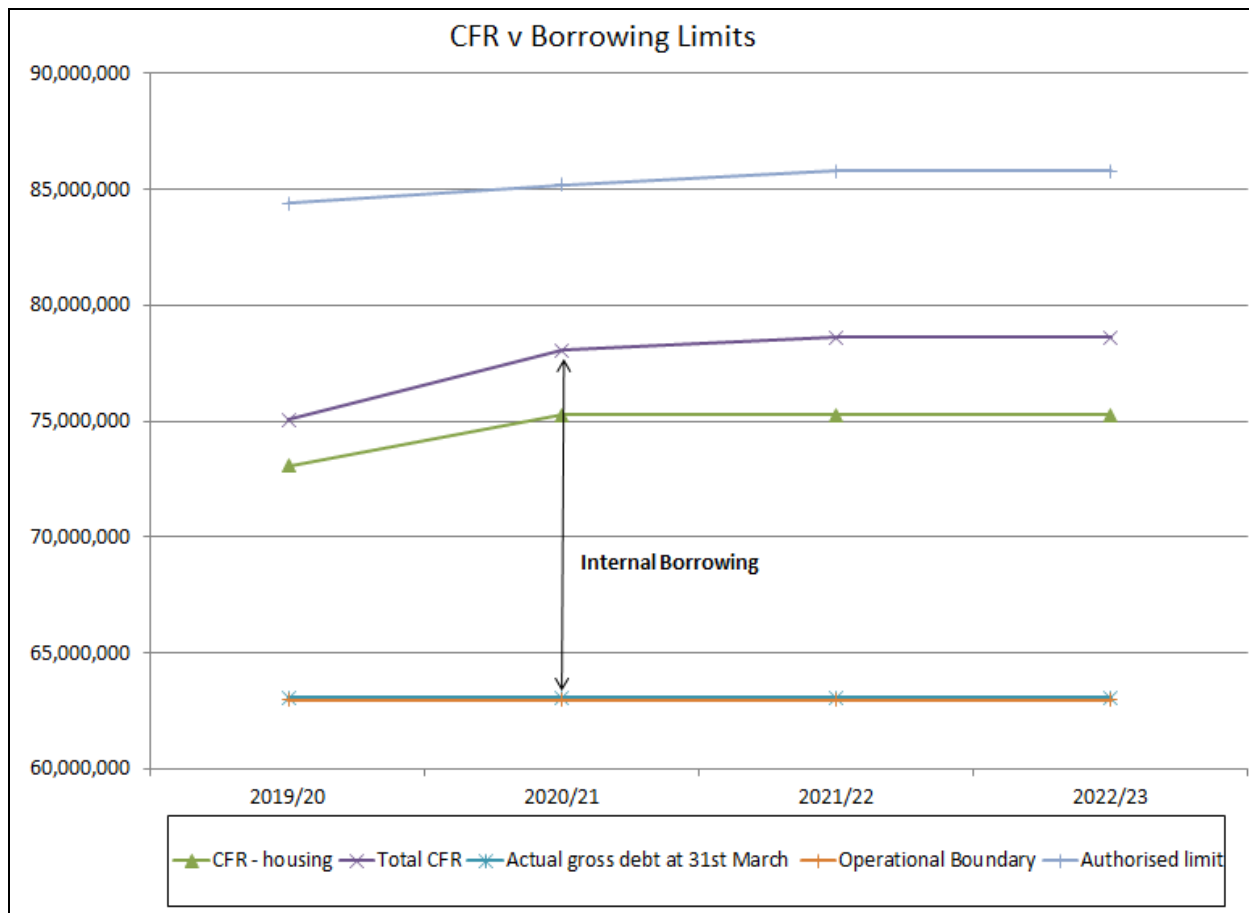
<b>Operational Boundary</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>
Borrowing	63.060	63.060	63.060	63.060
Other long term liabilities	-	-	-	-
Commercial Activities/non- financial Investments	-	-	-	-
<b>Total</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>

**The Authorised Limit for external debt** – This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Borrowing	84.393	85.213	85.780	85.787
<b>Total</b>	<b>84.393</b>	<b>85.213</b>	<b>85.780</b>	<b>85.787</b>



### 3.3. Prospects for Interest Rates

A more detailed interest rate view and economic commentary are at **ANNEXES 2 & 3**.

The Council has appointed Link Asset Services as its Treasury Advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

2019 was a year of weak UK economic growth as political and Brexit uncertainty depressed confidence. It was therefore little surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% during the year. However, during January 2020, financial markets were predicting a 50:50 chance of a cut in Bank Rate at the time of the 30 January MPC meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after that election, had depressed economic growth in quarter 4 of 2019. However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and Brexit uncertainty. The MPC clearly decided to focus on the more recent forward-looking news, rather than the earlier downbeat news, and so left Bank Rate unchanged. Provided that the forward-looking surveys are borne out in practice in the coming months, and the March Budget delivers with a fiscal boost, then it is expected that Bank Rate will be left unchanged until after the December trade deal deadline. However, the MPC is on alert that if the surveys prove optimistic and/or the Budget disappoints, then they may still take action and cut Bank Rate in order to stimulate growth.

**Bond yields / PWLB rates.** There had been much speculation during 2019 that the bond market had gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic

growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions were ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong, but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

### **Investment and borrowing rates**

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. As Link Asset Services' long-term forecast for Bank Rate is 2.25%, and all PWLB certainty rates are close to or above 2.25%, there is little value in borrowing from the PWLB at present. Accordingly, the Council will reassess its risk appetite in terms of either seeking cheaper alternative sources of borrowing or switching to short term borrowing in the money markets until such time as the Government might possibly reconsider the margins charged over gilt yields. Longer term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.
- While this Council will not be able to avoid borrowing to finance new capital expenditure, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### **3.4 Borrowing Strategy**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Executive Director Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- \* *if it was felt that there was a significant risk of a sharp FALL in borrowing rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.*
- \* *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to Council at the next available opportunity.

### **3.5 Policy on Borrowing in Advance of Need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **3.6. Debt Rescheduling**

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates. If rescheduling was done, it will be reported to the Council at the earliest meeting following its action.

### **3.7 New Financial Institutions as a Source of Borrowing**

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

### 3.8 Approved Sources of Long and Short term Borrowing

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●



## 4. ANNUAL INVESTMENT STRATEGY

### 4.1 Investment Policy – Management of Risk

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

The Council’s investment policy has regard to the following:-

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

The Council’s investment priorities will be security first, portfolio liquidity second, and then yield (return).

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

- 1) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 2) **Other Information:** Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- 3) **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 4) This Council has defined the list of **types of investment instruments** that the Treasury Management team, are authorised to use. There are two lists in Annex 4 under the categories of ‘specified’ and ‘non-specified’ investments.
  - a) **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

- b) **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity ie an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
- 5) **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 25% of the total investment portfolio (see paragraph 4.3)
- 6) **Lending limits** (amounts and maturity) for each counterparty will be set though applying the matrix table in paragraph 4.2
- 7) **Transaction limits** are set for each type of investment in 4.2
- 8) This Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 4.4)
- 9) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 4.3)
- 10) This Council has engaged **external consultants** (see paragraph 1.5) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- 11) All investments will be denominated in **sterling**.
- 12) As a result of the change in accounting standards for 2019/20 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, MHCLG concluded consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing 1<sup>st</sup> April 2018.

This Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

**Changes in risk management policy from last year.** The above criteria are unchanged from last year.

#### **4.2 Creditworthiness Policy**

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- 'watches' and 'outlooks' from credit rating agencies;

- CDS spreads that may give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned watches and outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council uses will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A -. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a daily basis/as and when notified. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service:

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided

exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, as well as information on any external support for banks, to help support its decision making process.

<b>Counterparty</b>	<b>Colour (and long term rating where applicable)</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
<b>Banks/Building Societies *</b>	<b>Yellow</b>	<b>£10m</b>	<b>5yrs</b>
<b>Banks/Building Societies</b>	<b>Purple</b>	<b>£10m</b>	<b>2 yrs</b>
<b>Banks/Building Societies</b>	<b>Orange</b>	<b>£10m</b>	<b>1 yr</b>
<b>Banks – part nationalised</b>	<b>Blue</b>	<b>£10m</b>	<b>1 yr</b>
<b>Banks/Building Societies</b>	<b>Red</b>	<b>£10m</b>	<b>6 mths</b>
<b>Banks/Building Societies</b>	<b>green</b>	<b>£10m</b>	<b>100 days</b>
<b>Banks/Building Societies</b>	<b>No colour</b>	<b>Not to be used</b>	
<b>Council's banker (where "No Colour")</b>	<b>No colour</b>	<b>£2m</b>	<b>1 day</b>
<b>DMADF</b>	<b>UK sovereign rating</b>	<b>£10m</b>	<b>6 months</b>
<b>Local authorities</b>	<b>n/a</b>	<b>£10m</b>	<b>5yrs</b>
	<b>Fund Rating **</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
<b>Money Market Funds CNAV</b>	<b>AAA</b>	<b>£10m</b>	<b>Liquid</b>
<b>Money Market Funds LVNAV</b>	<b>AAA</b>	<b>£10m</b>	<b>Liquid</b>
<b>Money Market Funds VNAV</b>	<b>AAA</b>	<b>£10m</b>	<b>Liquid</b>

*\* The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt – see Annex 4.*

*\*\* 'Fund' ratings are different to individual counterparty ratings, coming under either specific 'MMF' or 'Bond Fund' rating criteria.*

## **UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

## **4.3 Country Limits**

Due care will be taken to consider the exposure of the Council’s total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 25% of the total investment portfolio.
- b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of ‘AA-’ from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) **Other limits. In addition:-**
  - no more than 25% will be placed with any non-UK country at any time;
  - a limit of £14m per group will apply to a group of companies;
  - sector limits will be monitored regularly for appropriateness.

## 4.4 Investment Strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flows, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

### Investment Returns Expectations.

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11<sup>th</sup> March).
- The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.

**Investment Treasury Indicator and Limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

<b>Upper limit for principal sums invested for longer than 365 days</b>			
	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Principal sums invested > 365 days	6.799	6.324	6.046
Current investments as at 31.12.19 in excess of 1 year maturing in each year	5.000	-	-

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

#### **4.5 Investment Risk Benchmarking**

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month LIBID.

#### **4.6 End of year investment report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## 5. ANNEXES

1. Prudential and Treasury Indicators
2. Interest Rate Forecasts
3. Economic Background
4. TMP 1 Credit & Counterparty Risk Management
5. Approved Countries for investments
6. Treasury Management Scheme of Delegation
7. The Treasury Management Role of the Section 151 Officer
8. Treasury Management Practices
9. Treasury Management Glossary of Terms
10. Prudential Indicators – Definitions/Interpretation



## ANNEX 1

### THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2020/21 – 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

#### 1 Capital expenditure

A breakdown of capital expenditure by Directorate is detailed within the Performance Healthcheck reported quarterly to Cabinet.

#### 2 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

##### a) Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (net cost of services).

Ratio of financing costs to net revenue stream.	2018/19 Actual %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %
Non-HRA	(5.42)%	(5.82)%	(2.17)%	(0.84)%	(1.43)%
HRA	29.17%	29.10%	28.24%	27.21%	26.38%
Commercial Activities / non-financial Investments	(2.60)%	(2.71)%	(4.44)%	(6.45)%	(6.16)%

The estimates of financing costs include current commitments and the proposals in this budget report.

Commercial Activities/non-Financial Investments includes investments in property funds and the return on the Gungate Site purchase.

## b) Housing Revenue Account Debt Ratios

HRA Debt to Revenues Ratio	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA Debt £m	68.041	73.065	75.255	75.255	75.255
HRA Revenues £m	18.046	18.006	18.783	19.411	19.883
Ratio of Debt to Revenues %	377	406	401	388	378

HRA Debt per Dwelling	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA Debt £m	68.041	73.065	75.255	75.255	75.255
Number of HRA Dwellings	4,206	4,160	4,120	4,090	4,060
Debt per Dwelling £'000	16.177	17.564	18.266	18.400	18.536

## 4 Maturity Structure of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of Fixed Interest Rate borrowing 2020/21		
Timeline	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	25%
5 years to 10 years	0%	75%
10 years and above	0%	100%

Maturity structure of Variable Interest Rate borrowing 2020/21		
Timeline	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	25%
5 years to 10 years	0%	75%
10 years and above	0%	100%

## 5. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4

## ANNEX 2 Interest Rate Forecasts 2020 – 2023

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80
<b>Bank Rate</b>													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
<b>5yr PWLB Rate</b>													
Link Asset Services	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
<b>10yr PWLB Rate</b>													
Link Asset Services	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
<b>25yr PWLB Rate</b>													
Link Asset Services	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
<b>50yr PWLB Rate</b>													
Link Asset Services	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.80%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

## ANNEX 3 ECONOMIC BACKGROUND

**UK. Brexit.** 2019 was a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. The Conservative Government gained a large overall majority in the **general election** on 12 December; this ensured that the UK left the EU on 31 January. However, there will still be much uncertainty as the detail of a comprehensive trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open three possibilities; a partial agreement on many areas of agreement and then continuing negotiations to deal with the residual areas, the need for the target date to be put back, probably two years, or, a no deal Brexit in December 2020.

**GDP growth took** a big hit from both political and Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The forward-looking surveys in January have indicated that there could be a significant recovery of growth now that much uncertainty has gone. Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.

At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.

However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure. The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget. Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news.

The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations

with the EU failed to make satisfactory progress, this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead. It was therefore notable that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market**, growth in numbers employed has been quite resilient through 2019 until the three months to September, where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000 and then a stunning increase of 208,000 in the three months to November. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.4% in November (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

**Coronavirus.** The recent Coronavirus outbreak could cause disruption to the economies of affected nations. The Chinese economy is now very much bigger than it was at the time of the SARS outbreak in 2003 and far more integrated into world supply chains. However, a temporary dip in Chinese growth could lead to a catch up of lost production in following quarters with minimal net overall effect over a period of a year. However, no one knows quite how big an impact this virus will have around the world; hopefully, the efforts of the WHO and the Chinese authorities will ensure that the current level of infection does not multiply greatly.

**USA.** After growth of 2.9% y/y in 2018 fuelled by President Trump's massive easing of fiscal policy, growth has weakened in 2019. After a strong start in quarter 1 at 3.1%, (annualised rate), it fell to 2.0% in quarter 2 and then 2.1% in quarters 3 and 4. This left the rate for 2019 as a whole at 2.3%, a slowdown from 2018 but not the precursor of a recession which financial markets had been fearing earlier in the year. Forward indicators are currently indicating that growth is likely to strengthen somewhat moving forward into 2020.

**The Fed** finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment'. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. It left rates unchanged at its December meeting. Rates were again left unchanged at its end of January meeting although it had been thought that as the yield curve on Treasuries had been close to inverting again, (with 10 year yields nearly falling below 2 year yields - this is often viewed as being a potential indicator of impending recession), that the Fed could have

cut rates, especially in view of the threat posed by the coronavirus. However, it acknowledged that coronavirus was a threat of economic disruption but was not serious at the current time for the USA. In addition, the phase 1 trade deal with China is supportive of growth. The Fed though, does have an issue that despite reasonably strong growth rates, its inflation rate has stubbornly refused to rise to its preferred core inflation target of 2%; it came in at 1.6% in December. It is therefore unlikely to be raising rates in the near term. It is also committed to reviewing its approach to monetary policy by midyear 2020; this may include a move to inflation targeting becoming an average figure of 2% so as to allow more flexibility for inflation to under and over shoot.

**“The NEW NORMAL.”** The Fed chairman has given an overview of the current big picture of the economy by summing it up as **A NEW NORMAL OF LOW INTEREST RATES, LOW INFLATION AND PROBABLY LOWER GROWTH.** This is indeed an affliction that has mired Japan for the last two decades despite strenuous efforts to stimulate growth and inflation by copious amounts of fiscal stimulus and cutting rates to zero. China and the EU are currently facing the same difficulty to trying to get inflation and growth up. Our own MPC may well have growing concerns and one MPC member specifically warned on the potential for a low inflation trap in January.

It is also worth noting that no less than a quarter of total world sovereign debt is now yielding negative returns.

**EUROZONE. Growth** has been slowing from +1.8% during 2018 to nearly half of that in 2019. Growth was +0.4% q/q in quarter 1, +0.2% q/q in quarters 2 and 3; it then fell to +0.1% in quarter 4 for a total overall growth rate of only 1.0% in 2019. Recovery from quarter 4 is expected to be slow and gradual. German GDP growth has been struggling to stay in positive territory in 2019 and grew by only 0.6% in 2019, with quarter 4 potentially being a negative number. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

**The European Central Bank (ECB)** ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and in 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting, it said that it expected to leave interest rates at their present levels “at least through to the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they would have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments

would need to help stimulate growth by 'growth friendly' fiscal policy. There have been no changes in rates or monetary policy since October. In January, the ECB warned that the economic outlook was 'tilted to the downside' and repeated previous requests for governments to do more to stimulate growth by increasing national spending. The new President of the ECB, Christine Lagarde, who took over in December, also stated that a year long review of monetary policy, including the price stability target, would be conducted by the ECB.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The most recent results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

**CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

**JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

**WORLD GROWTH.** Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.**

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central

banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries.

## INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU**. On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

### The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).
- The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.



## Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Post Brexit trade negotiations** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments**. Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some \$19trn of corporate debt in major western economies**, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is \$15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

## Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if a comprehensive agreement on a trade deal was reached that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

## **ANNEX 4 TREASURY MANAGEMENT PRACTICE (TMP1) CREDIT AND COUNTERPARTY RISK MANAGEMENT**

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. A maximum of 25% will be held in aggregate in non-specified investments.

A variety of investment instruments will be used, subject to the credit quality of the institution, and, depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

<b>Counterparty</b>	<b>Minimum credit criteria / colour band</b>	<b>£ limit per institution</b>	<b>Max. maturity period</b>
DMADF – UK Government	Yellow	£10m	6 months (max is set by the DMO*)
UK Government gilts	Yellow	£10m	5 years
UK Government Treasury bills	Yellow	£10m	364 days (max is set by the DMO*)
Bonds issued by multilateral development banks	Yellow	£10m	5 years
Money Market Funds CNAV	AAA	£10m	Liquid
Money Market Funds LVNAV	AAA	£10m	Liquid
Money Market Funds VNAV	AAA	£10m	Liquid
Local authorities	Yellow	£10m	5 years
Term deposits with banks and building societies	Blue	£10m	12 months
	Orange		12 months
	Red		6 months
	Green		100 days

Counterparty	Minimum credit criteria / colour band	£ limit per institution	Max. maturity period
	No Colour		Not for use
CDs or corporate bonds with banks and building societies	Blue	£10m	12 months
	Orange		12 months
	Red		6 months
	Green		100 days
	No Colour		Not for use
Gilt funds	UK sovereign rating	£10m	
<b>Non-Specified Investments</b>			
Property Funds - the use of these instruments can be deemed as capital expenditure and as such will be an application (spending) of capital resources		£10m	Limit will be set based on level of reserves and balances going forward and appropriate due diligence will be undertaken before investment of this type
Wider Investment Funds - the use of these instruments can be deemed as capital expenditure and as such will be an application (spending) of capital resources		£10m	Limit will be set based on level of reserves and balances going forward and appropriate due diligence will be undertaken before investment of this type

\* DMO – is the Debt Management Office of HM Treasury

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

## ANNEX 5 APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AA- or higher (showing the lowest rating from Fitch, Moody's and S&P) and also (except - at the time of writing – for Hong Kong, Norway and Luxembourg) have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

### ***Based on lowest available rating***

#### AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

#### AA+

- Finland
- U.S.A.

#### AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.\*

#### AA-

- Belgium
- Qatar

(Per Link Asset Services 3/1/20)

\* At its meeting of the 15<sup>th</sup> September 2009, full Council approved a recommendation that;

***‘authorises the use of institutions currently supported by the UK Government should its Sovereign rating be downgraded below the current requirement for a ‘AAA’ rating by all three rating agencies’***

this approval continues to form part of the strategy in 2020/21.

## **ANNEX 6 TREASURY MANAGEMENT SCHEME OF DELEGATION**

### **(i) Full Council**

- receiving and reviewing reports on Treasury Management policies, practices and activities.
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, Treasury Management Policy statement and Treasury Management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

### **(ii) Cabinet**

- receiving and reviewing Treasury Management policy statement and Treasury Management practices and making recommendations to the full Council.
- receiving and reviewing regular monitoring reports and making recommendations to the full Council.
- approving the selection of external service providers and agreeing terms of appointment.

### **(iii) Audit and Governance Committee**

- reviewing the Treasury Management policy and procedures and making recommendations to the Cabinet.
- receiving and reviewing regular monitoring and making recommendations to the Cabinet.

## **ANNEX 7 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER**

### **The S151 (responsible) Officer is responsible for**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is sustainable, affordable and prudent in the long-term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following -
  - Risk management (TMP1), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5), including a statement of the governance requirements for decision making in relation to non-treasury

investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.



## **TREASURY MANAGEMENT PRACTICES**

The Treasury Management Practices document (TMPs) forms detailed operational procedures and processes for the Treasury Management function. This document can be found on the Council's Internet by following the following link;

<http://www.tamworth.gov.uk/treasury-practices>

and clicking on the TMPs folder.

The items below are summaries of the individual TMPs which the Council has to produce and adopt under the Treasury Code of Practice.

### **TMP1 : RISK MANAGEMENT**

#### **General Statement**

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of Treasury Management risk; will report at least annually on the adequacy / suitability of the arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives. The reports will be in accordance with the procedures contained in TMP6.

#### **1.1 Credit and Counterparty Risk Management**

*Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.*

This organisation regards a key objective of its Treasury Management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and detailed in the TMP Operational document.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

#### **1.2 Liquidity Risk Management**

*This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.*

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### **1.3 Interest Rate Risk Management**

*The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.*

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

### **1.4 Exchange Rate Risk Management**

*The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.*

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

### **1.5 Inflation Rate Risk Management**

*Inflation risk, also called purchasing power risk, is the chance that cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.*

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

### **1.6 Refinancing Risk Management**

*The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.*

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

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

### **1.7 Legal and Regulatory Risk Management**

*The risk that the organisation itself, or an organisation with which it is dealing in its Treasury Management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.*

The Council will ensure that all of its Treasury Management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

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

### **1.8 Fraud, Error and Corruption, and Contingency Management**

*The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its Treasury Management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.*

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

The Council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its Treasury Management activities so that there can be no possible confusion as to what proper procedures are.
- c) Ensure that staff will not be allowed to take up Treasury Management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.

Records will be maintained of all Treasury Management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

## **1.9 Price Risk Management**

*The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated Treasury Management policies and objectives are compromised, against which effects it has failed to protect itself adequately.*

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

### **TMP2 : PERFORMANCE MEASUREMENT**

The Council is committed to the pursuit of best value in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Treasury Management Policy Statement.

The Treasury Management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal, grant or subsidy incentives, and the scope for other potential improvements. The performance of the Treasury Management function will be measured using the criteria set out in the detailed TMP Operational document.

### **TMP3 : DECISION-MAKING AND ANALYSIS**

The Council will maintain full records of its Treasury Management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are set out in the detailed TMP Operational document.

### **TMP4 : APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

The Council will undertake its Treasury Management activities by employing only those instruments, methods and techniques set out in the detailed TMP Operational document and within the limits and parameters defined in TMP1.

### **TMP5 : ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

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

The principle on which this will be based is the clear distinction between those charged with setting Treasury Management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the

recording and administering of Treasury Management decisions and the audit and review of the Treasury Management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in Treasury Management, and the arrangements for absence cover. He will also ensure that at all times those engaged in Treasury Management will follow the policies and procedures set out. The present arrangements are set out in the detailed TMP Operational document.

The Section 151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are set out in the detailed TMP Operational document.

The delegations to the Section 151 Officer in respect of Treasury Management are set out in the detailed TMP Operational document. He will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

#### **TMP6 : REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

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

As a minimum Cabinet and Council will receive:

- An annual report on the planned strategy to be pursued in the coming year and the reporting of Prudential Indicators.
- A mid-year review
- An annual report on the performance of the Treasury Management function including the performance against the Prudential Indicators, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's Treasury Management policy statement and TMPs.

Cabinet will receive regular monitoring reports on Treasury Management activities and risks.

The Audit and Governance Committee will have responsibility for the scrutiny of Treasury Management policies and practices.

The Treasury Management indicators will be considered together with the Treasury Management indicators in the Prudential Code as part of the budget approval process.

The present arrangements and the form of these reports are set out in the detailed TMP Operational document.

### **TMP7 : BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The Section 151 Officer will prepare and Council will approve and, if necessary from time to time, will amend, an annual budget for Treasury Management, which will bring together all of the costs involved in running the Treasury Management function together with associated income. The matters to be included will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1, TMP2 and TMP4.

The Section 151 Officer will exercise effective controls over this budget and report upon and recommend any changes required in accordance with TMP6.

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

### **TMP8 : CASH AND CASH FLOW MANAGEMENT**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Section 151 Officer will ensure that these are adequate for the purpose of monitoring compliance with TMP1. The present arrangements for preparing cash flow projections, and their form, are set out in the detailed TMP Operational document.

### **TMP9 : MONEY LAUNDERING**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The Council will, therefore, maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that all staff involved are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are set out in the detailed TMP Operational document.

### **TMP10 : TRAINING AND QUALIFICATIONS**

The Council recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will seek to appoint individuals, who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer will ensure that Council members tasked with Treasury Management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

### **TMP11 : USE OF EXTERNAL SERVICE PROVIDERS**

The Council recognises that responsibility for the Treasury Management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of Treasury Management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. Terms of appointment will be properly agreed, documented and subject to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the detailed TMP Operational document.

### **TMP12 : CORPORATE GOVERNANCE**

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

The Council has adopted and implemented the key recommendations of the Code. This, together with the other arrangements are set out in the detailed TMP Operational document and are considered vital to the achievement of proper governance in Treasury Management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

### **TMP 13: MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS**

This Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all of its investments are covered in the capital strategy and/or investment strategy, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The Council maintains a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.

The following TMPs will apply with regard to non-treasury management investments:-

**TMP1 - Risk management** - including investment and risk management criteria for material non-treasury investment portfolios

**TMP2 - Performance measurement and management** - including methodology and criteria for assessing the performance and success of non-treasury investments

**TMP5 - Decision making and analysis** - including a statement of the governance requirements for decision-making in relation to non-treasury investments, and arrangements to ensure that appropriate professional due diligence is carried out to support decision making

**TMP6 - Reporting and management information** - including where and how often monitoring reports are taken

**TMP10 - Training and qualifications** - including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.



## ANNEX 9

### Treasury Management Glossary of Terms

Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Capital Financing Requirement	The Council's underlying need for borrowing for a capital purpose.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	A specific kind of counterparty agreement which allows the transfer of third party credit risk from one party to the other. One party in the swap is a lender and faces credit risk from a third party, and the counterparty in the credit default swap agrees to insure this risk in exchange for regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase from the insured party the defaulted asset. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal.
Credit Rating	This is a scoring system that lenders issue organisations with, to determine how credit worthy they are.
Gilts	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest for the period.
iTraxx	This is an index published by Markit who are a leading company in CDS pricing and valuation. The index is based on an equal weighting of the CDS spread of 25

	<p>European financial companies.</p> <p>Clients can use the iTraxx to see where an institution's CDS spread is relative to that of the market and judge its creditworthiness in that manner, as well as looking at the credit ratings.</p>
Liquidity	An asset is perfectly liquid if one can trade immediately, at a price not worse than the uninformed expected value, the quantity one desires.
Long term	A period of one year or more.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision	Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision.
Monetary Policy Committee (MPC)	Interest rates are set by the Bank's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met. Their primary target (as set by the Government) is to keep inflation at or around 2%.
Security	An investment instrument, issued by a corporation, government, or other organization which offers evidence of debt or equity.
Short Term	A period of 364 days or less
Supranational Bonds	A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the

	<p>European Investment Bank and the World Bank.</p> <p>Similarly to the government bonds, the bonds issued by these institutions are considered very safe and have a high credit rating.</p>
Treasury Management	<p>The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.</p>
Working Capital	<p>Cash and other liquid assets needed to finance the everyday running of a business such as the payment of salaries and purchases.</p>
Yield	<p>The annual rate of return on an investment, expressed as a percentage.</p>

## ANNEX 10

### PRUDENTIAL INDICATORS – DEFINITIONS / INTERPRETATION

CIPFA's Prudential Code for Capital Finance requires local authorities to prepare Prudential Indicators of their intended capital spending plans for the forthcoming and future years. The indicators are intended to help the decision making process within an authority and must be approved by the full Council before the beginning of the financial year. The indicators are neither comparative statistics nor performance indicators. Different Councils will have different figures reflecting their history and local circumstances.

1. **Estimate of total capital expenditure to be incurred** – This summarises the Council's current plans for the total capital expenditure over the next 3 years. Details of individual schemes are contained within the capital estimate pages.

2. **Estimates of Capital Financing Summary** – This details the capital financing sources for the next 3 years.

3. **Estimated Ratio of financing costs to net revenue stream** - This indicator has been calculated as debt interest, borrowing refinancing costs, minimum revenue provision, depreciation for HRA, net of investment income and divided by the General Fund (GF) budget requirement for the GF element of costs and the total of HRA income for the HRA costs. For GF Account, the indicator has been calculated gross of government support in the form of RSG for the proportion of capital expenditure funded from supported level of borrowing.

4. **Capital Financing Requirement** – This represents the Council's underlying need to borrow to finance historic capital expenditure and is derived by aggregating specified items from the Council's balance sheet. The actual **net borrowing** is lower than this because of the current strategy to use internal borrowing rather than replace maturing debt.

5. **Actual External Debt** – This is a key indicator and Section 3 of the Local Government Act 2003 requires the Council to ensure that gross external debt does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

6. **Authorised Borrowing Limit for external debt** - This indicator represents the maximum amount the Council may borrow at any point in time in the year and has to be set at a level the Council considers is **prudent**. It allows for uncertain cash flow movements and borrowing in advance for future requirements. The Council does not currently have any finance lease liabilities.

The recommended authorised limits for external debt are gross of investments and are consistent with the Council's current commitments, existing plans and the current treasury management policy and strategy. The authorised limit determined for 2018- 19 is the statutory limit determined under section 3(1) of the Local Government Act 2003.

7. **Operational Boundary for external debt** - The proposed operational boundary for external debt is calculated on the same estimates as the authorised limit but reflects estimates of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to

the maximum of external debt projected by this estimate. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified.

**8. Treasury Management** – these indicators form part of the treasury management strategy and policy statement approved by the Council each year before the beginning of the financial year. The main indicators are:

(a) The adoption of **CIPFA Code of Practice for Treasury Management**, which the Council adopted before the current Prudential System was introduced.

(b) **Interest Rate Exposure** - The approved Treasury Policy Statement and Strategy contains upper and lower limits for fixed and variable interest rate exposure for net outstanding principal sums.

(c) **Maturity Structure of Borrowing** – The approved treasury management strategy also sets out the maturity structure of the Council's borrowing to ensure the Council is not exposed to risks of having to refinance large level of debt at a time in future when interest rates may be volatile or uncertain.

(d) **Investments longer than 365 days** – The approved treasury management strategy includes a limit of £20m for investments maturing beyond 365 days.

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## COUNCIL

10<sup>TH</sup> DECEMBER 2019

## REPORT OF THE PORTFOLIO HOLDER FOR ASSETS AND FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT  
STRATEGY MID-YEAR REVIEW REPORT 2019/20**EXEMPT INFORMATION**

None

**PURPOSE**

To present to Members the Mid-year Review of the Treasury Management Strategy Statement and Annual Investment Strategy.

**RECOMMENDATIONS**

**That Council be requested to approve the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2019/20.**

**EXECUTIVE SUMMARY**

This mid-year report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2017), and covers the following:-

- An economic update for the first six months of 2019/20;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital expenditure as set out in the Capital Strategy, and Prudential Indicators;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken during 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

The main issues for Members to note are:

1. The Council has complied with the professional codes, statutes and guidance.
2. There are no issues to report regarding non-compliance with the approved prudential indicators.

3. The investment portfolio yield for the first six months of the year is 1.02% (0.77% for the same period in 2018/19) compared to the 3 Month LIBID benchmark rate of 0.66% (0.61% for the same period in 2018/19).

The aim of this report is to inform Members of the treasury and investment management issues to enable all Members to have ownership and understanding when making decisions on Treasury Management matters. In order to facilitate this, training on Treasury Management issues was most recently delivered for Members in November 2019 and will be provided as and when required.

## **RESOURCE IMPLICATIONS**

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

## **LEGAL/RISK IMPLICATIONS BACKGROUND**

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

## **SUSTAINABILITY IMPLICATIONS**

None

## **BACKGROUND INFORMATION**

In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following:-

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

A report setting out our updated Capital Strategy will be included with the Budget and Medium Term Financial Strategy report presented to Cabinet and Council in February 2020.

The CIPFA Code of Practice on Treasury Management (revised 2017) suggests that Members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This is the second monitoring report for 2019/20 presented to Members this year and therefore ensures the Council is embracing best practice. Cabinet also receives regular monitoring reports as part of the quarterly healthcheck on Treasury Management activities and risks.



The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, Treasury Management is defined as:

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

## **Introduction**

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2017) was adopted by this Council on 27<sup>th</sup> February 2018.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2019/20 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital expenditure as set out in the Capital Strategy, and Prudential Indicators;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken during 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

## 1. Economic Update

### 1.1 UK

This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there was no deal by 31 October. MPs also voted down holding a general election before 31 October, though one has since been arranged for December 12<sup>th</sup>. At the time of writing the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies.

It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

With regard to the **labour market**, despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, the general election could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

## **1.2 USA.**

President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

## **1.3 EUROZONE**

Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy.

On the political front, Austria, Spain and Italy are in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The recent results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

#### **1.4 CHINA**

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transshipping exports through other countries, rather than directly to the US.

#### **1.5 JAPAN**

Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

#### **1.6 WORLD GROWTH**

The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

**1.7 Interest rate forecasts**

The Council’s treasury advisor, Link Asset Services, has provided the following forecast. This forecast includes the increase in margin over gilt yields of 100bps introduced on 9.10.19.

Link Asset Services Interest Rate View										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That’s shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a “gradual pace and to a limited extent” is now also conditional on “some recovery in global growth”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

**Bond yields / PWLB rates.** There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

What we saw during the last half year up to 30 September is a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to do with any degree of confidence.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

### **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

**Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.



- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

## 2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Council on 26th February 2019.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

## 3. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

### 3.1 Prudential Indicator for Capital Expenditure

This table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2019/20 Original Programme	Budget B'fwd from 2018/19	Virements in Year	Total 2019/20 Budget	Actual Spend @ Period 6	Predicted Outturn	2019/20 Revised Estimate*
	£m	£m	£m	£m	£m	£m	£m
General Fund	0.983	17.929	-	18.912	3.155	8.494	18.315
HRA	8.927	22.354	-	31.281	9.000	27.413	29.883
<b>Total</b>	<b>9.910</b>	<b>40.283</b>	<b>-</b>	<b>50.193</b>	<b>12.156</b>	<b>35.908</b>	<b>48.198</b>

\* Includes potential expenditure slippage into 2020/21 of £12.29m relating mainly to Gungate development, Gateways projects, Amington Woodland & Cycleway, Property Fund investments and Solway LATC, High Rise lifts and Tinkers Green and Kerria redevelopment.

### 3.2 Changes to the Financing of the Capital Programme

The following table draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. Any borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2019/20	2019/20	2019/20
	Capital Programme	Predicted Outturn	Budget *
	£m	£m	£m
Unsupported	0.295	6.278	8.668
Supported	9.615	29.630	41.525
<b>Total spend</b>	<b>9.910</b>	<b>35.908</b>	<b>50.193</b>
Financed by:			
Grants - Disabled Facilities	0.400	0.400	0.400
Coalfields Grant	-	-	0.222
Section 106's	0.100	0.437	1.032
GF Receipts	-	4.624	13.359
GF Reserve	-	0.614	1.055
Sale of Council House Receipts	0.188	0.487	0.601
HRA Receipts	2.150	3.368	3.368
HLF Assembly Rooms Lottery	-	0.128	0.128
Grants - Assembly Rooms (SLGF/Arts Council)	-	0.081	0.081
Public Contributions (Assembly Rooms)	-	-	0.050
HLF/Donation - Castle Mercian Trail	-	0.470	0.531
Other Contributions	-	-	-
MRR	2.805	5.315	5.463
HRA 1-4-1 Replacements Receipts	0.650	0.784	1.034
HRA Reserve	2.422	9.556	10.286
HRA Regeneration Fund	0.900	3.366	3.916
<b>Total Financing</b>	<b>9.615</b>	<b>29.630</b>	<b>41.525</b>
<b>Borrowing need</b>	<b>0.295</b>	<b>6.278</b>	<b>8.668</b>

\* includes potential expenditure slippage into 2020/21

However, it should be noted that due to receipt of Homes England grant of c.£5m, it is likely that the planned borrowing for the Regeneration of Tinkers Green and Kerria will be reduced to c.£2m.

### 3.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The following table shows the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

#### Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

#### Prudential Indicator – the Operational Boundary for External Debt

	2018/19	2019/20	2019/20	2019/20
	Outturn	Capital Programme	Projected Outturn	Budget
	£m	£m	£m	£m
CFR – Non Housing	0.828	2.235	1.959	2.159
CFR – Housing	68.041	75.255	73.065	75.255
Total CFR	68.869	77.490	75.024	77.414
<b>Net movement in CFR</b>	<b>(0.057)</b>	<b>8.412</b>	<b>6.155</b>	<b>8.545</b>
Operational Boundary				
Expected Borrowing	63.060	63.060	63.060	63.060
Other long term liabilities	-	-	-	-
<b>Total debt 31st March</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>	<b>63.060</b>

### 3.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2018/19	2019/20	2019/20	2019/20
	Outturn	Original Estimate	Projected Outturn	Budget
	£m	£m	£m	£m
Gross borrowing	63.060	63.060	63.060	63.060
Less investments	68.761	26.369	43.805	41.415
Net borrowing	(5.701)	36.691	19.255	21.645
CFR (year end position)	68.869	77.490	75.024	77.414

The Executive Director Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

<b>Authorised Limit for External Debt</b>	<b>2019/20 Original Indicator</b>	<b>Current Position</b>	<b>2019/20 Revised Indicator</b>
Borrowing	84.642	84.642	84.642
Total	84.642	84.642	84.642

#### **4. Investment Portfolio 2019/20**

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in Section 1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £66.634m of investments as at 30<sup>th</sup> September 2019, excluding investments in property funds (£64.94m at 31<sup>st</sup> March 2019) and the investment portfolio yield for the first six months of the year is 1.02% against a benchmark of the 3 months LIBID of 0.66%. A full list of investments held as at 30<sup>th</sup> September 2019 is detailed in **APPENDIX 1**.

The Executive Director Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.

The Council's budgeted investment return for 2019/20 is £418k, and performance for the year is projected to be £250k above budget, due to additional funds available to invest (due to increased capital slippage). However, a shortfall of £91k in respect of property fund interest and dividends is forecast, due to a delay in making any further investments in property funds due to the uncertainty around the Brexit and the current economic situation. The value of property fund investments as at 30<sup>th</sup> September 2019 was £3.78m (£3.82m at 31<sup>st</sup> March 2019).

## CIPFA Benchmarking Club

The Council is a member of the CIPFA Treasury Management Benchmarking Club which is a means to assess our performance over the year against other members. Our average return for In House Investments for the period April to September 2019 was 1.0% compared to the group average of 1.02% (information from CIPFA Benchmarking Report Quarter 2 2019/20). This is considered to be a reasonable result in light of the current financial climate, our lower levels of deposits/funds and shorter investment time-lines due to Banking sector uncertainty, when compared to other Authorities.

This can be analysed further into the following categories:

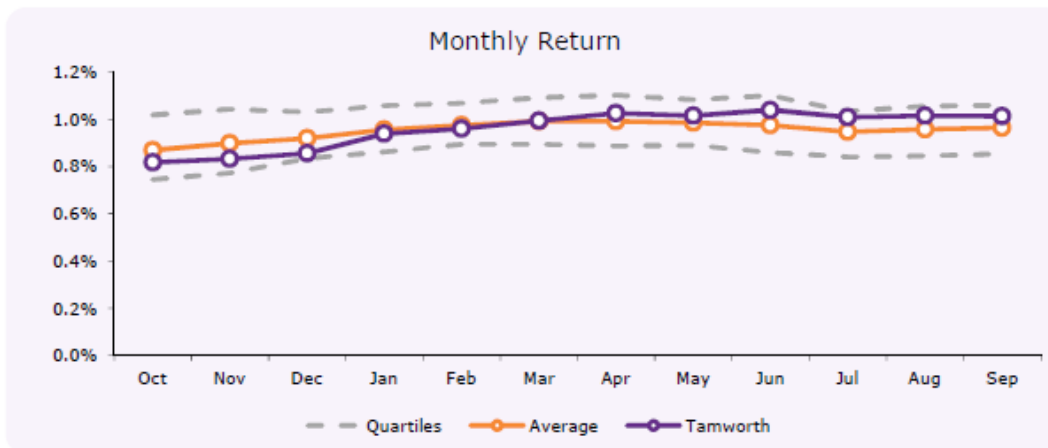
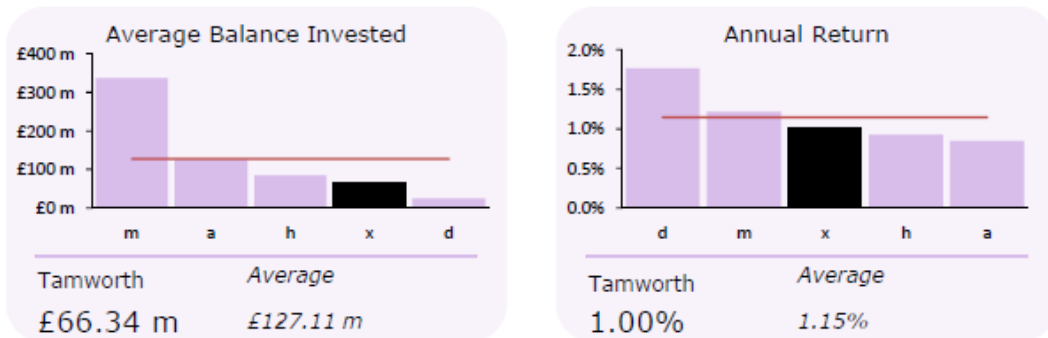
Category	Average Balance Invested		Average Annual Return Received	
	£m		%	
	Tamworth Borough Council	CIPFA Benchmarking Club	Tamworth Borough Council	CIPFA Benchmarking Club
Fixed Investments (up to 30 days)	-	0.1	-	0.8
Fixed Investments (between 31 and 90 days)	-	2.2	-	0.8
Fixed Investments (between 91 and 364 days)	20.1	35.3	1.1	1.4
Fixed Investments (between 1 year and 3 years)	6.6	45.8	1.0	1.0
Fixed Investments (over 3 years)	-	8.0	-	1.8
Callable and Structured Deposits	-	28.7	-	1.3
Notice Accounts	20.0	11.2	1.0	1.3
Money Market Funds (Constant Net Asset Value)	11.6	23.7	0.7	0.9
Money Market Funds (Variable Net Asset Value)	-	18.0	-	0.5
DMADF	-	0.6	-	0.5
CDs, Gilts and Bonds	7.9	7.2	1.2	2.9
<b>Average of all investments (Managed in House)</b>	<b>66.3</b>	<b>127.1</b>	<b>1.0</b>	<b>1.2</b>

\* Excludes property funds / Variable rate MMF

The data above and graphs below display that despite the Council being a small investor in the markets, in the main performance is only marginally lower in those areas where both the Council and other member authorities invest.

The main variances arise from longer term fixed investments (in excess of 1 year) and instruments that the council do not currently get involved with i.e. Callable and Structured Deposits which are longer term deposits which (in line with our use of the Link Asset Services methodology and our approved specified limits in our Treasury Management strategy) are currently prohibited for Tamworth Borough Council and affirms our 'low appetite for risk' in the continuing unsettled markets.

### Combined Investments (excl. impaired investments)



Monthly Return (Oct 18 - Sept 19)													
	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Year
Balance £'m	70.4	69.8	71.7	73.4	71.2	67.5	67.4	66.9	67.0	68.2	68.9	70.3	<b>66.3</b>
Interest £'k	48.8	47.8	52.1	58.4	52.3	57.0	56.8	57.6	57.2	58.4	59.3	58.5	<b>664.1</b>
Return	0.82%	0.83%	0.86%	0.94%	0.96%	0.99%	1.02%	1.01%	1.04%	1.01%	1.01%	1.01%	<b>1.00%</b>
Upper Quartile	1.02%	1.04%	1.03%	1.06%	1.07%	1.09%	1.10%	1.08%	1.10%	1.03%	1.05%	1.06%	<b>1.49%</b>
Average	0.87%	0.90%	0.92%	0.95%	0.97%	0.99%	0.99%	0.98%	0.97%	0.95%	0.96%	0.96%	<b>1.15%</b>
Lower Quartile	0.74%	0.77%	0.83%	0.86%	0.89%	0.89%	0.89%	0.89%	0.86%	0.84%	0.84%	0.85%	<b>0.88%</b>
% Diff from Avg	-0.05%	-0.06%	-0.06%	-0.02%	-0.02%	0.00%	0.03%	0.03%	0.06%	0.06%	0.06%	0.05%	<b>-0.15%</b>

### **Investment Counterparty Criteria**

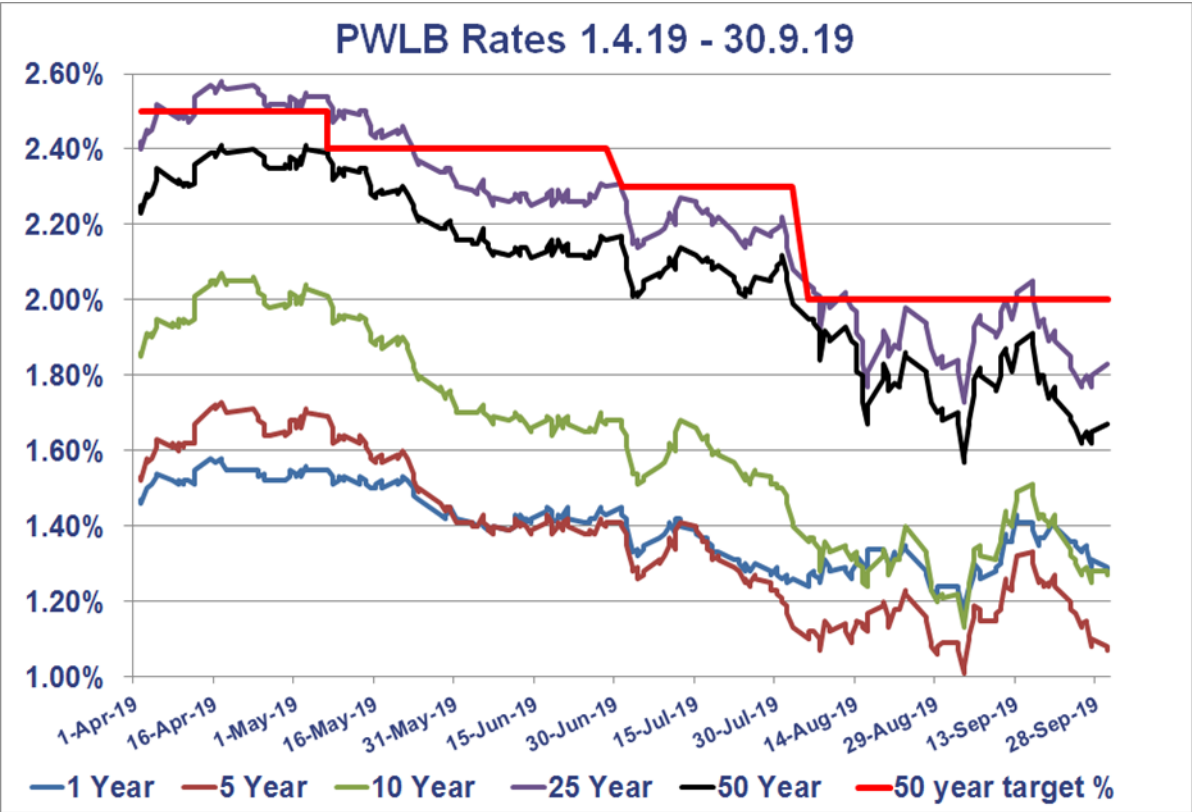
The current investment counterparty criteria selection approved in the TMSS and as approved by Council on 26th February 2019 meets the requirements of the Treasury Management function.

### **5. Borrowing**

The Council's estimated revised capital financing requirement (CFR) for 2019/20 is £75.024m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 3.4 shows the Council has borrowings of £63.060m and plans to utilise £11.964m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

It is not anticipated that any additional borrowing will be undertaken during 2019/20.

The table and graph below show the movement in PWLB Certainty Rates for the first six months of the year to date. PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.5% to 2% during this period.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

**Increase in the cost of borrowing from the PWLB**

On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the current margin of 80 bps which this authority has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.

Whereas this authority has previously relied on the PWLB as its main source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.



It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. This Authority may make use of this new source of borrowing as and when appropriate.

## 6. Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

The 100bps increase in PWLB rates from 9.10.19 only applied to new borrowing rates, not to premature repayment rates.

## 7. Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There are no such changes to report to Members at this stage.

## REPORT AUTHOR

Please contact Stefan Garner, Executive Director Finance, extension 242, or Jo Goodfellow, Head of Finance, extension 241.

## LIST OF BACKGROUND PAPERS

<i>Background Papers -</i>	<i>Local Government Act 2003</i>
	<i>CIPFA Code of Practice on Treasury Management in Public Services 2017</i>
	<i>Annual Report on the Treasury Management Service and Actual Prudential Indicators 2018/19 – Council 10<sup>th</sup> September 2019</i>
	<i>Treasury Management Strategy &amp; Prudential Indicators Report 2019/20 - Council 26th February 2019</i>
	<i>Budget &amp; Medium Term Financial Strategy 2019/20 - Council 26th February 2019</i>
	<i>Financial Healthcheck Period 6, September 2019</i>
	<i>CIPFA Treasury Management Benchmarking Club Report Quarter 2, September 2019</i>

**APPENDIX 1**

**Investments held as at 30<sup>th</sup> September 2019:**

Borrower	Deposit £	Rate %	From	To	Notice
National Westminster Bank plc	4,001,183	1.1300%	27-Nov-18	26-Nov-19	-
Lloyds Bank	1,000,000	1.1000%	30-Nov-18	29-Nov-19	-
Lloyds Bank	1,000,000	1.1000%	30-Nov-18	29-Nov-19	-
Bank of Scotland	2,000,000	1.1000%	03-Jan-19	03-Jan-20	-
Bank of Scotland	2,000,000	1.1000%	04-Jan-19	03-Jan-20	-
Lloyds Bank	1,000,000	1.1000%	08-Feb-19	07-Feb-20	-
Bank of Scotland	2,000,000	1.1000%	11-Feb-19	10-Feb-20	-
Thurrock Council	7,000,000	1.1200%	13-Mar-19	13-Feb-20	-
Lloyds Bank	2,000,000	1.2500%	03-Apr-19	03-Apr-20	-
Lloyds Bank	2,000,000	1.2500%	03-Apr-19	03-Apr-20	-
Barclays Bank	2,000,000	0.8400%	05-Apr-19	07-Oct-19	-
Thurrock Council	3,000,000	0.9000%	10-Apr-19	10-Oct-19	-
National Westminster Bank plc	2,000,791	0.9200%	28-Jun-19	26-Jun-20	-
National Westminster Bank plc	4,001,583	0.8300%	05-Jul-19	26-Jun-20	-
Goldman Sachs	10,000,000	1.17%	-	-	180 day
Santander	10,000,000	1.00%	-	-	180 day
MMF – PSDF	2,187,000	0.73%*	-	-	On call
MMF – Federated	3,000,000	0.96%*	-	-	On call
MMF – Federated	3,446,504	0.73%*	-	-	On call
<b>Total</b>	<b>63.634</b>	<b>1.02 (avg)</b>			

\* Interest rate fluctuates daily dependant on the funds investment portfolio, rate quoted is approximate 7 day average.

## AUDIT & GOVERNANCE COMMITTEE

26<sup>th</sup> March 2020

### Report of the Assistant Director Finance

#### FINAL ACCOUNTS 2019/20 – ACCOUNTING POLICIES AND ACTION PLAN

##### Purpose

To advise Members of the proposed Accounting Policies for 2019/20.

To provide an outline of the corporate requirements that will need to be achieved in order to produce the Council's Annual Statement of Accounts for 2019/20 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

##### Recommendations

That:

1. **the proposed Accounting Policies for 2019/20, attached as Appendix A are approved;**
2. **the target of 22<sup>nd</sup> May 2020 for closure of the final accounts and production of the statement for 2019/20 be approved;**
3. **staffing resources be committed to the provision of appropriate information and support in order to meet the published timescales and the Committee receive progress updates (if required);**
4. **CMT receive a fortnightly update until completion of the audit; and**
5. **the Statement be presented to the Audit & Governance Committee on 29<sup>th</sup> July 2020.**

##### Executive Summary

Local authority financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used.

As part of its statement of accounts, the Council needs to disclose the accounting policies it has applied to all material balances and transactions. There is little discretion to the Council as the proper accounting practices, that all local authorities follow, are set down in the Code.

The proposed accounting policies are presented at **Appendix A**. The policies are reviewed annually to identify any which should be removed as they are no longer relevant or have no material effect for the Statement of Accounts.

Apart from changes to the dates, these have not significantly changed from the 2018/19 policies. These do not depart from the provisions of the 2019/20 Code.

These policies have been presented at the June meeting in previous years within the Draft Accounts.

The Accounts and Audit Regulations 2015, requires that the 2019/20 Statement of Accounts be produced by 31<sup>st</sup> May 2020, and for them to be audited and approved before 31<sup>st</sup> July 2020.

The annual plans for the production of the statutory accounts for recent years has been reviewed so that the draft accounts have been produced before the deadline of 31<sup>st</sup> May each year. The 2018/19 Statement of Accounts were prepared by 24<sup>th</sup> May 2019, with the final audited accounts approved by the Audit and Governance Committee on 25<sup>th</sup> July 2019.

The key issues affecting the achievement of these deadlines are detailed in **Appendix B**. The action plan identifies key processes and milestones in achieving the statutory requirement.

The way the Council prepares and reports its accounts (including professional reporting standards and statutory timetables) is a key element within the Council's External Auditors, (Grant Thornton - GT) assessment of the Council's performance within the Annual Audit Letter.

The action plan is a key element in the process to deliver the Council's final accounts in compliance with legislation and maintain a high quality standard.

Key milestone dates will be regularly reviewed / monitored to achieve deadlines with material variances reported to CMT and Members (with proposed remedial actions). It is proposed that CMT receive an update, by exception, every 2 weeks until completion of the audit.

The information provided (detailed in **Appendix C**), although not comprehensive, highlights information that will need to be supplied in order to meet the deadline.

Key milestones – Provisional Dates:

- Completion of the draft accounts by 22<sup>nd</sup> May 2020;
- Detailed management quality assurance review by 31<sup>st</sup> May 2020;
- Submission to Grant Thornton (and to Members) on or before 31<sup>st</sup> May 2020;
- Report to Audit & Governance Committee on 29<sup>th</sup> July 2020;
- Latest publish date 31<sup>st</sup> July 2020;

Consideration and approval of this report is a key control and evidence of the Council's plans for the closedown and production of its accounts in compliance with statutory requirements.

## Legal and Risk Implications

There is a risk that if the Council is not sufficiently pro-active, the Council's Statement of Accounts may not remain compliant with both the Code of Practice on Local Authority Accounts and International Financial Reporting Standards (IFRS) which would result in a potential delay or criticism over the production of the Accounts and potentially a qualified audit opinion.

The following top level risks have been identified. The full details are contained within the Pentana risk register.

<b>Risk No</b>	<b>Description of Risk</b>	<b>Likelihood Impact</b>	<b>Action Required to Manage Risk</b>
<b>1</b>	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	<b>M H</b>	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
<b>2</b>	Incorrect interpretation of changes in either the Code of Practice or IFRS	<b>M H</b>	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.
<b>3</b>	Guidance by CIPFA changing possibly causing delays	<b>M H</b>	Regular review and rescheduling of project timetable
<b>4</b>	Delay in receiving information from external parties / contractors	<b>M H</b>	Ensure regular contact with all concerned and continually monitor completeness of the information provided
<b>5</b>	Inadequate training	<b>L M</b>	Research available training, ensure all relevant staff attend, training budget to be adequate
<b>6</b>	Failure to identify all leases	<b>L M</b>	Ensure staff understand exactly what is involved / process to outline the requirements
<b>7</b>	Key staff leaving	<b>L M</b>	Ensure there are sufficient skills within the team to cover
<b>8</b>	Insufficient Resources from External Auditors Grant Thornton	<b>M H</b>	Continued liaison with Grant Thornton to ensure they adequately allocate resources to the audit to meet timescales outlined above
<b>9</b>	Incorrect/inaccurate assumptions made re Pensions	<b>M H</b>	SCC agreed to review possibility of refreshing data at 31/03/20 and report to next Staffordshire Accountants meeting on 05/03/20.

## Resource and Value for Money Implications

There are no financial implications arising from this report.

A significant amount of work will need to be undertaken during the period February through to 22<sup>nd</sup> May 2020 to ensure completion of the Financial Statements by 31<sup>st</sup> May. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadline / key milestones will be closely monitored.

### **Report Author**

Please contact Lynne Pugh, Assistant Director Finance extension 272.

<b>Background papers</b>	Accounts and Audit Regulations 2015
	Code of Practice on Local Authority Accounting in the United Kingdom (2019/20) based on IFRS

## NOTES TO THE ACCOUNTS

### Accounting Policies

#### BASIS FOR PREPARATION

The notes relating to specific financial statement lines include the corresponding accounting policy. As a result, there is not an overall principal accounting policies note. However, the general accounting policies where there are not any accompanying notes are detailed within this note.

#### i. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year end of 31<sup>st</sup> March 2020. The Accounts and Audit Regulations (England) 2015 require the Authority to prepare an Annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of Non Current Assets and Financial Instruments.

#### ii. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received, other than prepayments which are accounted for on a cash basis. In particular:

- a) Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- b) Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as Inventories on the Balance Sheet;
- c) Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- d) Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;

- e) Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Authority's policy is to review all accruals over £1k together with payments over £5k made in February, March and April to ensure that they are appropriate. Any accruals below this amount are not considered to be material.

### **iii. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **iv. CHARGES TO REVENUE FOR NON CURRENT ASSETS**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- a) depreciation attributable to the assets used by the relevant service;
- b) revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- c) amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.



## **v. COUNCIL TAX AND NON-DOMESTIC RATES (ENGLAND)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### **Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

## **vi. FOREIGN CURRENCY TRANSLATION**

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31<sup>st</sup> March 2020. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **vii. INTANGIBLE ASSETS**

Expenditure on non monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the Intangible Asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the

asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **viii. JOINT OPERATIONS**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to any interest in a joint operation, the Authority as a joint operator would recognise:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
  - its share of the revenue from the sale of the output by the joint operation;
  - its expenses, including its share of any expenses incurred jointly.

The Authority has a Joint Waste Management arrangement with Lichfield District Council which does not fulfil the definition of a joint operation – detailed at Note **Error! Reference source not found.f**.

#### **ix. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **x. FAIR VALUE MEASUREMENT**

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Authority uses internal and external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Authority's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

## **xi. INTERESTS IN COMPANIES AND OTHER ENTITIES**

The authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

## **xii. INVENTORIES AND LONG-TERM CONTRACTS**

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the [FIFO/weighted average] costing formula.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

### **Within notes to the Accounts:**

#### **Events after the Reporting Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period (31<sup>st</sup> March 2020) and the date when the Statement of Accounts is authorised for issue (29<sup>th</sup> July 2020). Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- b) those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

#### **Transfers to / (from) Earmarked Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund or Housing Revenue Account balance.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund or Housing Revenue Account balance so that there is no net charge against Council Tax or housing rent for the expenditure.

Certain reserves are kept to manage the accounting processes for Non Current Assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

## **Property, Plant & Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **a) Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, subject to a de minimus level of £10k, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### **b) Measurement**

Assets are initially measured at cost, comprising:

- i. the purchase price;
- ii. any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- iii. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are then carried in the Balance Sheet using the following measurement bases:

- i. Infrastructure, Community Assets and Assets Under Construction – depreciated historical cost;
- ii. Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH); and
- iii. all other assets – current value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).

Where there is no market-based evidence of current value because of the specialised nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of current value. Where non property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value. In the case of the Assembly Rooms and Cemeteries valuations, there is no active market and so DRC is used.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years – including an annual desktop review of all Council Dwellings. A review of the valuation of all significant assets is undertaken annually.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- i. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains);
- ii. where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **c) Impairment**

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where the Authority has incurred capital expenditure on Council dwellings this is included within the Gross Book Value (GBV) and where it is not considered to add value it is included as impairment. These impairments are subject to write out annually.

The Authority has an ongoing programme of regeneration including disposal and redevelopment of garage sites and the redevelopment of housing at Tinkers Green and Kerria Centre. Where the decision had been made to dispose of a garage site, the value of the buildings element has been impaired to zero leaving only a residual land value. Similarly, the value of the dwellings in the housing redevelopment areas that are no longer available to let have been impaired to zero leaving only a residual land value.

Where impairment losses are identified, they are accounted for by:

- i. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains);
- ii. where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the

relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

#### **d) Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. Assets Under Construction).

Depreciation is calculated on the following bases:

- i. Council Housing Stock:** on a straight line basis to an appropriate residual value over the expected useful life of the asset of 50 years.
- ii. Other Land and Buildings:** on a straight line basis to a nil residual value over the expected useful life of the asset being a range of 5 years to 70 years.  
  
Historical properties: on a straight line basis to a nil residual value over the expected useful life of the asset being over 100 years
- iii. Vehicles, Plant and Equipment:** on a straight line basis to a nil residual value over the expected useful life of the asset, being between 1 and 20 years.
- iv. Infrastructure:** on a straight line basis to a nil residual value over the expected useful life of the asset of 30 years.
- v. Community Assets:** on a straight line basis to a nil residual value over the expected useful life of the asset of 100 years.
- vi. Heritage Assets:** the Authority considers that the Heritage Assets held will have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation for the assets.
- vii. Computer Hardware:** is depreciated over a period of 3 years on a straight line basis to a nil residual value.
- viii. Investment Properties and Surplus Assets:** no depreciation has been applied to either the land or building value of Investment Properties or Surplus Assets.
- ix. Intangible Fixed Assets:** computer software licences are amortised to revenue over a period of 3 years.
- x. Furniture and equipment** – minor purchases by the Authority are charged to revenue in the year of acquisition and are not capitalised in the accounts.

- xi. De minimus items** of expenditure on computer equipment and software are capitalised under the concept of 'Grouped Assets' where the value of such items is material. A charge is made for these assets (depreciation for equipment and amortisation for software), calculated using the straight line method over a period of three years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately – as detailed within the Component Accounting Policy for Property, Plant and Equipment.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **e) Disposals and Non Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the (Surplus) or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to Non Current Assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the authority's underlying need to borrow (the capital financing requirement) (England and Wales)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.



The written-off value of disposals is not a charge against council tax, as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **f) Component Accounting Policy for Property, Plant and Equipment**

### **i. De Minimus Level**

The de minimus threshold for the Authority is a current net book value of £250k. Individual assets with a value less than £250k will be disregarded for componentisation. This level will be reviewed annually.

### **ii. Policy for Componentisation**

The code requires that each part of an asset should be separately identified and depreciated where the cost is significant in relation to the overall cost of the asset.

To be separately identified as a component, an element of an asset must meet the following criteria:

- have a cost of at least 20% of the cost of the overall asset and
- have a materially different useful life (at least 20% different) and/or
- have a different depreciation method that materially affects the amount charged

The componentisation policy will be applied to new capital spend and new assets with a total cost of over £250k will be considered under the componentisation policy as follows:

- when an asset is enhanced, the cost of the replacement component is compared with the cost of the total asset and the result is measured against the agreed de minimus threshold;
- When an asset is acquired: the cost of any component parts are compared with the overall cost of the new asset and the results assessed against the agreed de minimus threshold;

### **iii. Valuation**

The 5 year valuation cycle remains and therefore componentisation needs to be considered for each asset in the portfolio.

In addition in each financial year, a list of assets that have had capital expenditure incurred will be passed to the finance team and/or valuers who can consider componentisation for any properties not already reviewed.

#### iv. Impairment

We will continue to complete a desktop Impairment review on an annual basis.

#### Heritage Assets

Heritage Assets are assets that are held by the Authority because of their cultural, environmental or historical value. Tangible Heritage Assets include historical buildings, paintings, sculptures / statues, archives and other works of art.

The Authority's Museum, Art and Civic Heritage Assets are held in various sites. The Museum Collection has four main collections, General Collection, Art, Furniture and Archaeological Collection and Ephemera.

The collections are used for education, learning, research, enjoyment and are preserved for the use of future generations.

#### Valuation of Heritage Assets

The Code requires that Heritage Assets are measured at valuation in the 2019/20 financial statements (including the 2018/19 comparative information). The Authority will recognise in the Balance Sheet each asset shown in the table which has an identified value.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.

The accounting policies in relation to Heritage Assets that are deemed to include elements of intangible Heritage Assets are also presented below.

- **General Collection:** Tamworth Castle has held collections and maintained a museum since it was purchased for the Borough in 1897. The collections are crucial for maximising access to and understanding of Tamworth's heritage. These items are reported in the Balance Sheet at insurance valuation which is based on Market values. Acquisitions, although rare, are initially recognised at cost.
- **Art Collection:** The collection consists principally of views of Tamworth by local artists although some are nationally recognised. The mediums covered include oil, watercolour, lithographs, mezzotints and prints. These too are reported in the Balance Sheet at insurance valuation based on Market values.
- **Archaeological Collection and Ephemera:** The archaeological collection consists mainly of finds from various excavations local to Tamworth, usually as a result of building development around Tamworth Castle site but also in the town and further afield. These are not recognised on the Balance Sheet as cost or valuation information is not reliable for items of this type due to the diverse nature, and lack of comparable market values for the assets held.

- **Civic Collection and Statues:** The Authority's Civic Collection and Statues were valued in April 2012 by external valuers. These assets are deemed to have an indeterminate life with high residual values; hence the Authority does not consider it appropriate to charge depreciation.
- **Tamworth Castle:** The castle dates from c1070 but has been updated and modernised during the interim period. The current value is based on historic cost but there are regular works to maintain the property.

## **Investment Properties**

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods.

Investment Properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

## **Financial Instruments**

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and

Expenditure Statement is the amount payable for the year according to the loan agreement.

## **Financial Assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI).

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

### **Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### **Expected Credit Loss Model**

The Authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

## **Financial Assets Measured at Fair Value through Profit of Loss (FVPL)**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **Cash & Cash Equivalents**

Cash is represented by Cash in Hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, Cash and Cash Equivalents are shown net of Bank Overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

## **Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating

Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the (Surplus) or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to Non Current Assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

## **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Authority has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

## **Acquisitions & Discontinued Operations**

The results of discontinued operations are shown as a single amount on the face of the Comprehensive Income and Expenditure Statement comprising the profit or loss of discontinued operations and the gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a unit that has been disposed of, or is classified as an Asset Held for Sale.

## **Officers' Remuneration**

### **Benefits Payable During Employment**

Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. Healthshield cover) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **Community Infrastructure Levy**

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this Authority may be used to fund revenue expenditure.

## **Capital Expenditure & Financing**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a Non Current Asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund or Housing Revenue Account to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax or housing rent.

## **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **a) Authority as Lessee**

#### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased Property, Plant and Equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).



## **b) Authority as Lessor**

### **i. Finance Leases**

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal.

At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (Long Term Debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **ii. Operating Leases**

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs

incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund or Housing Revenue Account to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### **Defined Benefit Pension Schemes**

The pension costs included in these accounts have been determined in accordance with government regulations and IAS 19. The standard requires the full recognition of the pensions liability (and the movement of its constituent parts) in the Comprehensive Income and Expenditure Statement. These requirements are included within the accounts in accordance with CIPFA recommended practice.

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 2013:

- i. The liabilities of the Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit credit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- ii. Liabilities are discounted to their value at current prices, using a discount rate of 2.7%.

This is based on an approach whereby a Corporate Bond yield curve is constructed based on the constituents of the iBoxx AA Corporate Bond Index.

Separate discount rates are then set (and corresponding RPI/CPI inflation assumptions) for individual employers, dependent on their own weighted average duration.

- iii. The assets of Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price;
  - property – market value.
- iv. The change in the net pensions liability is analysed into the following components:

#### **Service Cost Comprising:**

- **Current Service Cost:** The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- **Past Service Cost:** The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- **Net Interest Cost:**  
net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

#### **Remeasurements comprising:**

- **Expected Return on Plan Assets:** excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

**Actuarial Gains and Losses:** changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

- **Contributions paid to the Staffordshire Local Government Pension Fund:** Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund and the Housing Revenue Account to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### **a) Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Staffordshire County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

#### **b) Transactions Relating to Post-employment Benefits**

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund (and

HRA) via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

### **Contingent Liabilities**

A Contingent Liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent Liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent Liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### Key Issues in the Production of the Statement of Accounts

One of the main ways a Local Authority communicates its financial performance to local stakeholders and the wider community is through its published financial statements.

Between completion of the statement in May and the conclusion of the on-site audit in July, a substantial amount of work will be required liaising with the external auditors to ensure an unqualified audit report.

Following the completion of the 2018/19 audit a number of amendments to the Draft Statement (as published on the website and circulated to the Audit & Governance Committee on 23<sup>rd</sup> May 2019) were discussed & agreed with Grant Thornton.

This included a material amendment relating to the Pension Fund valuation as the actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary. In addition, the actuary's initial valuation did not give consideration to the liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud).

The Council instructed the actuary to re-perform the valuation, with the revised valuation including increased liabilities for GMP and McCloud (£179k and £369k respectively), and a lower gross asset position due to a £903k reduction in the assumed return on the Council's share of the pension fund.

It is important to note that these adjustments changed the figures within the main financial statements and the associated notes (as well as minor changes to presentational or disclosure issues) but did not have any impact on the reported outturn position and net balances of the General Fund, Housing Revenue Account or Collection Fund – as accounting for the pension fund movements is reversed through the pensions reserve and does not impact on the taxpayer.

To meet the necessary deadlines, the closure process for 2018/19 has been reviewed to identify any lessons to be learned for future years.

The main issues affecting the closure of accounts for 2018/19 included:

- the need for corporate ownership of the process;
- reliance on staff in Services and third parties who have other priorities;
- the need for key officers (lead by Corporate Finance) to focus on the achievement of critical deadlines, in the face of and in preference to other competing priorities;
- the need to check/validate creditor accruals (and avoid large numbers of reversals where evidence cannot be provided) – it would aid timely completion of the process if accruals were processed by Managers in compliance with laid down parameters (i.e. receipt of goods/services **before** 31<sup>st</sup> March);

- Pensions - actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary and the liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud) was not determined until June 2019;
- Delays in completion of the audit by Grant Thornton following the on-site audit. There will be a need to ensure they adequately allocate resources to the audit for 2019/20 to meet timescales outlined above.

***Commitment will be required to ensure that appropriate time and staffing resources will be focussed on the achievement of the key tasks within all Services.***

A brief planning meeting has already been held with the Audit Lead from Grant Thornton to discuss any emerging issues. The next meeting was arranged for 27<sup>th</sup> February to discuss progress from Interim Audit visits and agree the draft timetable of the year end process (**Appendix D**). Further meetings will be agreed, if necessary, prior to the commencement of the onsite audit of the accounts to discuss progress to date.

A detailed year end timetable has been prepared (**attached at Appendix C**) and communicated; ensuring tasks are allocated, in the right sequence, to named individuals. The timetable will include a firm cut-off date for accruals and practical details, such as publication and committee deadlines.

It is essential that there is a review at the end of closedown to highlight any lessons to be learned for next year. Equally vital is clear supporting documentation and an audit trail. These will not only help in the current year audit process but will be a sound base for future years.

A risk management approach is essential when resources are limited. The focus will be on known areas of risk based on past experience. A summary of issues from the 2018/19 closedown with material delays are detailed below.

An escalation process will be in place if it is evident that critical tasks are slipping – together with fortnightly updates to CMT. There is still some room for development to ensure an efficient closedown for 2019/20.

## 2018/19 – Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	A reduced number from previous years but still several manual accruals were received after the deadline and/or following identification by Accountant (i.e. not identified proactively by budget managers) – improvement needed as any late or missed accruals could delay the process and create additional work	By 31/03/20, Managers will be asked to ensure that where goods/services have been received the majority of orders are 'goods received' within e-financials, thereby generating 'auto-accruals' on 01/04/20  The minimum level for manual accruals will be £5k (as set by Executive Director Finance). However, should material accruals have been missed (i.e. over £5k) then the Service Accountant must be advised and appropriate action taken	ALL
Related Party Transactions	Again – Delayed return of some signed statements.	Requirements for any remaining Members to be contacted in person at Council/Committee meetings – for sign off by 30/04/20 at the latest.	Head of Paid Service
External Valuations	Delays / incomplete information from external valuers	Terms of engagement have been re defined with regular meetings arranged so that any issues can be quickly identified and solutions found at an earlier stage. Agreed that for 2019/20 only necessary to undertake desktop valuation of HRA assets – this will mitigate delays from not being able to gain access to properties in previous years	Finance and Assets
Pension Assumptions	<ul style="list-style-type: none"> <li>• actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary</li> <li>• liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud) was not determined until June 2019.</li> </ul>	SCC agreed to review possibility of refreshing data at 31/03/20 and report to next Staffordshire Accountants meeting on 05/03/20.	Finance
Final Sign Off	<ul style="list-style-type: none"> <li>• Delays in completion of the audit following completion of on-site audit</li> </ul>	Continued liaisons with Grant Thornton to ensure they adequately allocate resources to the audit to meet timescales outlined above and dates included in agreed Audit Plan (A&G 13/02/20)	Finance

A flexible 'teamwork' approach to make the most of scarce staff resources will be implemented, if necessary. Agreed variations to the flexible working policy or overtime pay (under the discretion of the Executive Director Finance) to speed up the closure of accounts would be considered as well as the need to bring in contract staff.

System weaknesses can cause delays and frustrations and appropriate contingency support will be essential, should problems arise.

Procedures have been in place for a number of years to ensure that key reconciliations are performed on a monthly basis during the year and centrally managed suspense or bank control accounts are cleared regularly. A review of



all working papers has been carried out with key staff during the year in preparation for the 2019/20 closedown.

The continued requirement to prepare accounts under IFRS will require a well thought-out approach to the use of estimates and de minimus levels for year-end accruals.

The aim should be to provide appropriate information to enable the efficient closedown without the need to re-open the accounts for late / omitted items i.e. a '**get it right first time**' approach. Managers should make every endeavour to include appropriate accruals, temporary reserves and retained funds and provide the required information in a timely manner.

Knowing the previous year's outturn position earlier will help inform not only the current year's financial performance monitoring but the forthcoming year's budget strategy.

It could also further boost confidence in the Council's financial management - the timeliness and accuracy of the financial statements and the supporting records form part of the auditor's assessment within the Annual Audit Letter.

## Appendix C

Ref	<b>CORPORATE REQUIREMENTS FINAL ACCOUNTS 2019/20</b>	<b>LEAD OFFICER</b>	<b>DEADLINE</b>
1	Temporary Reserve / Retained Fund information	ALL	03/04/2020
2	Review all outstanding orders and delete where necessary	ALL	01/03/2020
3	All "goods receipts" should be on e-financials by 31/03/20, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 20/03/20)	ALL	31/03/2020
4	Deadline for approved manual accruals. (ie goods need to be received by 31/03/20.) Refer to year end guidance	ALL	03/04/2020
5	Staff Holiday and Flexi Leave entitlement as at 31/03/20	ALL	03/04/2020
6	Manual accruals to be kept to a minimum, with EDF approval/authorisation only. The minimum level for manual accruals will be £5,000. (However, should material accruals have been missed (i.e. over £5,000) then the Directorate Accountant must be advised and appropriate action taken)	ALL	03/04/2020
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/20 and information returned to accountancy	ALL	03/04/2020
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/03/20 will be issued	ALL	03/04/2020
9	IT stock purchases and disposals (hardware and software) information	HoTIS	03/04/2020
10	Bad debt information: e-financials Sundry Debtors and overpayments	AD Finance AD	03/04/2020
	Homelessness and Housing Rents	Neighbourhoods	03/04/2020
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	AD Assets	Draft by: 01/03/2020 Final Certified by: 01/04/2020
12	All reconciliations to be complete and returned to accountancy; debtors, benefit, HAA/mortgages, rent, car loans, rent allowance etc. (monthly reconciliations should be completed during the year)	ALL	03/04/2020
13	HAA SOCH Mortgage principal repayment information	AD Finance	03/04/2020
14	Related Party Transaction information. Letters to be sent by 20/03/20 - Approach at Committee if delayed	S151 HoAG	03/04/2020
15	Managers confirmation of continued existence and responsibility for assets	ALL	03/04/2020
16	Information for completion of DWP and Subsidy estimated claims from benefits	Head of Benefits	03/04/2020

17	Improvement grant reconciliation	AD Assets	03/04/2020
18	Collection fund information (NNDR3)	AD Finance	17/04/2020
19	Pension information from SCC Pension Fund	SCC	17/04/2020
20	Review Code of Corporate Governance and prepare Annual Governance Statement	HoAG	17/04/2020
21	Review grant estimates (Benefits) / comparison to actual submissions	Head of Benefits	17/04/2020
22	Review potential post balance sheet events / impact on accounts	ALL	Up to 31/07/20

Audit Planning Timetable 2019/20		
Date / Deadline	Completion of:	
20/01/2020	1st Interim Visit (5 days) – walkthrough and early testing	
03/02/2020	2nd Interim Visit (5 days) – walkthrough and early testing	
24/02/2020	3rd Interim Visit (5 days) – walkthrough and early testing	
27/02/2020	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc)	
Feb 2020	GT Workshop	
26/03/2020	Audit Planning Meeting / requirements	
26/03/2020	Opinion / Informing the Audit Risk Assessment and Audit Plan to Audit & Governance Cttee	
22/05/2020	Draft Statement preparation	
1 weeks	Quality assurance	
<b>31/05/2020</b>	<b>Submission of Accounts (to GT / Members)</b>	
	High Level Audit Plan for 2019/20 Audit confirmed (for planning / management purposes)	
Early June	Engagement Lead review	
08/06/2020	Off Site Audit Commences (prepare working papers / reconciliations / quality assurance process) (JA).	Accountants / Key Officers to be available for Auditor questions by appointment
June / July	Weekly Meetings with Audit Manager (including emerging Governance report issues) - issues to date documented in <b>one logical list i.e. no repeated issues</b>	
10/07/2020	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager (JA)	
<b>Weekly</b>	<b>Draft list of audit amendments / issues received (subject to Engagement Lead review)</b>	
Early July	<b>Final list of audit amendments / issues received (after Engagement Lead review)</b>	
<b>By 10/07/2020</b>	<b>Close out meeting (with Engagement Lead review)</b>	
13/07/2020	Amended Statement of Accounts prepared	
14/07/2020	Audit Findings Report received	
22/07/2020	Audit Report to be circulated via Modgov	
29/07//2020	Audit Findings Report to Audit & Governance Committee / Sign Off	
31/07/2020	Publish at latest	