N0N-CONFIDENTIAL

Borough of Tamworth

Marmion House,
Lichfield Street, Tamworth,
Staffordshire B79 7BZ.

Enquiries: 01827 709 709
Facsimile: 01827 709 271

AUDIT AND GOVERNANCE COMMITTEE

15 March 2021

Dear Councillor

A meeting of the Audit and Governance Committee will be held in **Online Meeting on Tuesday, 23rd March, 2021 at 6.00 pm.** Members of the Committee are requested to attend.

Yours faithfully

CHIEF EXECUTIVE

A G E N D A

NON CONFIDENTIAL

1 **Minutes of the Previous Meeting** (Pages 5 - 8)

2 **Apologies for Absence**

3 **Declarations of Interest**

To receive any declarations of Members' interests (pecuniary and non-pecuniary) in any matters which are to be considered at this meeting.

When Members are declaring a pecuniary or non-pecuniary interest in respect of which they have dispensation, they should specify the nature of such interest. Members should leave the room if they have a pecuniary or non-pecuniary interest in respect of which they do not have a dispensation.

4 Audit Plan (Pages 9 - 28)

(Report of the External Auditors)

5 Informing the Audit Risk Assessment 2020/21 (Pages 29 - 60)

(Report of the External Auditors)

6 Final Accounts 2020/21 - Accounting Policies and Action Plan (Pages 61 - 96)

(Report of the Executive Director, Finance)

7 Review of The Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2021/22 and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2020/21 (Pages 97 - 176)

(Report of the Executive Director, Finance)

8 Review and Update of Financial Guidance (Pages 177 - 280)

(Report of the Assistant Director, Finance)

9 Internal Audit Plan & Charter 2021/22 (Pages 281 - 302)

(Report of the Head of Audit & Governance)

10 Annual Report of the Audit & Governance Committee (Pages 303 - 310)

(Report of the Chair of the Audit & Governance Committee)

11 Audit and Governance Committee Timetable (Pages 311 - 316)

(Discussion Item)

Access arrangements

If you have any particular access requirements when attending the meeting, please contact Democratic Services on 01827 709267 or e-mail democratic-services@tamworth.gov.uk. We can then endeavour to ensure that any particular requirements you may have are catered for.

Filming of Meetings

The public part of this meeting may be filmed and broadcast. Please refer to the Council's Protocol on Filming, Videoing, Photography and Audio Recording at Council meetings which can be found here for further information.

The Protocol requires that no members of the public are to be deliberately filmed. Where possible, an area in the meeting room will be set aside for videoing, this is normally from the front of the public gallery. This aims to allow filming to be carried out whilst minimising the risk of the public being accidentally filmed.

If a member of the public is particularly concerned about accidental filming, please consider the location of any cameras when selecting a seat.

FAQs

For further information about the Council's Committee arrangements please see the FAQ page here

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

This page is intentionally left blank

MINUTES OF A MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE
HELD ON 11th FEBRUARY 2021

PRESENT: Councillor M Summers (Chair), Councillors M Bailey (Vice-Chair), C Cooke, J Faulkner, S Pritchard and R Rogers

Officers	Stefan Garner (Executive Director Finance), Lynne Pugh (Assistant Director Finance), Rebecca Neill (Head of Audit & Governance and Monitoring Officer), Joanne Sands (Assistant Director Partnerships), Tracey Pointon (Legal Admin & Democratic Services Manager), Jodie Small (Legal, Democratic and Corporate Support Assistant) and Adam Deakin (Technical Infrastructure Engineer)
Visitors	Mark Stocks (Grant Thornton)

Apologies received from: Councillor(s) M Oates

72 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 29th October 2020 were approved and signed as a correct record.

(Moved by Councillor R Rogers and seconded by Councillor S Pritchard)

73 DECLARATIONS OF INTEREST

There were no declarations of Interest.

74 ANNUAL AUDIT LETTER - 2019-2020

The Annual Audit Letter 2019/20 of Grant Thornton (External Auditor) was presented to Committee by Mark Stocks of Grant Thornton. Following questions from members seeking assurances on journal controls and a debate on the level of fee increase, the Committee thanked the external auditors and finance teams for delivering the annual audit.

RESOLVED: That Members;

Endorsed the Annual Audit Letter for Tamworth Borough Council.

(Moved by Councillor J Faulkner and seconded by Councillor M Summers)

75 RISK MANAGEMENT QUARTERLY UPDATE

The Assistant Director Finance reported on the Risk Management process and progress to date for the current financial year. Members queried the score and mitigation on the lack of economic investment in people and places risk in light of the Council's successful bid for Future High Street Funding. It was agreed that this would be referred to the risk owner for review

RESOLVED That Members,

Endorsed the Corporate Risk Register

(Moved by Councillor M Summers and seconded by Councillor C Cooke)

76 MODERN SLAVERY AND HUMAN TRAFFICKING STATEMENT 2019/20

The Assistant Director Partnerships updated Members on the Council's Modern Slavery and Human Trafficking Statement 2019/20. Following questions the Committee unanimously supported the statement.

RESOLVED That Committee

1 Endorsed the Modern Slavery and Human Trafficking Statement for approval by Cabinet

2 Approved an agenda item to be included in the Audit and Governance plan annually for update to the Statement each July (or the latest meeting in Quarter 2).

(Moved by Councillor C Cooke and seconded by Councillor M Summers)

77 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3

The Head of Audit and Governance & the Monitoring Officer provided Committee with the internal audit's progress report for the period to 31 December 2020 (Quarter 3).

RESOLVED The Committee;

Noted the attached report.

(Moved by Councillor J Faulkner and seconded by Councillor C Cooke)

78 COMMITTEE EFFECTIVENESS

The Audit and Governance Committee undertook the annual self-assessment of Audit & Governance Committee effectiveness. Following a discussion regarding the independent member/s appointment, the Committee agreed the self-assessment.

RESOLVED: That the Committee considered the attached self-assessment checklist and endorsed any actions to improve its effectiveness as appropriate

(Moved by Councillor M Summers and seconded by Councillor J Faulkner)

79 AUDIT AND GOVERNANCE COMMITTEE TIMETABLE

The Committee reviewed the timetable.

Chair

This page is intentionally left blank

Tamworth Borough Council audit plan

Year ending 31 March 2021

Tamworth Borough Council

23 March 2021

Contents

Your key Grant Thornton team members are:

Page 10

Mark Stocks
Key Audit Partner
T 0121 232 5437
E mark.c.stocks@uk.gt.com

William Guest
Audit Manager
T 0121 232 5319
E william.guest@uk.gt.com

Aaron Smallwood
Audit Incharge
T 0121 232 5336
E aaron.k.Smallwood@uk.gt.com

Section	Page
Key matters	3
Introduction and headlines	4
Significant risks identified	5
Accounting estimates and related disclosures	7
Other matters	10
Materiality	11
Value for Money Arrangements	12
Audit logistics and team	13
Audit fees	14
Independence and non-audit services	15
Appendix 1: Revised Auditor Standards and application guidance	16

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 planning 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 the Council or all 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.

Key matters

Factors

Council developments

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Despite these pressures the Council finished the 2019/20 financial year with an underspend (£418k) against budget. Similarly, for 2020/21, as at period 9 the Council had a favourable variance of £14.486m compared to the budget. One of the largest reasons for this variance is that the Council has received significantly more Government funding and Covid-19 grants than originally anticipated in the budget. The projected full year position identifies a favourable variance against budget of £0.945m

The Council has developed a 3 Year Medium Term Financial Strategy for the General Fund which was approved in February 2021 for 2021/22 to 2024/25. This shows that the Council will come under increasing financial pressure in the next few years and will need to draw on reserves. Potentially, by the end of 2024/25 General Fund reserves could reduce to £0.5m.

We recognise that it is an uncertain environment for the Council, especially given that the 2021/22 financial settlement was only for one year. However, we also note that the Council received more funding than it had expected in both 2020/21 and 2021/22 which has helped strengthen its financial position. Given the uncertainty regarding both future funding and expenditure the Council will need to maintain its focus on its finance.

Impact of Covid 19 pandemic

As a result of the Covid 19 pandemic the Council has had to put on hold some of the corporate projects which it had originally anticipated to take place in 2020/21. These include the ICT Strategy and the review of the corporate capital strategy. It is planning to restart these projects as soon as possible.

The pandemic has also affected the Council's service provision. For example, leisure services facilities had to be closed due to lockdown restrictions. The Council has received additional grant funding as a result of the Covid-19 pandemic in order to cover the losses incurred by services closures. We note that the grants do not fully offset all of the losses incurred. Additional grants have also been provided to the Council so that it can support individuals and businesses.

We will consider the impact on Council services as part of our VfM audit work and the ability of the Council to re-establish service provision once the impact of the pandemic lessens.

Financial Statements

We have commenced our detailed planning for 2020/21 and have started the process of meeting with your Executive team. We have started initial discussion around key risk areas including valuation of property, plant and equipment, estimates ,and value for money.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit and Governance Committee updates.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 6.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Tamworth Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA). We draw* your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Valuation of land and buildings
- Valuation of net pension fund

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.2m (PY £1.2m) for the Council, which equates to 1.98% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £60k (PY £60k).

Value for Money arrangements

Our Valur for Money risk assessment remains in progress. However, based on the assessment completed to date we do not anticipate any significant VFM audit risks that will impact the audit for 2020/21.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our key auditor's report.

Audit logistics

Our interim visit will take place in March 2021 and our final visit will take place in June and July 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

MHCLG have increased the funding of local government audit by £15 million to reflect the pressures on local audit and the additional work that is needed to deliver the additional audit duties set out in the National Audit Office's Code of Practice. This equates to a 60 per cent increase in funding for local audit. We are currently liaising with MHCLG as to the distribution of the additional local audit funding. Once this is confirmed we will be in a better position to confirm your audit fee. Please note that all fees are subject to approval by PSAA.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

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
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted for some revenue streams, because: •there is little incentive to manipulate revenue recognition; •opportunities to manipulate revenue recognition are very limited; and •the culture and ethical frameworks of local authorities, including Tamworth Borough Council, mean that all forms of fraud are seen as unacceptable. Once we have completed our understanding of the processes and controls surrounding COVID-19 grant income we will determine whether the this can also be rebutted.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: •evaluate the design effectiveness of management controls over journals; •analyse the journals listing and determine the criteria for selecting high risk unusual journals; •test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; •gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and •evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Page 13

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	The Authority revalues its land and buildings on a rolling five-yearly basis, and investment properties every year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: •evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; •evaluate the competence, capabilities and objectivity of the valuation expert; •write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; •challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; •test revaluations made during the year to see if they had been input correctly into the Authority's asset register and accounted for correctly; and •evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the pension fund net liability	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: •update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; •evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; •assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; •assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; •test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; •undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and •obtain assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

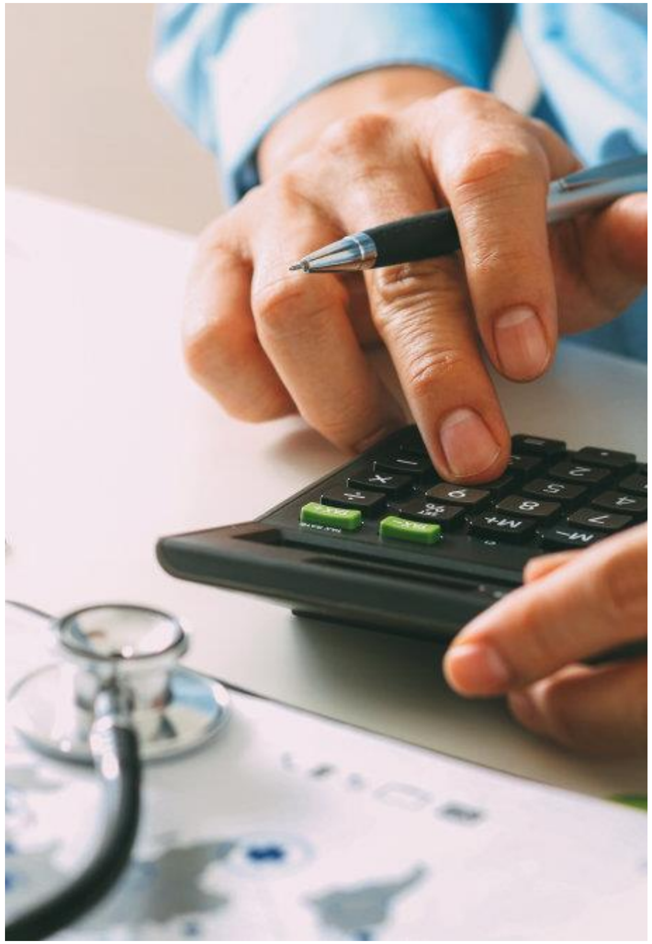
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an authority's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have issued the Informing the Audit Risk Assessment document to management which will assist in our understanding of the processes and controls surrounding accounting estimates. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

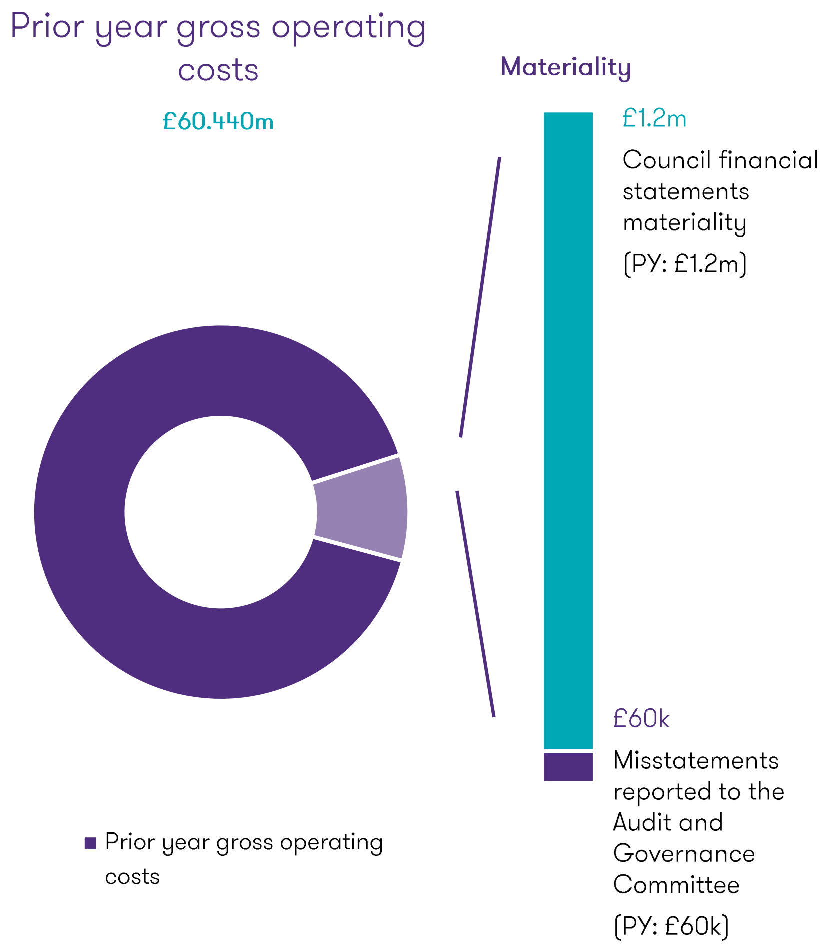
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.2m (PY £1.2m) for the Council, which equates to 1.98% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60k (PY £60k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report. You should also delete the 'Potential types of recommendations' table

Page 20

Audit logistics and team

Page 21

Mark C Stocks, Key Audit Partner

Mark's role will be lead to our relationship with you and be a key contact for the s151 Officer and the Audit and Governance Committee. Mark will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority as well as ensuring that Grant Thornton's full service offering is at your disposal.

William Guest, Audit Manager

William's role will be to manage the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.

Aaron K Smallwood, Audit Incharge

Aaron's role will be the day to day contact for the Authority's finance staff, will take responsibility for ensuring there is effective communication and understanding by finance of audit arrangements. Aaron will focus on the on the technical matters raised by you throughout the audit.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Tamworth Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £38.375. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 12, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.. As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

MHCLG have increased the funding of local government audit by £15 million to reflect the pressures **on local audit and the additional work that is needed to deliver the additional audit duties set out in the National Audit Office's Code of Practice. This equates to a 60 per cent increase in funding for local audit.** We are currently liaising with MHCLG as to the distribution of the additional local audit funding. Once this is confirmed we will be in a better position to confirm your audit fee. Please note that all fees are subject to approval by PSAA.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Tamworth Borough Council Audit	£42,875	£52,750	£TBC
Total audit fees (excluding VAT)	£42,875	£52,750	£TBC

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Housing Benefit subsidy certification	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit of £TBC and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Pooling of Housing Capital Receipts	2,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,500 in comparison to the total fee for the audit of £TBC and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
N/a	N/a	N/a	N/a

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 2019/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

Grant Thornton

This page is intentionally left blank

Grant Thornton

Informing the audit risk assessment for Tamworth Borough Council 2020/21

Page 29

Agenda Item 5

Mark Stocks
Key Audit Partner
T 0121 232 5437
E Mark.C.Stocks@uk.gt.com

William Guest
Manager
T 0121 232 5319
E William.Guest@uk.gt.com

Aaron Smallwood
In-Charge Auditor
T 0121 232 5336
E Aaron.K.Smallwood@uk.gt.com

Grant Thornton

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	5
Fraud	8
Fraud Risk Assessment	9
Laws and Regulations	17
Impact of Laws and Regulations	18
Related Parties	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

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), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) 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 Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

This report includes a series of questions on each of these areas 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 2020/21?	During the year the council has received a number of grants in relation to Covid-19, including acting as an agent and principal for Central Government to distribute business grants and test and trace isolation payments. Asset valuations and the net pension liability estimate, have the potential to have a significant impact on the financial statements due to their materiality and the fact that they are based on various assumptions, e.g. investment returns, retirement ages, mortality rates.
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting Policies are reviewed by Executive Director Finance each year as part of the final accounts process – no material changes for 2020/21. They are due to be reported to Audit and Governance Committee in March 2021.
3. 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. .
4. Are you aware of any significant transaction outside the normal course of business?	During the year the Council has acted as an agent for the payment of COVID 19 business grants and test and trace isolation payments amounting to c. £18m.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	The outbreak of Covid-19 has impacted on the global financial markets and market activity. A material valuation uncertainty was disclosed in the 2019/20 Statement of Accounts and this is also likely to be the case for 2020/21.
6. Are you aware of any guarantee contracts?	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
8. 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?	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. A copy of the report used to monitor this spend will be included as part of the Final Account working papers Ongoing support was received during the year regarding the NHS Trusts NNDR claim via LGA appointed solicitors.

General Enquiries of Management

Question	Management response
9. 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.
10. 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) 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? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	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 2020/21. 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. The Audit & 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: • counter fraud and corruption policy statement, strategy & guidance notes • whistleblowing policy • anti money laundering policy In addition, an anti-fraud information and whistleblowing campaign and drop in session was held, widely publicised to all staff in November 2019. 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
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	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: • Council tax • Council tax reduction • Single person discount • Housing waiting list 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 & Governance Committee.

Fraud risk assessment

Question	Management response

3. 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 2020?
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?
	No; management would be made aware of any actual or alleged instances of fraud via the following:-
	
	• S151 Officer is informed of (and takes appropriate action in relation to) suspected or alleged areas of fraud from the following sources:
	  • Whistleblowing / informants,
	  • Benefits Fraud Investigations including single person discounts, housing benefit, business rates, housing and the Local Council Tax Reduction Scheme
	  • Management identification of irregularities
	  • Internal Audit reports / reviews
	
	• Any areas of actual fraud will be / are reported to the Audit & Governance Committee as part of the normal annual report as well senior management and police (where appropriate);
	
	• Requirement of Managers / Officers / Members to report to S151 any suspicions / allegations of fraud for appropriate investigation.

4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?	These are detailed within the fraud risk register which is subject to regular review and is reported routinely to the Audit & Governance Committee. No. 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. The main cash handling facilities of the Council have generally been closed for a significant period of the year due to the COVID Pandemic.

Fraud risk assessment

Question	Management response
5. What processes do the Council have in place to identify and respond to risks of fraud?	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 & guidance notes detail the processes in place to respond to the risk of fraud. These policies are available to all staff via the Council's intranet, and are included as part of the induction programme for new staff. Training is available to all staff via Astute Use of Net Consent to update all policies

Fraud risk assessment

Question	Management response
6. How do you assess the overall control environment for the Council including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? 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)?	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). 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 & Governance Committee this year to enhance overall arrangements in this area. None other than previously mentioned. No potential for override of controls or inappropriate influence over the financial reporting process has been identified during the period.
7. Are there any areas where there is potential for misreporting?	No areas have been identified where there is potential for misreporting.

GrantThornton

Fraud risk assessment

Question	Management response
8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	Available on the intranet, is the employees' code of conduct and the below key counter fraud policies for all staff to access: • counter fraud and corruption policy statement, strategy & guidance notes • whistleblowing policy • anti money laundering policy 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). 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&Cs used by the council include clauses relating to the timely payment of sub-contractors; behaviour of personnel; compliance with diversity & equality legislations; commission, bribery and corruption; counter-terrorism & security act; data protection; H&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&S checks; safeguarding policy checks; accreditations & qualifications etc.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	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 (1st line), exception and report monitoring (2nd line) and internal / external audit (3rd line) assurance activities

Fraud risk assessment

Question	Management response
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Not aware of any related party relationships or transactions that could give rise to instances of fraud. Risk of this is mitigated via: • Annual declarations of interest are required from Senior Managers and all Members of the Council to inform the related party note in the accounts. • All members have to disclose any interest when making decisions. • Monitoring officer keeps a register of members interests. • Transparency requirements / publications & public interest disclosures.
11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee? 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? What has been the outcome of these arrangements so far this year?	The Audit & 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 & Governance's opinion on internal control. For 2020/21, no matters of material concern have been identified.

Fraud risk assessment

Question	Management response
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No.
13. Have any reports been made under the Bribery Act?	No.

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 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 enquiries 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
1. How does management gain assurance that all relevant laws and regulations have been complied with? 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?	• Quarterly reports are received from the H of AG on systems reviewed. High risk areas are identified. • The Annual Governance Statement assurance gathering process involves assessing against the objectives and managers providing assurance statements. • 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. • The External Auditor review and assurance opinion on the financial affairs (management processes) of the Authority. • For Council & 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. • Periodic update to Officers / Members on new legislative requirements. • Regular update by the External Auditor on potential compliance issues / understanding. • Undertaking NFI Anti Fraud initiatives indicates potential fraudulent violations. • Pro-active Internal Audit Plan focused on provision of assurance reports on status of management control processes. • Regular review and update of Financial Guidance and Counter Fraud Policies
2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	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.

Grant Thornton

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 2020 with an on-going impact on the 2020/21 financial statements?	Not aware of any.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	We currently have two potential matters which will be communicated to the audit team as part of their audit work. These are expected to be immaterial.
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.

Related Parties

Issue

Matters in relation to Related Parties

The Council are required to 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;
- associates;
- joint ventures;
- an entity that has an interest in the authority 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 [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 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
1. Have there been any changes in the related parties including those disclosed in the Council's 2019/20 financial statements? If so please summarise: • the nature of the relationship between these related parties and the Council whether the Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	During the year the Council has acted as an agent and principal for the payment of COVID 19 business grants and test and trace isolation payments.
2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: • 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. • 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. • Challenge from public
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	The Director of Finance and Assistant Director – Finance regularly review all significant transactions. Payments of over £30k are reviewed by a senior officer on a weekly basis before they are made.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Activities outside normal business are referred to CMT and/or Cabinet for authorisation

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

Grant Thornton

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuation, depreciation and impairment of property, plant and equipment Valuation of defined benefit net pension liability Credit Loss Allowances NNDR Business Rates appeals provision
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	Management review activities from previous years which together with an updated action plan is presented to CMT for consideration which includes risks relating to accounting estimates. This report is then presented to Audit and Governance Committee.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Management consult guidance, e.g. the Code of Practice on Local Authority Accounting and RICS guidance; attend GT Workshops and review CIPFA Closedown bulletin .
4. How do management review the outcomes of previous accounting estimates?	Management look back retrospectively to assess whether previous accounting estimates were reasonable where possible and/ or compare to estimates provided for the current year.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes have been made to the estimation processes in the current year.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management review activities from previous years which together with an updated action plan is presented to CMT for consideration which includes detailed resources required from other Council Departments. This report is then presented to Audit and Governance Committee. Any specialist skills/knowledge is identified as part of this process.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Management determines what control activities are needed through liaison with internal audit, referring to the Code of Practice on Local Authority Accounting and other guidance, attendance at seminars and workshops (e.g. Grant Thornton's annual Local Government Accountants Workshop and CIPF Closedown Bulletin and through liaising with other authorities (formally as part of Staffordshire Accountants Group and informally through contact with other LA Accountants).
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management review the output of service providers and the assumptions underpinning them, challenging any discrepancies or unexpected outcomes.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Accounting Policies/Estimates are included in the Action Plan identified above and are discussed at Audit and Governance Committee.

Page 52

Accounting Estimates - General Enquiries of Management

Question	Management response
10. 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 although will be continuously reviewed as part of closedown process
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
12. How is the Audit 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.

Grant Thornton

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 lives of PPE	The following asset categories have general asset lives: • Housing stock 50 years • Other Buildings 5 to 100 years • Vehicles, plant & equipment 1 to 20 years • Community 100 years • ICT Equipment 3 years • Infrastructure 30 years.	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

GrantThornton

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?
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: • Assets acquired in year are depreciated on the basis of a charge from acquisition date. • Assets that are not fully constructed are not depreciated until they are brought into use.	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

Page 55

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?
Provisions for liabilities	Provisions are made where an event has taken place that • gives the Council 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. Provisions are charged as an expense to the appropriate service line in the CI&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.	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)

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

grantthornton.co.uk

This page is intentionally left blank

AUDIT & GOVERNANCE COMMITTEE

23rd March 2021

Report of the Executive Director Finance

FINAL ACCOUNTS 2020/21 – ACCOUNTING POLICIES AND ACTION PLAN

Purpose

To advise Members of the proposed Accounting Policies for 2020/21.

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 2020/21 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

Recommendations

That:

1. **the proposed Accounting Policies for 2020/21, attached as Appendix A are approved;**

2. **the target of 31st May 2021 for closure of the final accounts and production of the statement for 2020/21 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 28th July 2021.**

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 the dates, these have not significantly changed from the 2019/20 policies. These do not depart from the provisions of the 2020/21 Code.

The Covid pandemic had a significant impact in 2020 and nationally it was agreed that the deadline for the production of the 2019/20 Statement of Accounts was extended to 31st July 2020 with the requirement that the statement was audited and approved before 30th November 2020. The accounts for 2019/20 were produced and issued by 10th July 2020, with the final audited accounts approved by the Audit and Governance Committee on 29th October prior to the auditors issuing their unqualified opinion on 20th November 2020.

The Accounts and Audit Regulations 2015, requires that the 2020/21 Statement of Accounts be produced by 31st May 2021, and for them to be audited and approved before 31st July 2021. However, MHCLG issued a consultation in early February 2021 seeking views on pushing back the final accounts deadlines:

- Draft accounts required by 1st August 2021
- Final Audited Statement by 30th September 2021

Following discussions with Grant Thornton in February it has been agreed that we will aim to comply with the original deadlines and work to produce a draft Statement of Accounts for 31st May 2021 with a completed audit by 31st July 2021. The delays in producing and auditing the accounts experienced in 2020 have negatively impacted on various other projects including the main period of budget preparation in September and October and should be avoided if possible this financial year. It should also be noted that due to the delays (and well documented audit resource constraints) some Councils are still to receive sign off of their 2019/20 accounts, which will impact on their accounts preparation for 2020/21.

The annual plans for the production of the statutory accounts for recent years has been reviewed so that the draft accounts for 2020/21 can been produced before the deadline of 31st May 2021.

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 21st May 2021;
- Detailed management quality assurance review by 31st May 2021;
- Submission to Grant Thornton (and to Members) on or before 1st June 2021;
- Report to Audit & Governance Committee on 28th July 2021;
- Latest publish date 31st July 2021;

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.

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
1	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	**M H**	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
2	Incorrect interpretation of changes in either the Code of Practice or IFRS	**M H**	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.
3	Guidance by CIPFA changing possibly causing delays	**M H**	Regular review and rescheduling of project timetable
4	Delay in receiving information from external parties / contractors	**M H**	Ensure regular contact with all concerned and continually monitor completeness of the information provided
5	Inadequate training	**L M**	Research available training, ensure all relevant staff attend, training budget to be adequate
6	Failure to identify all leases	**L M**	Ensure staff understand exactly what is involved / process to outline the requirements

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
7	Key staff leaving	**L M**	Ensure there are sufficient skills within the team to cover
8	Insufficient Resources from External Auditors Grant Thornton	**M H**	Continued liaisons with Grant Thornton to ensure they adequately allocate resources to the audit to meet timescales outlined above
9	Incorrect/inaccurate assumptions made re Pensions	**M H**	Figures are produced by SCC based on a set of assumptions and estimates for inclusion in the draft statement. SCC were then able to provide actual figures in May 2020 and these were then updated in the Final Audited Statement.
10	Continuing Impact of the response to the pandemic on staffing resources	**M H**	Prioritisation of the accounts production over all other work where possible; Re-assessment of deadlines where needed.

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 21st May 2021 to ensure completion of the Financial Statements by 31st 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.

Background papers	Accounts and Audit Regulations 2015
	Code of Practice on Local Authority Accounting in the United Kingdom (2020/21) 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 2020/21 financial year and its position at the year end of 31st March 2021. 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 2020/21, 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 in financing and investment income and expenditure 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 Taxation and Non-Specific Grant 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 31st March 2021. 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 Period

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date (31st March 2021) and the date when the Statement of Accounts is authorised for issue (28th July 2021). 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 such 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 1st 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).

Deprecation 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 2020/21 financial statements (including the 2019/20 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 a financial 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.

During 2020/21 the Council received a number of grants in relation to the COVID Pandemic where it acted as an agent for Central Government. Paragraph 2.6.2.4 of the Code requires that where an authority acts as an agent, transactions will not be reflected in an authority's financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal. In these cases a debtor or creditor will be recognised and the net cash position included in financing activities in the cash flow statement.

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.

Appendix B

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 2019/20 audit a number of amendments to the Draft Statement (as published on the website and circulated to the Audit & Governance Committee on 10th July 2020) were discussed & agreed with Grant Thornton.

This included an adjustment to the accounting treatment of £1.1m of Section 31 Business Rate Relief Grant which had incorrectly been classified as a debtor at the 31st March 2020.

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 and does not impact on the taxpayer.

To meet the necessary deadlines, the closure process for 2019/20 has been reviewed to identify any lessons to be learned for future years.

The main issues affecting the closure of accounts for 2019/20 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*** 31st March);
- Pensions - actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary due to the effect of the pandemic on financial markets at 31st March 2020. This did not require a change to the accounts as it was within the materiality threshold for changes following the audit;
- Delays in completion of the audit by Grant Thornton following the on-site audit. There have been changes to the planned audit process for 2020/21 which should focus audit resources at the timely completion of the audit but we will need to ensure adequate resources are allocated to the audit for

2020/21 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 has been arranged for 19th April 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 2019/20 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 2020/21.

2019/20 – 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 31/03/21, Managers will be asked to ensure that where goods/services have been received the majority of orders are 'goods receipted' within e-financials, thereby generating 'auto-accruals' on 01/04/21 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 Accountants 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 30/04/21 at the latest.	Head of Paid Service
External Valuations	Delays / incomplete information from external valuers	Terms of engagement have be re defined with regular meetings arranged so that any issues can be quickly identified and solutions found at an earlier stage. Agreed that for 2020/21 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	• actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary	To request initial data from the Actuary as at 31/03/21, supplemented by an updated report in June 2021.	Finance
Final Sign Off	• Delays in completion of the audit following completion of on-site audit	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 (due A&G Cttee 23/03/21)	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 full review of all working papers has been carried out with key staff during the year in preparation for the 2020/21 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	CORPORATE REQUIREMENTS FINAL ACCOUNTS 2020/21	LEAD OFFICER	DEADLINE
1	Temporary Reserve / Retained Fund information	ALL	07/04/2021
2	Review all outstanding orders and delete where necessary	ALL	01/03/2021
3	All “goods receipts” should be on e-financials by 31/03/21, with evidence held by the Service Departments, in order to ensure ‘auto-accruals’ are generated. (It is recommended as many as possible done by 19/03/21)	ALL	31/03/2021
4	Deadline for approved manual accruals. (ie goods need to be received by 31/03/21.) Refer to year end guidance	ALL	07/04/2021
5	Staff Holiday and Flexi Leave entitlement as at 31/03/21	ALL	02/04/2021
6	Manual accruals to be kept to a minimum, with EDcs 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	07/04/2021
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/21 and information returned to accountancy	ALL	07/04/2021
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/03/21 will be issued	ALL	02/04/2021
9	IT stock purchases and disposals (hardware and software) information	AD PEOPLE	02/04/2021
10	Bad debt information:		
	e-financials Sundry Debtors and overpayments	AD NEIGHBOURHOOD	02/04/2021
	Homelessness and Housing Rents	AD NEIGHBOURHOOD	02/04/2021
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	AD ASSETS	Draft by: 10/03/2021 Final Certified by: 01/04/2021
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	02/04/2021
13	HAA SOCH Mortgage principal repayment information	AD FINANCE	02/04/2021
14	Related Party Transaction information. Letters to be sent by 19/03/21 - Approach at Committee if delayed	S151 Head of Internal Audit & MO	02/04/2021

15	Managers confirmation of continued existence and responsibility for assets	ALL	02/04/2021
16	Information for completion of DWP and Subsidy estimated claims from benefits	AD FINANCE	02/04/2021
17	Improvement grant reconciliation	AD ASSETS	02/04/2021
18	Collection fund information (NNDR3)	AD FINANCE	16/04/2021
19	FRS17 Pension information from SCC Pension Fund	SCC	16/04/2021
20	Review Code of Corporate Governance and prepare Annual Governance Statement	Head of Internal Audit & MO	16/04/2021
21	Review grant estimates (Benefits) / comparison to actual submissions	AD FINANCE	16/04/2021
22	Review potential post balance sheet events / impact on accounts	ALL	Up to 28/07/21

Audit Planning Timetable 2020/21

Date / Deadline	Completion of:	
08/02/2021	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc)	
Feb-21	GT Workshop	
15/02/2021	1st Interim Visit (5 days) – walkthrough and early testing	
22/03/2021	2nd Interim Visit (5 days) – walkthrough and early testing	
19/04/2021	Audit Planning Meeting / requirements	
23/03/2021	Opinion / Informing the Audit Risk Assessment and Audit Plan to Audit & Governance Cttee	
21/05/2021	Draft Statement preparation	
1 week	Quality assurance	
31/05/2021	***Submission of Accounts (to GT / Members)***	
June / July	High Level Audit Plan for 2020/21 Audit confirmed (for planning / management purposes)	
June / July	Engagement Lead review	
June / July	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 one logical list i.e. no repeated issues	
June / July	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager (JA)	
Weekly	**Draft list of audit amendments / issues received (subject to Engagement Lead review)**	
Early July	Final list of audit amendments / issues received (after Engagement Lead review)	
By 09/07/2021	**Close out meeting (with Engagement Lead review)**	
13/07/2021	Amended Statement of Accounts prepared	
14/07/2021	Audit Findings Report received	
21/07/2021	Audit Report to be circulated via Modgov	
28/07//2021	Audit Findings Report to Audit & Governance Committee / Sign Off	
31/07/2021	Publish at latest	

This page is intentionally left blank

AUDIT & GOVERNANCE COMMITTEE

23rd March 2021

Report of the Executive Director Finance

REVIEW OF THE TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2021/22 and the TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2020/21

Purpose

To review the Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2021/22 and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2020/21 approved by Council on 23rd February 2021 and 15th December 2020 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 2021/22 is attached at **Appendix A**, together with a copy of the Mid-year Report on the Treasury Management Service 2020/21 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, Head of Finance or Stefan Garner, Executive Director Finance, extension 241 or 242.

Background Papers:-	Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2021/22 (Including Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2021/22, and Corporate Capital Strategy, Council 23rd February 2021)
	Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2020/21, Council 15th December 2020

APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2021/22

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 2021/22 – 2023/24 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 **S**ecurity, **L**iquidity then **Y**ield (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

***Background Papers**:-*	***Budget & Medium Term Financial Strategy 2021/22***
	Mid-year Treasury Report 2020/21 Council, 15/12/20
	Annual Treasury Report 2019/20 Council, 15/09/20
	Treasury Management Strategy Statement, Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Statement 2020/21 Council 25/02/20
	Treasury Management Training slides 20th November 2019
	CIPFA Code of Practice on Treasury Management in Public Services 2017
	DCLG Guidance on Local Government Investments March 2010
	Local Government Act 2003
	Treasury Management Practices 2021/22 (Operational Detail)

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 the 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.

The 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 2021/22

The strategy for 2021/22 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 CIFPA Prudential Code, 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 Group, 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 2021/22 – 2023/24

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	2019/20 Actual	2020/21 Predicted Outturn*	2020/21 Budget	2020/21 Re-profiling	2021/22 Estimate**	2022/23 Estimate	2023/24 Estimate
Non-HRA	4.734	1.939	4.278	1.850	15.211	10.825	2.923
HRA	20.462	15.107	22.250	5.435	9.461	6.129	5.699
Commercial Activities/Non-Financial Investments ***	-	-	12.849	12.849	-	-	-
Total	**25.196**	**17.046**	**39.377**	**20.133**	**24.672**	**16.954**	**8.622**

** Actual Projected at Period 9* *** excludes projected slippage from 2020/21*

**** commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties & investments in property funds.*

The projected slippage into 2021/22 of £20.133m relates mainly to Gungate development, Gateways projects, Amington Woodland & Cycleway, Property Fund investments and Solway LATC, and Regeneration & Affordable Housing schemes.

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.

Capital Financing (GF/HRA)	**2019/20 Actual**	**2020/21 Predicted Outturn***	**2020/21 Budget**	**2020/21 Re-profiling**	**2020/21 Estimate****	**2021/22 Estimate**	**2022/23 Estimate**
Capital Receipts	4.810	3.990	17.333	13.184	3.390	0.830	2.604
Capital Grants	0.681	1.851	2.009	0.215	12.163	10.500	0.505
Capital Reserves	11.844	5.710	11.390	5.314	5.524	2.649	2.294
Revenue Reserves	4.426	2.953	5.284	1.029	2.929	2.805	2.805
Revenue Contributions	0.192	0.226	0.226	-	-	-	-
Net financing need for the year	3.243	2.316	3.135	0.392	0.666	0.171	0.415
Total	**25.196**	**17.046**	**39.377**	**20.133**	**24.672**	**16.954**	**8.622**

** Actual Projected at Period 9* *** excludes projected slippage from 2020/21*

The net financing need for commercial activities/non-financial investments included in the above table against expenditure is shown below:

Commercial Activities/Non-Financial Investments	**2019/20 Actual**	**2020/21 Predicted Outturn***	**2020/21 Budget**	**2020/21 Re-profiling**	**2020/21 Estimate****	**2021/22 Estimate**	**2022/23 Estimate**
Capital Expenditure	-	-	12.849	12.849	-	-	-
Financing Costs	-	--	(12.849)	(12.849)	-	-	-
Net financing need for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	2019/20 Actual	2020/21 Revised Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement					
CFR – non housing	3.523	3.865	4.736	4.657	4.797
CFR - housing	68.532	70.396	70.396	70.396	70.396
CFR - commercial activities/non-financial investments	-	-	-	-	-
Total CFR	**72.055**	**74.261**	**75.132**	**75.053**	**75.193**
Movement in CFR	**3.188**	**2.206**	**0.871**	**(0.079)**	**0.140**

Movement in CFR represented by					
Net financing need for the year (above)	3.243	2.316	1.058	0.171	0.415
Less MRP/VRP and other financing movements	**(0.056)**	**(0.110)**	**(0.187)**	**(0.250)**	**(0.275)**
Movement in CFR	**3.188**	**2.206**	**0.871**	**(0.079)**	**0.140**

* CFR 2018/19 £68.869m

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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Fund Balances/Reserves	30.310	27.875	19.463	17.381	16.310
Capital Receipts	20.431	18.400	5.194	5.883	6.383
Provisions*	2.032	2.032	2.032	2.032	2.032
Other	-	-	-	-	-
Total Core Funds	**52.773**	**48.307**	**26.689**	**25.296**	**24.724**
Working Capital**	15.202	4.309	12.580	11.992	11.592
(Under)/Over Borrowing	(8.995)	(11.201)	(12.072)	(11.993)	(12.132)
Expected Investments	**58.980**	**41.415**	**27.197**	**25.295**	**24.184**

* 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 approporiate 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 31st March 2020 and for the position as at 31st December 2020 are shown below for both borrowing and investments.

	TREASURY PORTFOLIO			
	ACTUAL AT 31/3/20		**CURRENT AT 31/12/20**	
	£m	**%**	**£m**	**%**
Treasury Investments				
Banks	30.199	51.20	21.000	30.95
Building Societies	-	-	-	-
Local Authorities	14.000	23.74	24.000	35.37
DMADF (H M Treasury)	-	-	-	-
Money Market Funds	5.059	8.58	19.258	28.38
Certificates of Deposit	6.002	10.18	-	-
Total Managed in-House	**55.260**	**93.69**	**64.258**	**94.70**
Property Funds	3.720	6.31	3.593	5.30
Total Managed Externally	**3.720**	**6.31**	**3.593**	**5.30**
Total Treasury Investments	**58.980**	**100**	**67.851**	**100**
Treasury External Borrowing				
Local Authorities	-	-	-	-
PWLB	63.060	100	63.060	100
Total External Borrowing	**63.060**	100	**63.060**	100
Net Treasury Investments/(Borrowing)	**(4.080)**		**4.791**	

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.

	2019/20	2020/21	2021/22	2022/23	2023/24
Treasury Portfolio	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
External Debt					
Debt at 1st April	63.060	63.060	63.060	63.060	63.060
Expected change in Debt	-	-	-	-	-
Actual gross debt at 31st March	**63.060**	**63.060**	**63.060**	**63.060**	**63.060**
The Capital Financing Requirement	**72.055**	**74.261**	**75.132**	**75.053**	**75.193**
Under / (over) borrowing	**8.995**	**11.201**	**12.072**	**11.993**	**12.132**

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 2021/22 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.

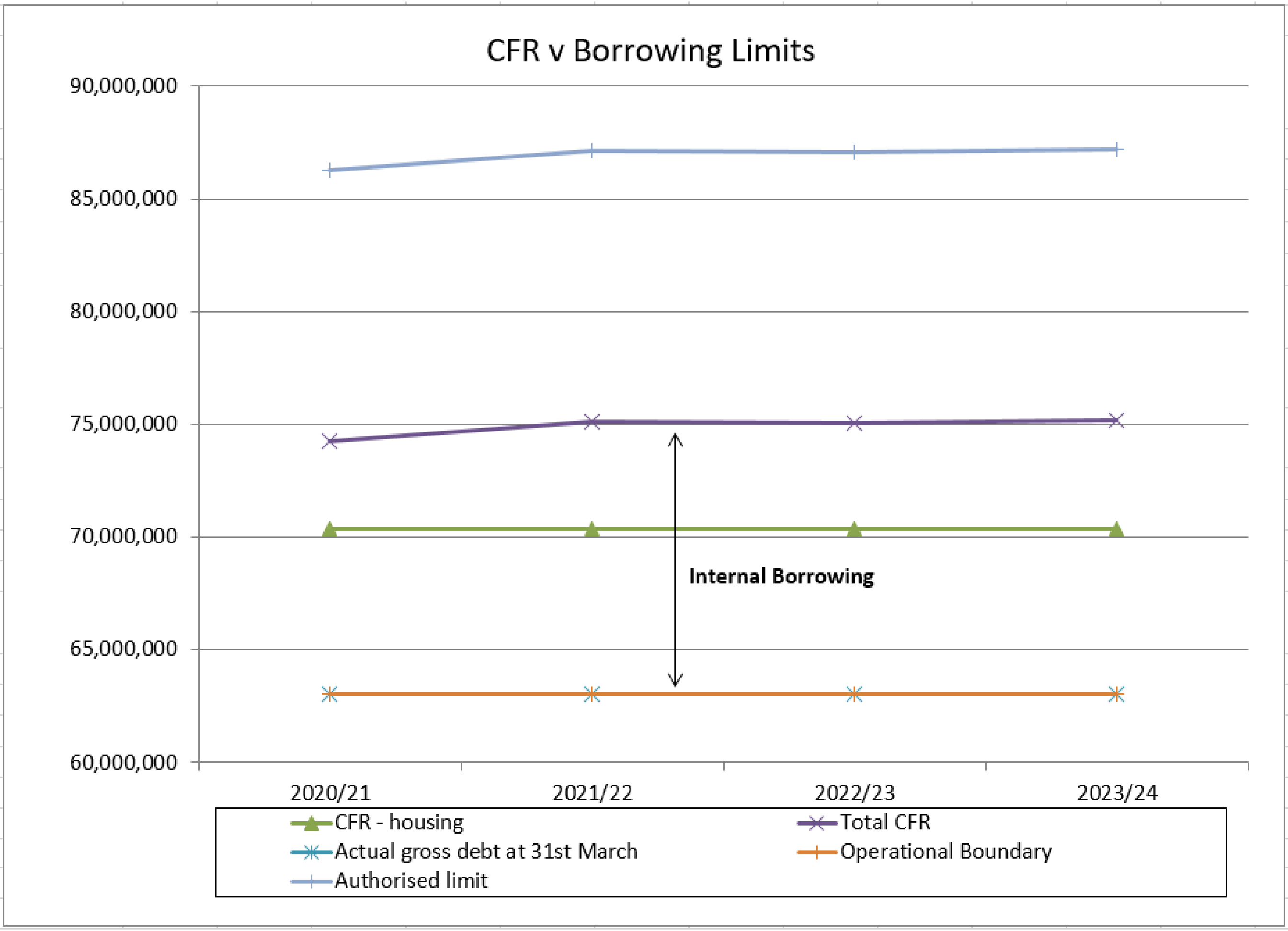
Operational Boundary	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Borrowing	63.060	63.060	63.060	63.060
Other long term liabilities	-	-	-	-
Commercial Activities/non-financial Investments				
Total	**63.060**	**63.060**	**63.060**	**63.060**

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	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Borrowing	86.272	87.143	87.064	87.204
Total	**86.272**	**87.143**	**87.064**	**87.204**



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 Group as its Treasury Advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 9.11.20. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected, as economic recovery is expected to be only gradual and, therefore, prolonged.

Gilt yields/PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 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.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds - this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England, indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced the following rates for borrowing for different types of capital expenditure: -

    - **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
    - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates - the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. 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 the 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 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 2021/22 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*, 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 to be 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

Where appropriate, consideration will be given to sourcing funding at cheaper rates from the following in order to finance capital expenditure for non-HRA and infrastructure purposes:

- 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 to 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

On Balance Sheet	Fixed	Variable
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 Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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 financial 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.

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year, or have less than a year left to run to maturity if they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.

   - **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.

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 2020/21 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 ending 31st March 2023.

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 the Link Group. 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 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 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 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. 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.

Counterparty	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks/Building Societies *	**Yellow**	**£10m**	**5yrs**
Banks/Building Societies	**Purple**	**£10m**	**2 yrs**
Banks/Building Societies	**Orange**	**£10m**	**1 yr**
Banks – part nationalised	**Blue**	**£10m**	**1 yr**
Banks/Building Societies	**Red**	**£10m**	**6 mths**
Banks/Building Societies	**green**	**£10m**	**100 days**
Banks/Building Societies	**No colour**	**Not to be used**	
Council's banker (where "No Colour")	**No colour**	**£2m**	**1 day**
DMADF	**UK sovereign rating**	**£10m**	**6 months**
Local authorities	**n/a**	**£10m**	**5yrs**

	Fund Rating **	Money and/or % Limit	Time Limit
Money Market Funds CNAV	**AAA**	**£10m**	**Liquid**
Money Market Funds LVNAV	**AAA**	**£10m**	**Liquid**
Money Market Funds VNAV	**AAA**	**£10m**	**Liquid**

** 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.*

Creditworthiness

Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March/early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

4.3 Other 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 treasury management 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 is 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

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

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 (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines become available and widely administered to the population.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates

While the Bank of England said in August/September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

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: -

Upper limit for principal sums invested for longer than 365 days			
	2021/22 £m	**2022/23 £m**	**2023/24 £m**
Principal sums invested > 365 days	6.324	6.046	6.114
Current investments as at 31.12.20 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. The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

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 2021/22 – 2023/24

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.	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
Non-HRA	(7.31)%	(3.03)%	(0.17)%	0.68%	0.43%
HRA	28.38%	28.58%	28.09%	27.45%	26.74%
Commercial Activities/non-Financial Investments	(3.60)%	(4.44)%	(5.69)%	(6.07)%	(5.26)%

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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA Debt £m	68.532	70.396	70.396	70.396	70.396
HRA Revenues £m	18.243	18.783	19.303	19.775	20.259
Ratio of Debt to Revenues %	376	375	365	356	347

HRA Debt per Dwelling	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA Debt £m	68.532	70.396	70.396	70.396	70.396
Number of HRA Dwellings	4,160	4,140	4,110	4,080	4,050
Debt per Dwelling £'000	16.474	17.004	17.128	17.254	17.382

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 2021/22		
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 2021/22		
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 – 2024

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View 9.11.20 (The Capital Economics forecasts were done 11.11.20)

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate														
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

ANNEX 3 ECONOMIC BACKGROUND

UK. The Bank of England's Monetary Policy Committee kept **Bank Rate** unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

The economy would recover to reach its pre-pandemic level in Q1 2022

The Bank also expects there to be excess demand in the economy by Q4 2022.

CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

One key addition to **the Bank's forward guidance** in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. **Inflation** is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Following the second lockdown in November, there was a temporary relaxation of restrictions over Christmas, and then a further national lockdown in January. It is likely that most regions will be subject to Tier 3 and Tier 4 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second or third lockdown, especially those businesses that depend on a surge of business over the Christmas period. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.

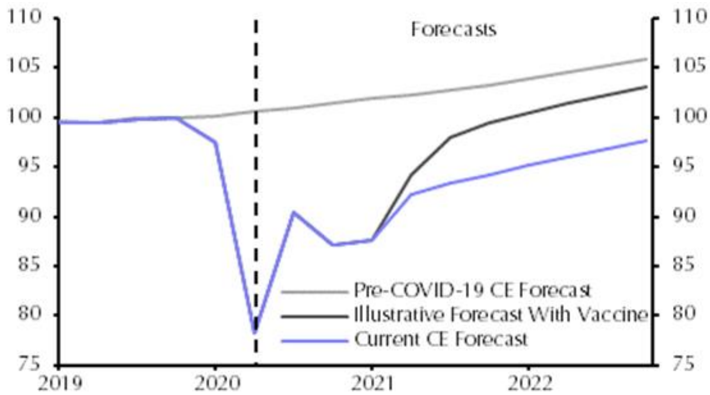
As for **upside risks**, we have been waiting expectantly for news that various **COVID19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.

However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

Public borrowing is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown which began on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast could happen if successful vaccines were widely administered in the UK in the first half of 2021; this would cause a much quicker recovery.

Level of real GDP   (Q4 2019 = 100)



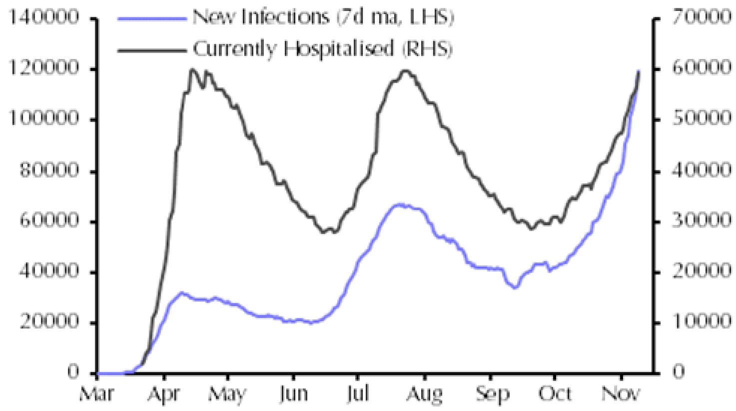
There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

US. The result of **the November elections** means that the Democrats have gained the presidency, a majority in the House of Representatives, and control of the Senate. This means that the Democrats will be able to do a massive fiscal stimulus, as they had been hoping, which may result in another surge of debt issuance and could put upward pressure on debt yields and gilt yields. On the other hand, equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 New infections & hospitalisations



After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed’s meeting on 5 November was unremarkable - but at a politically sensitive time around the elections.

EU. The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current Pandemic Emergency Purchase Programme (PEPP) scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

World growth. While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

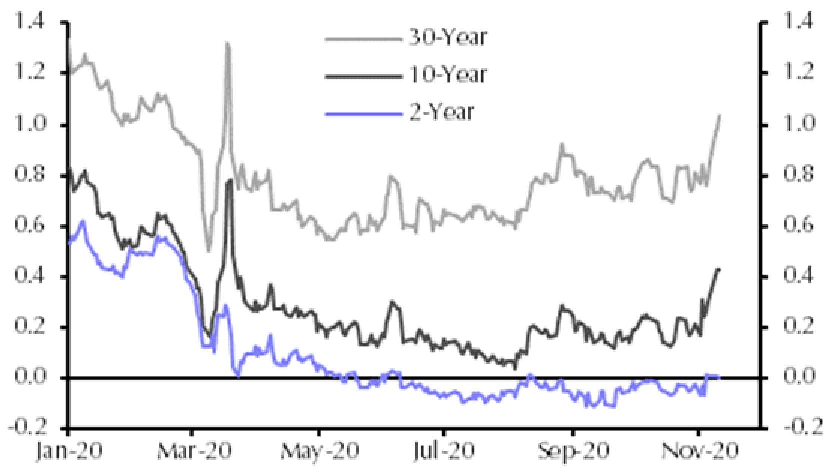
Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering 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.

Summary

Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this is likely to result in more quantitative easing and keeping rates very low for longer. It will also put pressure on governments to provide more fiscal support for their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

The graph below as at 10th November, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -



INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

So in summary there is not likely to be any change in Bank Rate in 20/21 – 21/22 and while there may be some movement in gilt yields / PWLB rates after the 31st December, there will probably be minimal enduring impact.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- **UK / EU trade negotiations** – if they were to cause significant economic disruption and downturn in the rate of growth.
- **UK - 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.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** 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 subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland 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. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** stronger than currently expected recovery in UK economy, especially if effective vaccines are administered quickly to the UK population and lead to a resumption of normal life and a return to full economic activity across all sectors of the economy.
- **Post-Brexit** – if the majority of threats of economic disruption between the EU and the UK are removed.
- 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.

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 which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

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:

Counterparty	**Minimum credit criteria / colour band**	**£ limit per institution**	**Max. maturity period**
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 Orange Red Green	£10m	12 months 12 months 6 months 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 Orange Red Green No Colour	£10m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£10m	
Non-Specified Investments			
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 credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- UK *

(Per Link 27/11/20)

* At its meeting of the 15th 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 2021/22.

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

	European financial companies. 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.
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

	European Investment Bank and the World Bank. Similar to government bonds, the bonds issued by these institutions are considered very safe and have a high credit rating.
Treasury Management	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.
Working Capital	Cash and other liquid assets needed to finance the everyday running of a business such as the payment of salaries and purchases.
Yield	The annual rate of return on an investment, expressed as a percentage.

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 2021-22 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.

This page is intentionally left blank

APPENDIX B

COUNCIL

TUESDAY 15TH DECEMBER 2020

REPORT OF THE PORTFOLIO HOLDER FOR ASSETS AND FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2020/21

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 approve:

1. **the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2020/21;**

2. **that the planned investments in property funds be deferred, with a review during Spring 2021 when the situation should be clearer, to inform future investment plans.**

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 half of the 2020/21 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 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

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 0.77% (1.02% for the same period in 2019/20) compared to the 3 Month LIBID benchmark rate of 0.11% (0.66% for the same period in 2019/20).

At the meeting on 15th July 2020, Members of the Corporate Scrutiny Committee considered the Capital Outturn report for 2019/20 concluding before any further investments in property funds under existing delegations are made, that a review be carried out.

As the Committee nominated by Council for the scrutiny of Treasury Management functions, it was recommended to and approved by Cabinet on 30th July that the review be scrutinised by the Audit & Governance Committee to inform the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report due to be presented to Council in December 2020. This was considered at the Audit & Governance Committee on 29th October 2020 where it was resolved that it be recommended to Cabinet that the planned investments in property funds be deferred, with a review during Spring 2021 when the situation should be clearer, to inform future investment plans.

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 2021.

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 2020/21 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

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017), which was adopted by this Council on 27th 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.

1. Economic Update and Interest Rates

1.1 As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.

- The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.

- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery.

Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate

The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US. The incoming sets of data during the first week of August were almost universally

stronger than expected.
However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e.following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

EU. The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and 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. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

World growth. Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

1.2 Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6th August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 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.
Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial

phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. At the close of the day on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).
Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations.

However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK -** second nationwide wave of virus infections resulting in further lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - 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.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** 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 subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland 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 a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

- **US – the Presidential election in 2020:** this could have repercussions for the US economy and SINO-US trade relations.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic 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.

2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council on 25th February 2020.

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	2020/21 Original Programme	Budget B'fwd from 2019/20	Virements in Year	Total 2020/21 Budget	Actual Spend @ Period 6	Predicted Outturn	2020/21 Revised Estimate*
	£m	£m	£m	£m	£m	£m	£m
General Fund	1.579	15.077	0.472	17.127	1.644	3.600	16.844
HRA	10.246	6.004	6.000	22.250	10.455	21.351	21.396
Total	**11.825**	**21.080**	**6.472**	**39.377**	**12.099**	**24.951**	**38.241**

* Includes potential expenditure slippage into 2020/21

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	**2020/21 Capital Programme £m**	**2020/21 Predicted Outturn £m**	**2020/21 Budget * £m**
Unsupported	0.844	4.754	4.985
Supported	10.981	20.197	34.392
Total spend	**11.825**	**24.951**	**39.377**
Financed by:			
Grants - Disabled Facilities	0.400	0.400	0.400
Section 106's	0.090	0.816	0.972
GF Receipts	-	0.080	12.930
GF Reserve	-	0.175	0.298
Sale of Council House Receipts	0.191	0.263	0.392
HRA Receipts	0.741	0.786	0.940
HLF/Donation - Castle Mercian Trail	-	0.226	0.226
Community Infrastructure Levy (CIL)	0.030	-	0.030
Other Grants/Contributions	0.024	0.601	0.609
MRR	2.895	3.528	4.282
HRA 1-4-1 Replacements Receipts	0.600	3.072	3.072
HRA Reserve	5.666	9.061	9.053
HRA Regeneration Fund	0.344	1.066	1.066
HRA Affordable Housing Reserve	-	0.124	0.124
Total Financing	**10.981**	**20.197**	**34.392**
Borrowing need	**0.844**	**4.754**	**4.985**

* includes potential expenditure slippage into 2020/21

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

	2019/20 Outturn £m	**2020/21 Capital Programme £m**	**2020/21 Projected Outturn £m**	**2020/21 Budget £m**
CFR – Non Housing	3.523	2.806	4.453	4.627
CFR – Housing	68.532	75.255	72.246	72.246
Total CFR	72.055	78.061	76.698	76.873
Net movement in CFR	**3.188**	**3.010**	**4.643**	**4.818**
Operational Boundary				
Expected Borrowing	63.060	63.060	63.060	63.060
Other long term liabilities	-	-		-
Total Debt 31st March	**63.060**	**63.060**	**63.060**	**63.060**

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 2020/21 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.

	2019/20 Outturn £m	**2020/21 Original Estimate £m**	**2020/21 Projected Outturn £m**	**2020/21 Budget £m**
Gross borrowing	63.060	63.060	63.060	63.060
Less investments	58.981	27.197	43.905	43.673
Net borrowing	4.079	35.863	19.156	19.387

CFR (year end position)	72.055	78.061	76.698	76.873

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.

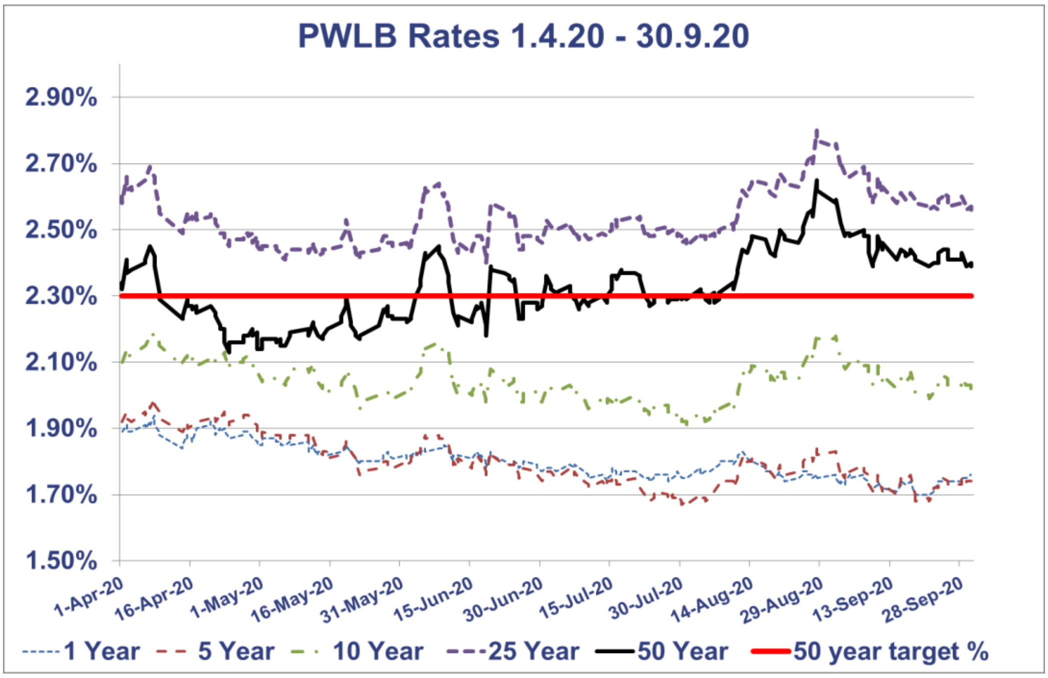
Authorised Limit for External Debt	**2020/21 Original Indicator**	**Current Position**	**2020/21 Revised Indicator**
Borrowing	85.213	85.213	85.213
Total	85.213	85.213	85.213

4. Borrowing

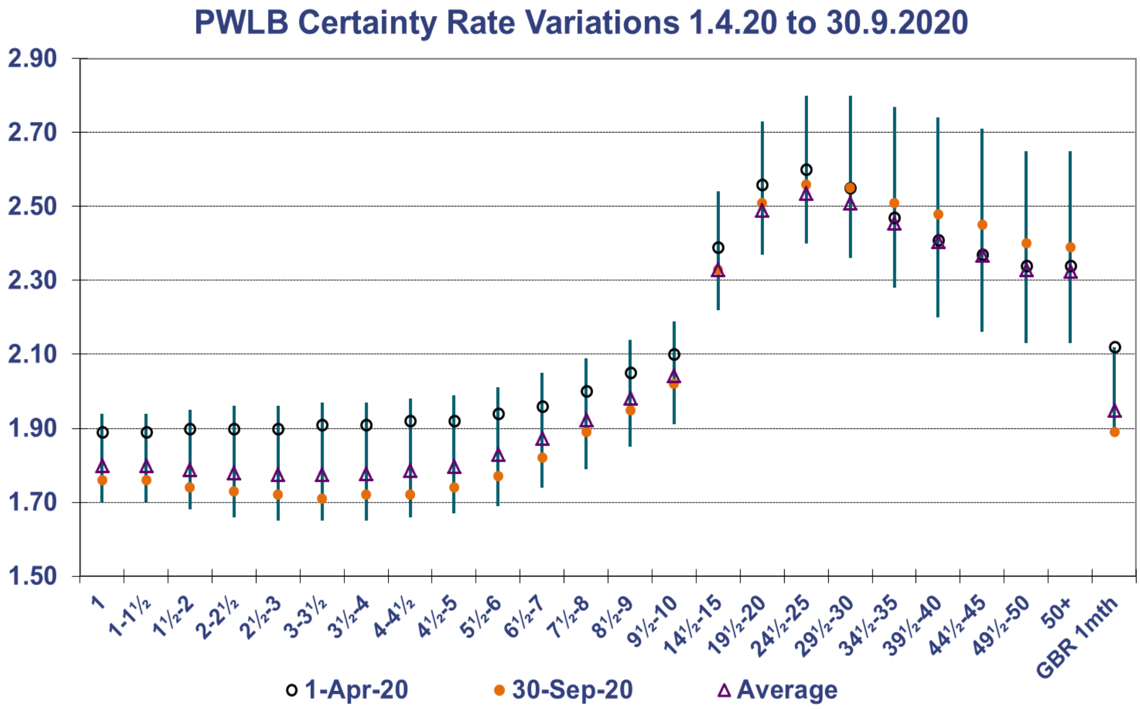
The Council's estimated revised capital financing requirement (CFR) for 2020/21 is £76.698m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary 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 £13.638m 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 2020/21.

PWLB maturity certainty rates (gilts plus 180bps) year to date to 30th September 2020



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.67%	1.91%	2.40%	2.13%
Date	18/09/2020	30/07/2020	31/07/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/2020	08/04/2020	08/04/2020	28/08/2020	28/08/2020
Average	1.80%	1.80%	2.04%	2.54%	2.33%



PWLB rates varied within a relatively narrow range between April and July but the longer end of the curve rose during August. This increase came in two periods; the first in the second week of the month was on the back of hopes for fresh US stimulus. This saw investors switch monies out of government bonds and into equities. The second shift higher at the longer end of the curve came in the latter stages of the month as investors reacted to the announcement of the tweak to the Fed's inflation target. Despite moves further out in the yield curve, the short end remained anchored on the basis of no fundamental change to the interest rate outlook.

The 50-year PWLB target rate for new long-term borrowing was unchanged at 2.30%.

5. Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2020, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2020. The Executive Director Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

7. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2020/21, which includes the Annual Investment Strategy, was approved by the Council on 25th February 2020. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in section 1.2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

Negative investment rates
While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Creditworthiness.
Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the quarter ended 30th June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into the next quarters ahead, more information will emerge on *actual* levels of credit losses. (Quarterly performance is normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that UK banks went into this pandemic with strong balance sheets. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". They stated that in their assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on negative watch, but with a small number of actual downgrades.

Link have conducted some stress testing on the Link credit methodology based list of counterparties supplied to clients, to test for the results of a 1 notch downgrade to all Long Term Ratings from all agencies. Under such a scenario, only Commerzbank, Norddeutsche Landesbank, NatWest Markets Plc (non-ring-fenced entity), Leeds, Skipton and Yorkshire Building Societies moved from Green to No Colour. While there are a further 17 drops in other entities' suggested durations, in these instances, these entities still remain potentially available for use. (Note that this scenario excludes any additional impact from relative movement in CDS pricing.)

Investment Counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices
Although CDS prices, (these are market indicators of credit risk), for UK banks spiked upwards at the end of March/early April due to the liquidity crisis throughout financial markets, CDS prices have returned to more average levels since then, although they are still elevated compared to end-February. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances

The Council held £59.572m of investments as at 30th September 2020, excluding investments in property funds (£55.061m at 31st March 2020) and the investment portfolio yield for the first six months of the year is 0.77% against a benchmark of the 3 months LIBID of 0.11%. A full list of investments held as at 30th September 2020 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 2020/21.

The Council's budgeted investment return for 2020/21 is £332k.

Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS and as approved by Council on 25th February 2020 meets the requirements of the Treasury Management function.

8.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.

9. Property Funds

Following a Property Fund Manager selection exercise during 2017/18, supported by Link Asset Services, Council on 27th February 2018 endorsed the approach taken and approved the investment in a short list of Property Funds.

To date, the Council has invested £1.85m with Schroders UK Real Estate Fund and £2m with Threadneedle Property Unit Trust, total investment £3.85m – however, capital values have fallen by £291k since, mainly since 31st March 2020 (£163k).
It should also be noted that investments in property are subject to fluctuations in value over the economic cycle and should also yield capital growth in the longer term as the economy grows.

Table 1: Fund Valuations	Investment	Valuation 31/03/2019	Valuation 31/03/2020	Valuation 30/09/2020
Schroders UK Real Estate Fund	1,848,933	1,897,716	1,884,412	1,796,118
Valuation Increase / (reduction)		48,783	35,479	(52,815)
Threadneedle Property Unit Trust	2,000,249	1,921,884	1,836,032	1,761,749
Valuation Increase / (reduction)		(78,365)	(164,216)	(238,500)
Total	3,849,182	3,819,601	3,720,444	3,557,867
Gain / (loss)		(29,581)	(128,738)	(291,315)

However, this needs to be balanced against the dividends received (which support the revenue budget). The Council received £147k in dividends from its property fund investments in 2019/20 (£108k in 2018/19), £255k in total compared to the valuation reduction of £129k over the same period.

Table 2: Investment Returns	Dividend Returns 31/03/2019	Dividend Returns 31/03/2020	Dividend Returns 30/09/2020	Estimated Return p.a.	
				%	
Schroders UK Real Estate Fund	48,118	56,638	27,300	3.0%	Half year only to 30/9/20 for 2020/21
Gain / (loss)	48,118	104,756	132,056		
Threadneedle Property Unit Trust	60,056	90,274	38,684	4.9%	
Gain / (loss)	60,056	150,329	189,014		
Total	108,174	146,911	65,984		
Gain / (loss)	108,174	255,085	321,069		
Annual Revenue % Return	2.8%	3.8%	1.7%	3.9%	
Annual Overall % Return	2.0%	1.2%	(2.5)%		
Cumulative Gain / (loss)	78,593	126,348	29,754		

Internal Treasury Management Return Achieved %	0.9%	1.0%	0.8%	0.7%	

The funds achieved an estimated return of 2.8% in 2018/19 and 3.8% during 2019/20 compared to internal investments with banks and other Councils of less than 1%.

The MTFS includes budgeted income of £300k for 2020/21 (£480k pa from 2021/22) arising from investment of the full £12m budgeted, however, due to uncertainty around arrangements for Brexit and the associated impact on the economy, and then the further uncertainty and questions over the potential outlook for future property fund returns as a result of the coronavirus, any further investment in property funds had been delayed until there is more clarity.

The secondary market investment opportunities available at present (as at 20th November) are set out below – and show that there is a potential discount of up to 5% on purchase costs, which needs to be considered against the risk of capital devaluations in the coming months.

UK Balanced Funds

FUND	BID (BUYERS)	OFFER (SELLERS)	Notes
BlackRock UK Property Fund	-4%	-3%	
CBRE UK Property PAIF	-5%	NAV	
Hermes Property Unit Trust	-3%	-1.5%	
Lothbury Property Trust	-	-3%	
Schroder UK Real Estate Fund	-5%	-3%	Trading NAV -4%
Threadneedle Property Unit Trust	-5%	-3%	

Conclusions

While risk is inherent in investment decisions, property fund investments provide investors with a strong level of return over the medium to longer term investment time horizon – which is why the Council was clear at the outset that the investments would be longer term (at least 10 years) in order to benefit from capital growth and generating significantly improved annual investment returns supporting the revenue budget. The overall return is made up of income, achieved via rental streams and capital via the changing value of underlying properties within a fund. While the second element is the most volatile from a year-to-year perspective, the income produced by the funds is relatively stable.

It is clear that it will be many months before the impact of the pandemic on the wider economy and the associated impact on real estate markets is known, however, we are seeing signs of recovery and resilience in certain parts of the economy, and consequently the Funds real estate portfolio. Most funds are able to report relatively high collection rates (approaching 80%) for both the March and June payment dates which is positive – however, the effects of the furlough scheme measures ending and a second wave over the coming months could seriously impact the wider economy and real estate markets.

It is therefore suggested that planned investments be deferred with a review during Spring 2021, when the situation should be clearer, to inform future investment plans.

REPORT AUTHOR

Please contact Stefan Garner, Executive Director Finance, extension 242, or Jo Goodfellow, Head of Finance, extension 241.

LIST OF BACKGROUND PAPERS

Background Papers -	*Local Government Act 2003*
	CIPFA Code of Practice on Treasury Management in Public Services 2017
	Annual Report on the Treasury Management Service and Actual Prudential Indicators 2019/20 – Council 15th September 2020
	Treasury Management Strategy & Prudential Indicators Report 2020/21 - Council 25th February 2020
	Budget & Medium Term Financial Strategy 2020/21 - Council 25th February 2020
	Review of the Proposed Investment in Property Funds, Audit & Governance Committee – 29th October 2020
	Financial Healthcheck Period 6, September 2020

APPENDIX 1

Investments held as at 30th September 2020:

Borrower	Deposit £	Rate %	From	To	Notice
Lancashire County Council	3,000,000	0.95%	29-Oct-19	28-Oct-20	-
Thurrock Council	3,000,000	0.83%	10-Oct-19	09-Oct-20	-
Lancashire County Council	3,000,000	1.10%	29-Oct-19	27-Oct-20	-
Lloyds Bank	1,000,000	1.10%	29-Nov-19	30-Nov-20	-
Lloyds Bank	1,000,000	1.10%	29-Nov-19	30-Nov-20	-
North Tyneside Council	5,000,000	1.20%	06-Dec-19	07-Jun-21	-
Bank of Scotland	2,000,000	1.10%	03-Jan-20	04-Jan-21	-
Bank of Scotland	2,000,000	1.10%	03-Jan-20	04-Jan-21	-
Coventry City Council	4,000,000	0.90%	29-Apr-20	28-Apr-21	-
Standard Chartered	5,000,000	0.20%	12-Aug-20	12-Feb-21	-
Santander	10,000,000	0.60%	-	-	180 day
MMF – PSDF	9,171,000	0.10%*	-	-	On call
MMF – Federated	6,000,000	0.11%*	-	-	On call
MMF – Federated	4,000,000	0.04%*	-	-	On call
MMF – Aberdeen	1,401,000	0.07%*	-	-	On call
Total	**59.572**	**0.77 (avg)**			

** Interest rate fluctuates daily dependant on the funds investment portfolio, rate quoted is approximate 7 day average.*

This page is intentionally left blank

AUDIT & GOVERNANCE COMMITTEE

23 MARCH 2021

REPORT OF THE ASSISTANT DIRECTOR FINANCE

REVIEW AND UPDATE OF FINANCIAL GUIDANCE

EXEMPT INFORMATION

None.

PURPOSE

For the Audit & Governance Committee to endorse the proposed amendments to the Procurement and Capital Budgets sections within the Council's Financial Guidance.

RECOMMENDATIONS

1. That the Committee endorse the proposed amendments to the Council's Financial Guidance, to take immediate effect.

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. Financial Guidance was recently refreshed to reflect general updates made to the Constitution, structural changes and best practice, and was ratified as part of the approval of the Constitution at Full Council on 15th December 2020.

The Procurement section within Financial Guidance includes references to European Union procurement regulations, however, since the UK has now left the EU, these references are no longer relevant. We must continue to comply with the Public Contracts Regulations 2015, which in effect wrote the EU provisions into UK law. All processes, procedures and thresholds are still relevant, with the exception that, rather than advertise in the Official Journal of the European Union (OJEU), above threshold tenders must be advertised on the UK's Find a Tender Service (FTS). A number of other minor amendments, eg.to update job titles, amend references to the In-Tend portal rather than website, and other clarifications, are also included.

In addition, a clarification is proposed within the Capital Budgets and Projects section, to make it clear that Cabinet has authority to add a new capital scheme to the capital programme, where it has approved the release of funds from the capital contingency budget, in line with its delegated authority as set out in the 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

If Members require further information, please contact Jo Goodfellow, Head of Finance on ext 241 or Lynne Pugh, AD Finance on ext 272.

LIST OF BACKGROUND PAPERS

Review of the Constitution and Scheme of Delegation – Council, December 15^{th} 2020.

APPENDICES

Appendix 1 – Proposed updated Financial Guidance with tracked changes.

Tamworth
Borough Council

FINANCIAL GUIDANCE

CONTENTS

SECTION A – Financial Regulation Policy 5

Purpose
Controls

SECTION B – Financial Procedure Rules

Financial Procedure Rules S
Contract Procedure Rules 10

SECTION C – Financial Guidance

1. Financial Management 12

1.1 Introduction
1.2 The Full Council
1.3 The Executive
1.4 The Audit & Governance Committee
1.5 Overview & Scrutiny Committees
1.6 The Statutory Officers
1.7 Scheme of Delegation
1.8 Accounting Policies

2. General Guidance 19

2.1 Introduction
2.2 Employees Responsibilities
2.3 Miscellaneous

3. Risk Management & Control of Resources 23

3.1 Risk Management
3.2 Insurances
3.3 Internal Controls
3.4 Internal Audit
3.5 Treasury Management
3.6 Prudential Code

4. Revenues Budget & Expenditure 31

4.1 Introduction
4.2 Incurring Expenditure
4.3 Budget Monitoring & Variances
4.4 Virement
4.5 Income Generation

5. **Capital Budgets & Projects** 35

5.1 Definition of Capital
5.2 Leasing/Rental Agreements
5.3 Authority to Incur Capital Spend
5.4 Monitoring
5.5 External Funding
5.6 Disposal of Capital Assets

6. **Procurement & Contracts** 40

6.1 Introduction
6.2 Summary of Requirements
6.3 Alternative Purchasing Arrangements
6.4 Appraisal of Potential Contractors
6.5 Supplier Register
6.6 Framework Agreements
6.7 Tender Procedures
6.8 Post Tender & Contracts
6.9 Project/Contract Implementation & Payment
6.10 Final Account
6.11 Post Contract
6.12 Partnerships
6.13 Orders for Supply from External Sources
6.14 Receiving Goods and Services
6.15 Advance Payments
6.16 Voluntary & Community Sector Commissioning Framework
6.17 Some Definitions
6.18 Further Advice & Guidance

7. **Payment of Accounts** 75

7.1 Introduction
7.2 Security & Good Practice
7.3 Invoice Processing
7.4 Electronic Payment Mechanisms

8. **Payment of Salaries & Allowances** 79

8.1 Salaries
8.2 Intermediaries Legislation (IR35)
8.3 Allowances & Expense Claims
8.4 Members Allowances

9. **Cash Advances, Cash Floats & Petty Cash** 83

9.1 Purpose
9.2 Processes

10.	**Income, Charging & Debts**	85
10.1	Fees & Charges	
10.2	Receiving Payment	
10.3	Postal Payments	
10.4	Cashing Up Procedures	
10.5	Depositing Money	
10.6	Money Laundering	
10.7	Invoices, Debtors & Other Sums Due	
10.8	Debt Write Off	
11.	**Assets & Equipment**	90
11.1	Responsibilities	
11.2	Scope	
11.3	Use	
11.4	Disposal	
12.	**Stocks & Stores**	93
12.1	Responsibilities	
12.2	Stocktaking	
12.3	Obsolete & Unserviceable Stock	
12.4	Intellectual Property	
13.	**Security**	96
14.	**Data Quality**	97
15.	**Equality Impact Assessment**	98

Section A

Financial Regulation Policy

FINANCIAL REGULATION POLICY

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 and contract procedure rules 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

FINANCIAL PROCEDURE RULES

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 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 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.

    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 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 PROCEDURE RULES

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.

   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.

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, with the agreement of the Chief Executive and 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

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) 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) 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;

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

o) Appointing Independent Persons; and

p) 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

- 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.

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.

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 and 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.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: 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;
- ;
- 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 Chief Finance Officer will:

- After consulting with the Chief Executive and the Monitoring Officer, report to the full Council or to the Executive in relation to an Executive 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**

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 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 it's 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, regulation 5, more specifically requires that "a relevant body 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 and guidance'.

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 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 afters 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 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. Cabinet may also add a new capital scheme to the capital programme where they have approved the release of funds from the capital contingency budget.

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 31st 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 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;and

g) 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).

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 Assistant Director -People.

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) 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) 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 detailed specification is required, then the quick quote or tender 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 £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 Public Contract Regulations (PCR) 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 In-Tend 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 portal 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 portal 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.

6.1.15 Chief Officers should ensure that current and potential suppliers register their company details on the supplier portal which can be found at the following internet site https://in-tendhost.co.uk/tamworthbc.

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 example 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 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	**Must** 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	**Must** consult the Procurement Team to seek guidance as to the appropriate procurement route to follow	Tendering **must** 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 **must** 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 - £99,000	**Must** consult the Procurement Team to seek guidance as to the appropriate procurement route to follow	Advice from Procurement and, where appropriate, Legal **must** first be obtained. Tendering **must** be considered. **Must** use the standard quotation/ tender documents. The Authorisation Form **must** 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 **MUST** 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
£100,000 and over	**Must** advise Procurement Team in writing as soon as the spend requirement is identified – this is at least a 6 month period. 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	Use of the Invitation to Tender Documentation **must** be used. The Authorisation Form **must** be completed and returned to the Procurement Team	**Must** be a formal written contract duly approved by the relevant Executive Director in consultation with legal 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 Pentana. 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 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

<u>Further Guidance</u>

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 £3,999 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 - £99,999

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/ QQs 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/ QQ 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 <u>£100,000 plus</u>

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 will enable an assessment of whether or not PCR thresholds will apply and ensure the most appropriate procurement solutions are sought. Where the PCR 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 aggregation rules apply. If they do, then, 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 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,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 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 £100,000 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 and scoring methods to be used 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.

6.7.7 The relevant Public Contracts Regulations 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 (£)**

Contract Value	£189,330	£4,733,252	£4,733,252

6.7.8 These figures apply from 1 January 2021. 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 Public Contracts Regulations 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.

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 Public Contracts Regulations.

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 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 obtain legal (as necessary) for advice.

Extension to Tender Period

6.7.14 The Executive Director - Finance (or 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.

6.7.17 A tender received after the specified time may be only opened and considered at the discretion of the 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 in consultation with legal, 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 portal. 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 marks given to each tenderer for each element of the evaluation must be recorded. Information provided must be helpful, constructive and, where a mark(s) is lost, must clearly detail any errors or omissions made by the tenderer leading to the decision. 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, 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.

6.7.28 During the evaluation process, clarification may be sought on any of the tenders received. The questions and answers must always be submitted via the in-tend portal 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

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.

<u>Post Tender Negotiation & Clarification</u>

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 the Corporate Procurement Officer 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 legal 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 legal 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 PCR 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.

<u>Tender Acceptance</u>

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 Assistant Director - Finance of the process to be followed.

6.7.42 Where the procurement is conducted over PCR thresholds, 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 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 Corporate Procurement Team who may consult with legal.

6.7.43 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 above threshold PCR 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, 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 £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 Chief Executive should check and endorse contracts before engrossment valued at £100,000 or above for signature. Contracts below £100,000 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 signed copies of all formal contracts are scanned on pdf format and e-mailed to the Procurement team for their records. Original copies of formal contracts must be placed in the Council's strong room for all contracts over 12 months/over £100,000. 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 Legal 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.

<u>Contract Monitoring and Variations (including claims)</u>

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 £100,000, 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 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 for consideration of the authority's legal liability.

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

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 E-financials 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.

<u>Goods Receipting</u>

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.

Word	Definition
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.

Issue	Contact	Comments
Significant departure (either actual or potential) from this guidance	Executive Director - Finance,	
Issue	**Contact**	**Comments**
Procurement and purchasing – general procedures/PCR procedures/joint procurement and partnerships	Executive Director - Finance	Chief Officers must not enter into any arrangement for procuring works, goods or services over the £100,000 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	Legal & Democratic Services Manager	
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, 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.

<u>Amendments</u>

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.

<u>Year End</u>

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 31st 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 31st March and not later than 15th 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 31st 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 the 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 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 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: 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 31st 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.

<u>All Methods</u>

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.

<u>Cheque Payment Against An Invoice/Account</u>

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.

<u>Cheque – Other Payment</u>

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 cheque

And the officer must:

c) Record the card number on the back of the cheque.

<u>Debit and Credit Cards</u>

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 receipting 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 £1,000. No cash payments above £1,000 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.

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.

<u>Credit Policy</u>

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.

<u>Disposal Guidelines</u>

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 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 Directo - 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**

Is this a new or existing policy?	Existing
1. Briefly describe the aims, objectives and purpose of the policy?	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.
2. Are there any associated policy/ procedure/ practice which should be considered whilst carrying out this equality impact assessment?	
3. Who is intended to benefit from this policy and in what way?	TBC Employees Council – improved efficiency, increased resilience Council customers – VFM
4. What are the desired outcomes from this policy?	Transparency, consistency of application
5. What factors/ forces could contribute/ detract from the outcomes?	Different management interpretations of the guidance ICT not available
6. Who are the main stakeholders in relation to the policy?	All employees and Chief Officers of TBC, members, contractors, partners and residents

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

impact on Gypsies/ Travellers?			
16. Are there concerns that the policy <u>could</u> have a differential impact due to dependant/caring responsibilities?		**N**	
17. Are there concerns that the policy <u>could</u> have a differential impact due to them having an offending past?		**N**	
18. Are there concerns that the policy could have an impact on children or vulnerable adults?		**N**	
19. Does any of the differential impact identified cut across the equality strands (e.g. elder BME groups)?		**N**	
20. Could the differential impact identified in 8 – 19 amount to there being the potential for adverse impact in this policy/ procedure/ practice?		**N**	
21. Can this adverse impact be justified: • **on the grounds of promoting equality of opportunity for one group?**	**Y**	**N**	**N/A**

• **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**		

This page is intentionally left blank

AUDIT & GOVERNANCE COMMITTEE

23 MARCH 2021

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 2021/22 proposed internal audit plan (**Appendix 1**) and charter (**Appendix 2**).

RECOMMENDATIONS

1. **That the Committee comment on and endorse the 2021/22 proposed internal audit plan (Appendix 1) and 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 proposed audit plan is detailed at **Appendix 1**.

During 2020/21, a trial 12 month extension to the shared agreement with Lichfield District Council to include their auditor resources took place. Despite the pandemic and challenges with remote working, the trial has been largely successful in terms of customer feedback and performance against KPI's (reported to Audit & Governance Committee in audit's routine performance reports). It is therefore suggested that the 12 month extension be extended for a further 12 months to allow the new Audit Manager to fully appraise in terms of future direction of the service.

The Audit Charter is detailed at **Appendix 2**. Minor changes to account for role titles have been made and are highlighted on the document.

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 & Governance 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
rebecca-neill@tamworth.gov.uk
Ext: 234

LIST OF BACKGROUND PAPERS

APPENDICES

Appendix 1 – Audit Plan
Appendix 2 – Audit Charter

Appendix 1

Tamworth
Borough Council

Internal Audit
Draft Audit Plan & Charter 2021/22

Contents

01 Introduction
02 Audit Planning
03 Internal Audit Plan 2021/22
04 Joint Working
05 Charter

Appendices
01 Detailed Plan 2021/22
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

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.

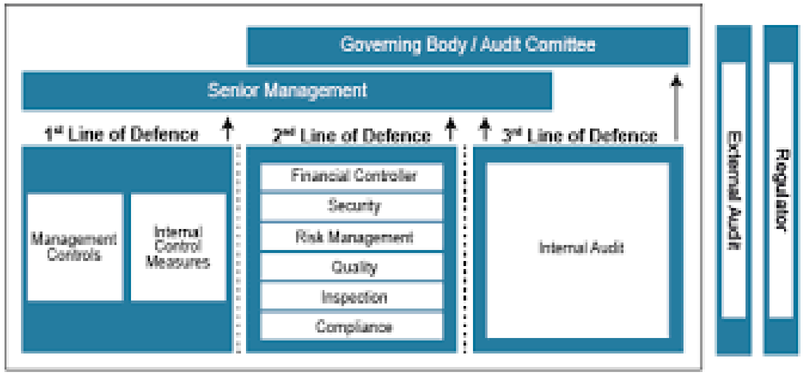
02 Audit Planning

As part of the planning for 2021/22, the proposed plan of work has been developed based on:

- **Key risks** – the plan for 2021/22 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 .
- **Coronavirus –** Due to the significant impact of the pandemic on the Council's operations, as was the case for the 2020/21 plan, an allocation of time to address assurance needs as and when they arise, in response to the pandemic and subsequent recovery has been included. This will be kept under 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** – in 2020/21 a benchmarking exercise was undertaken to compare the level of audit resources with similar council's. Audit days were reduced from 318 days (2019/20) to 256 days (2020/21) to be competitive with peers. The Council's risk profile has not changed year this year, is not unusual (a reasonable assurance opinion has been given for the last 3 years) and the level of fraud risk has remained low. For these reasons the 2021/22 draft plan resources have not materially changed.
- **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 260 days and in particular seeks to provide assurance over areas of higher risk.

04 Joint Working

During 2020/21, a trial 12 month extension to the shared agreement with Lichfield District Council to include their auditor resources took place. Despite the pandemic and challenges with remote working, the trial has been largely successful in terms of customer feedback and performance against KPI's (reported to Audit & Governance Committee in audit's routine performance reports). It is therefore suggested that the 12 month extension be extended for a further 12 months to allow the new Audit Manager to fully appraise in terms of future direction of the service.

05 Charter

The Audit Charter is at **Appendix 2.** Changes, which have been highlighted, are mainly to account for the replacement of the Head of Audit & Governance with an Audit Manager.

Appendix 01: Detailed Audit Plan 2021/22

Assurance Requirement	Audit	Scope	Risk	Planned Days	Total Days	Proposed Quarter
Core Financial Systems	Assets & Inventory	Risk based review covering the adequacy and effectiveness of controls regarding the Council's assets and inventory.		10	40	Q2
	NNDR	Risk based review of NNDR including assurance over the adequacy of controls around the maintenance of systems recording taxable properties and liable persons, billing, discounts and reliefs, collection, refunds and write offs.		10		Q3
	Procurement	Risk based review of strategic procurement including policy and procedural review (including changes arising from Exit from the European Union), planning, high level spend and compliance with contract rules, contract management.		10		Q3
	Creditors	Standard risk based review of creditors, including controls surrounding supplier set up, ordering, goods receipting, payment systems		10		Q4
Strategic & Operational Risks	Pandemic risks	'Flash' audits of dynamic risks arising from the Council's pandemic response. To include, for example, thematic reviews over continuity and recovery arrangements, business grants, productivity and performance.		20	110	Q1-Q4
	Recovery and Reset	Programme assurance based review of Recovery and Reset programme. Programme assurance includes programme planning, governance structure and controls, delivery, change management, RAIDD management (Risk, Action, Issue, Decision, Dependency), testing and reporting.		10		TBC
	Future High Street	Programme assurance review (as recovery and rest above) of progression towards transformation of the town centre following the £21.65m allocation of Future High Street Funding.		10		TBC

Assurance Requirement	Audit	Scope	Risk	Planned Days	Total Days	Proposed Quarter
	Preparedness for regulatory compliance arising from Housing White Paper	Risk based review of organisation preparedness for new regulatory inspection regime.		20		TBC
	Climate Change	Risk based review looking at the Council's preparation to de-carbonisation / climate change agenda.		10		Q2
	Partnerships	Risk based review of the Council's controls around strategic partnerships.		10		Q2
	Shared Services	Risk based review of controls in place for effective delivery of shared services e.g. waste management, CCTV, legal services, building control, internal audit.		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. Audit carried forward from 2020/21.		10		Q3
	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. Audit carried forward from 2020/21.		10		Q3
ICT	TBC	TBC		20	20	Q2-Q4
Governance, Fraud & Other Assurance	Disabled Facilities Grant	Assurance statement		5		Q4
	Municipal Charities	Preparation of municipal charities accounts		2		Q3
	Counter Fraud	Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.		10	30	Q1-Q4
	Annual Governance Statement	Production of the AGS.		10		Q1-Q2
	Annual Audit Opinion	Production of the Annual Audit Opinion		3		Q1-Q2
	Follow Up of Recommendations	To follow up all no and limited assurance reports and all high priority recommendations.		20		Q1-Q4
	Management and Planning	Management, planning and assurance reporting		30	60	Q1-Q4

Assurance Requirement	Audit	Scope	Risk	Planned Days	Total Days	Proposed Quarter
		to CMT and Audit & Governance Committee				
	Ad hoc / Contingency / Consultancy	Contingency allocation to be utilised upon agreement of the Chief Finance Officer		10		Q1-Q4
				Total	**260**	

APPENDIX 2

Tamworth Borough Council

INTERNAL AUDIT CHARTER

March 2021

Document Location
This document is held by Tamworth Borough Council (TBC) and the document owner is the Audit Manager.

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	1st draft
05/03/14	1.01.02	Review
04/03/15	1.01.03	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
12/06/20	1.01.09	Review – changes to follow up process
10/03/21	1.01.10	Review including role title changes

Approvals

Name	Date:
Audit & Governance Committee	
Chief Executive	
Head of Audit & Governance and Monitoring Officer	10.03.21

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.

CONTENTS PAGE

		Page
1	Definition of Internal Auditing	3
2	Mission Statement of Internal Audit	3
3	Purpose and Statutory requirements	3
4	Objectives	4
5	Role and Scope of Work	5
6	Proficiency and Due Professional Care	6
7	Authority	6
8	Organisation	8
9	Independence and Objectivity	8
10	Internal Audit Plan	8
11	Report and Monitoring	9
12	Quality Assurance and Improvement Programme	9

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, ad 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 Audit Manager 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 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 Audit Manager'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 Audit Manager 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 Audit Manager 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 Audit Manager who is professionally qualified as required by the PSIAS. The Audit Manager 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 Audit Manager does not manage any other Council function and so their 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 Audit Manager 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 Audit Manager will submit to Executive Leadership 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 Audit Manager following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing reports issued in accordance with the Internal Audit Protocol.

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 Audit Manager 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 Audit Manager 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.

This page is intentionally left blank

AUDIT & GOVERNANCE COMMITTEE

23 MARCH 2021

ANNUAL REPORT OF THE AUDIT & GOVERNANCE COMMITTEE 2020/21

EXEMPT INFORMATION

None.

PURPOSE

This report presents the proposed Annual Report of the Audit & Governance Committee 2020/21 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 2020/21 be endorsed prior to its submission 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

Rebecca Neill, Head of Audit and Governance & Monitoring Officer
rebecca-neill@tamworth.gov.uk
Ext: 234

LIST OF BACKGROUND PAPERS

- Audit Committees in Local Authorities and Police (2018), CIPFA
- Audit Committee agendas, minutes and reports for the Committee year 2020/21.

APPENDICES

Appendix 1 – Annual Report of the Audit & Governance Committee 2020/21

Annual Report of the Audit & Governance Committee 2020/21

1. Introduction from the Chair of the Audit Committee

I am pleased to present the Annual Report of the Audit Committee for the 2020/21 Committee year.

There is no doubt that this has been a challenging year for everyone. During these extraordinary times, it is more important than ever that the Committee is able to gain assurance that the Council's governance, risk and internal control environment remain fit for purpose.

While some of the Committee's early work programme was impacted by restrictions arising from the pandemic, the Committee moved seamlessly to remote working, hosting its meetings remotely from July 2020. Business as usual resumed and the Committee was able to seek assurance against the Council's response to Covid-19 and other significant risks, as well as continuing to ensure the Council's overall governance framework remained robust.

These will be continuing themes into our work programme in 20/21, but in addition, there will be new areas on which the Committee will be seeking assurance, such as in the Council's transformation of the town centre following the £21.65m allocation of Future High Street Funding and also in terms of the Reset and Recovery Programme. As we hopefully move into a post pandemic recovery, the Committee will continue to scan the risk horizon for new and emerging threats and opportunities, notably, the Council's response to climate change and cyber security. I would welcome all to attend a meeting of the Committee and see our work in operation for yourselves!

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 2020/21
11 March 2021

2. Terms of Reference

The terms of reference, which the Committee operated to during 2020/21, is detailed at Part 2, Article 9 of the constitution which can be found at the following link: CONSTITUTION CLICK HERE

3. Member and Officer Attendance

The Audit & Governance Committee met 4 times during 2020/21.

Membership of the Audit & Governance Committee during 2020/21 and their attendance is detailed at below:

Audit & Governance Committee Member	Date of Committee			
	23/7/20	29/10/20	11/02/21	23/3/21
Councillor M Summers	☑	☑	☑	TBC

Councillor M Bailey	☑	☑	☑	TBC
Councillor C Cooke	☑	☑	☑	TBC
Councillor J Faulkner	☑	☑	☑	TBC
Councillor M Oates	☑	☑		TBC
Councillor S Pritchard		☑	☑	TBC
Councillor P Thurgood	☑	☑	☑	TBC

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 assessed the pros and cons of this during the year and decided to commence a recruitment process to appoint 2 independent members. This will be progressed for the new Committee year 2021/22.

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. The External Auditor also attends.

4. Training & Effectiveness

Audit & Governance Committee receive appropriate and proportionate training. A general training session for all Councillors was held in November 2020 on the role of the Committee; the internal control environment, governance, risk management and counter fraud.

5. Sources of Assurance during 2020/21

In fulfilling its terms of reference, the business conducted by the Audit Committee during 2020/21 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 2020/21 from these themes as follows:

Internal Audit

In respect of the 2020/21 financial year, a positive Internal Audit Opinion was given from the Head of Audit & Governance as follows:

'On the basis of audit work completed, the Head of Audit & Governance's opinion on the council's framework of governance, risk management and internal control is reasonable in its overall design and effectiveness. Certain weaknesses and exceptions were highlighted by audit work. These matters have been discussed with management, to whom recommendations have been made. All of these have been, or are in the process of being addressed'.

‘Specific issues:
No specific issues have been highlighted through the work undertaken by Internal Audit during the year’.

Audit Committee received internal audit’s performance reporting during the year indicating that the service was performing reasonably against its performance measures, despite the disruption of the pandemic.

The Council can be assured that no issues have been identified in the 2020/21 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 2019/20 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 Council and its income and expenditure for the year; and
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the requirements of the Local Audit and Accountability Act 2014’.

Financial Management

The Committee scrutinised the 2019/20 statement of accounts and also received reports on accounting policies. The Committee also had oversight of a review of the Council’s financial guidance, undertook a review of the financial resilience index and received assurance on the treasury management strategy / statement. The Committee received regular Internal Audit progress reports, including a number giving assurance on financial management and controls during the period (e.g. budgetary control, treasury management and housing and council tax benefits).

Risk Management

The Committee 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 financial sustainability; modernisation and commercialisation; governance; community focus; economic growth and sustainability; information safeguarding and risks arising from the UK’s exit from the European Union.

Corporate Governance

The annual governance statement (AGS) and review of effectiveness for the 2019/20 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; and
- received assurance on the Council's Modern Slavery and Human Trafficking Statement.

Regular updates on the adequacy of the council's counter fraud arrangements were also received, including the approval of a new prevention of the facilitation of tax evasion policy.

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 2020/21 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 2021/22 with the Committee's refreshed work programme.

Appendix A

Summary of Audit & Governance Committee Work Plan by Assurance Theme 2020/21

Meeting Date	Report	Assurance Theme Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
23/7/20	Risk Management Update				☑	
	Regulation of Investigatory Powers Act					☑
	Internal Audit Annual Report and Update	☑				
	Pros and Cons of Independent Members					☑
	Public Sector Internal Audit Standards & Quality Improvement Programme	☑				
	Audit Plan and Charter 20/21	☑				
	Financial Guidance Review			☑		
	Audit Committee Annual Report 2019/20					☑
	Audit Plan Addendum		☑			
	Informing the Risk Assessment		☑			
	Public Sector Audit Appointments Update		☑			
	Financial Resilience Index			☑		
	Corporate Vision, Priorities, Plan, Budget, Medium Term Financial Strategy			☑		
	Treasury Management Statement / Strategy			☑		
	Accounting Policies			☑		
29/10/20	Audit Findings Report		☑			
	Management Representation Letter		☑			
	Annual Statement of Accounts & Report			☑		
	Review of Treasury Management Service and Prudential Indicators Report			☑		
	Review of Proposed Investment in Property Fund			☑		
	Risk Management - Quarterly Update				☑	
	Internal Audit Quarterly Report	☑				
	Counter Fraud Update					☑
	Annual Governance Statement and Code of Corporate Governance					☑
	Review of the Constitution					☑

Meeting Date	Report	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	and Scheme of Delegation					
11/2/21	Annual Audit Letter		☑			
	Risk Management - Quarter Update				☑	
	Internal Audit Quarter Update Report	☑				
	Audit Committee Effectiveness Review					☑
	Modern Slavery & Human Trafficking					☑
23/3/21	Audit Committee Annual Report 2020/21					☑
	Internal Audit Charter and Plan 21/22	☑				
	Audit Plan		☑			
	Informing the Risk Assessment		☑			
	Review of Treasury Statement / Strategy			☑		
	Final Accounts – Accounting Policies and External Audit Plan			☑		
	Review of Financial Guidance			☑		

PLANNED REPORTS TO AUDIT AND GOVERNANCE COMMITTEE 2021-2022

	Report	Committee Date	Report Of	Comments
1	Role of the Audit Committee	**June**	Grant Thornton	Presentation/training
2	Audit & Governance Committee update	**June**	Grant Thornton	
3	Fee Increase Letter	**June**	Grant Thornton	*Moved from March meeting*
4	RIPA Annual Report & Review of the RIPA Policy	**June**	Assistant Director - Partnerships	
5	Internal Audit Annual and Quarterly Update	**June**	Head of Audit & Governance	
6	Public Sector Internal Audit Standards/Quality Assurance and Improvement Programme	**June**	Head of Audit & Governance	
7	Annual Governance Statement and Code of Corporate Governance	**June**	Head of Audit & Governance	
8	Review of the Constitution & Scheme of Delegation	**June or July / Sept**	Monitoring Officer	

9	Councillor Code of Conduct – following finalisation of LGA new Model Code	**June or July / Sept**	Monitoring Officer	
		2 Provisional dates currently requested– one for July & one for September		
1	Audit and Governance Committee update	**July / September**	Grant Thornton	
2	Audit Findings Report	**July / September**	Grant Thornton	
3	Management Representation Letter	**July / September**	Grant Thornton	
4	Annual Statement of Accounts	**July / September**	Executive Director Finance	
5	Risk Management Quarterly Update	**July / September**	Assistant Director – Finance	
7	Internal Audit Annual Report and Update	**July / September**	Head of Audit & Governance	
8	Modern Slavery and Human Trafficking	**July /**	Assistant Director -	

	Statement	**September**	Partnerships	
9	Update on Risk Based Verification Policy	**July / September**	Assistant Director, Finance	
1	Audit & Governance Committee update	**October**	Grant Thornton	
2	Annual Audit Letter	**October**	Grant Thornton	
3	Internal Audit Quarterly Update	**October**	Head of Audit & Governance	
4	Risk Management Quarterly Update	**October**	Assistant Director – Finance	
5	Annual Treasury Outturn	**October**	Executive Director Finance	
6	Local Government Ombudsman's Annual Review and Report 2020/21	**October**	Assistant Director - People	
7	Counter Fraud Update	**October**	Head of Audit & Governance	*Annual report in October*
	Private meeting of Internal and External Auditors and Committee members	**October**		

1	Audit & Governance Committee update	**February**	Grant Thornton	
2	Fee Increase Letter	**February**	Grant Thornton	
3	Internal Audit Quarterly Update	**February**	Head of Audit & Governance	
4	Risk Management Quarterly Update	**February**	Assistant Director – Finance	
5	Audit Committee Effectiveness	**February**	Head of Audit & Governance	
1	Audit and Governance Committee update	**March**	Grant Thornton	
2	Audit Plan	**March**	Grant Thornton	
3	Informing the Audit Risk Assessment	**March**	Grant Thornton	
4	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	**March**	Executive Director Finance	
5	Final Accounts – Accounting Policies and	**March**	Assistant Director of	

	Action Plan		Finance	
6	Internal Audit Charter and Audit Plan	**March**	Head of Audit & Governance	
7	Review of the Constitution and Scheme of Delegation for Officers	**March**	Monitoring Officer	
8	Review of Financial Guidance	**March**	Assistant Director Finance	
9	Annual Report of the Chair of A&G	**March**	Head of Audit & Governance / Chair	
	Private meeting of Internal and External Auditors and Committee members			

The Portfolio Holder for Assets and Finance

This page is intentionally left blank