N0N-CONFIDENTIAL

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AUDIT AND GOVERNANCE COMMITTEE

12 April 2023

Dear Councillor

A meeting of the Audit and Governance Committee will be held in **Town Hall, Market Street, Tamworth on Thursday, 20th April, 2023 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 Apologies for Absence

2 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.

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

4 **Review of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2023/24 and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2022/23** (Pages 9 - 98)

(Report of the Executive Director, Finance)

5 **Review and Update of Financial Guidance** (Pages 99 - 196)

(Report of the Assistant Director, Finance)

6 **Public Sector Internal Audit Standards/Quality Assurance and Improvement Programme** (Pages 197 - 220)

(Report of the Audit Manager)

7 **Annual Report of the Chair of Audit & Governance Committee** (Pages 221 - 228)

(Report of the Audit Manager)

8 **Audit and Governance Committee Timetable** (Pages 229 - 234)

(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.

If a member of the public is particularly concerned about being filmed, please contact a member of Democratic Services before selecting a seat

FAQs

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

To Councillors: P Turner, A Cooper, D Cook, S Daniels, J Jones, R Kingstone and P Thompson

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MINUTES OF A MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE
HELD ON 22nd MARCH 2023

PRESENT: Councillor P Turner (Chair), Councillors A Cooper (Vice-Chair), D Cook, S Daniels, J Jones and P Thompson

Officers Joanne Goodfellow (Assistant Director Finance), Andrew Wood (Audit Manager) and Jo Hutchison (Senior Scrutiny and Democratic Services Officer)

Guests William Guest (Grant Thornton) and Robin Pritchard (Business Risk Solutions) (Business Risk Solutions)

63 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor R Kingstone.

The Chair welcomed Cllr P Thompson to the Committee who had been recently appointed as a member.

64 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 9th February 2023 were approved and signed as a correct record.

(Moved by Councillor D Cook and seconded by Councillor A Cooper)

65 DECLARATIONS OF INTEREST

There were no Declarations of Interest.

66 PUBLIC SECTOR INTERNAL AUDIT STANDARDS & EXTERNAL QUALITY ASSESSMENT

Report of the Audit Manager on the Public Sector Internal Audit Standards and External Quality Assessment.

To report on the External Quality Assessment completed to ensure compliance with the Public Sector Internal Audit Standards and outline to Committee the agreed Action Plan for improvements.

The Committee received a presentation from the external consultant, Mr Robin Pritchard, from Business Risk Solutions which summarised the outcomes of the External Quality Assessment. It was reported that the external assessment was that the service generally conforms to the Public Sector Internal Audit Standards.

The Committee thanked the Audit Manager for his work over the past two years.

The Committee sought clarification around the risk associated with the small team in internal audit and it was reported that resources were supplied through external provision, including specialist IT audit service and that the vacancies remained and when appropriate recruitment to these posts would be pursued.

It was agreed that the Action Plan would be brought to the Committee on a quarterly basis.

RESOLVED: that the Committee endorsed the External Quality Assessment and the responses to the recommendations made.

(Moved by Councillor D Cook and seconded by Councillor A Cooper)

67 UPDATE FROM EXTERNAL AUDITORS

Mr W Guest, from the External Auditors reported that:

1. In terms of the 2021/22 year, the Housing Benefit Final Subsidy Claim for 2021/22 had been completed and reported through to the Department for Work and Pensions in accordance with the deadline.
2. Value for Money work was substantially progressed and would be brought to the April 2023 Committee
3. The 2022/23 Audit had commenced and there was expected to be a report on this in April.

68 INTERNAL AUDIT PLAN AND CHARTER 2023/24

Report of the Audit Manager on the Internal Audit Plan and Charter 2023/24 for the Audit & Governance Committee to comment on and endorse the 2023/24 proposed internal audit plan (Appendix 1) and charter (Appendix 2).

The Committee sought clarification on the impact of agile working on the delivery of internal audits, where it was reported that whilst agile working could be a challenge, the audit service's approach had been developed to address this and this resulted in electronic records being used and required the ICT infrastructure to support the agile working.

RESOLVED: that Committee endorsed the 2023/24 proposed internal audit plan (Appendix 1) and charter (Appendix 2).

(Moved by Councillor A Cooper and seconded by Councillor D

Cook)

69 FINAL ACCOUNTS 2022/2023 - ACCOUNTING POLICIES AND ACTION PLAN

Report of the Assistant Director Finance on the Final Accounts 2022/23 – Accounting Policies and Action Plan to advise Members of the proposed Accounting Policies for 2022/23.

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 2022/23 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

RESOLVED that the Committee approved:

1. the proposed Accounting Policies for 2022/23, as attached at Appendix A;
2. the target of 30th June 2023 for closure of the final accounts and production of the statement for 2022/23;
3. committal of staffing resources to the provision of appropriate information and support in order to meet the published timescales and the Committee receive progress updates (if required);
4. that CMT receive a fortnightly update until completion of the audit;
5. that the Statement be presented to the Audit & Governance Committee before the end of September 2023; and
6. that the Committee recognised the appointment of Azets Audit Services as the Council's external auditor from 1st April 2023.

(Moved by Councillor P Turner and seconded by Councillor D Cook)

70 AUDIT AND GOVERNANCE COMMITTEE TIMETABLE

The Committee reviewed the timetable.

A private Meeting of the Internal and External Auditors and Committee Members, without Officers present, followed the Meeting

Chair

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AUDIT & GOVERNANCE COMMITTEE

20th April 2023

Report of the Executive Director Finance

REVIEW OF THE TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STATEMENT 2023/24 and the TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2022/23

Purpose

To review the Treasury Management Strategy Statement, Minimum Revenue Provision Statement and Annual Investment Statement 2023/24 and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2022/23 approved by Council on 28th February 2023 and 13th December 2022 respectively.

To endorse the CIPFA Effective Scrutiny of Treasury Management self assessment review.

Recommendation

That Members

1) **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; and**

2) **endorse the CIPFA Effective Scrutiny of Treasury Management self assessment at Appendix C, highlighting any further training requirements to inform the 2023/24 training plan.**

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. In order to undertake this role effectively the Committee receive regular treasury management reports and all Members receive training on treasury management at least annually or more often when required.

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 2023/24 is attached at **Appendix A**, together with a copy of the Mid-year Report on the Treasury Management Service 2022/23 at **Appendix B.**

The CIPFA Treasury Management 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.

Furthermore, the Code states that they expect all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and Council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.
As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and Council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a self-assessment for completion by members responsible for the scrutiny of treasury management, in order to identify any areas where support or training is needed to ensure the development of effective scrutiny. This self-assessment has been reviewed and is attached at **Appendix C** for review and endorsement.

Training on Treasury Management issues was most recently delivered for Members in February 2023 (following training in February 2022), with training on the Corporate Capital Strategy in February 2020.

Effective scrutiny is important. As well as demonstrating compliance with the Code, the scrutiny is an important part of ensuring effective governance of treasury management.

- It helps develop a better understanding of the treasury risks faced by the organisation.
- It helps ensure better decision making on strategy & policy matters.
- It improves accountability and transparency.
- It improves knowledge and understanding of treasury matters amongst the members of the governing body.

The most important thing is that the review is used to identify any areas where support or training is needed to ensure the development of effective scrutiny.

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 Stefan Garner, Executive Director Finance, extension 242 or Jo Goodfellow, Assistant Director Finance, extension 241.

Background Papers:-	Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2023/24 (Including Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement 2023/24, and Corporate Capital Strategy, Council 28th February 2023)
	Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2022/23, Council 13th December 2022
	CIPFA Treasury Management Panel Bulletin, December 2009: Treasury Management – Update

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APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT, TREASURY MANAGEMENT POLICY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24

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 2023/24 – 2025/26 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 2021;

- 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 2021, the following four clauses have been adopted:

1. This Council will create and maintain, as the cornerstones for effective treasury and investment management:

a. A treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities

b. 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

c. Investment management practices (IMPs) for investments that are not for treasury management purposes.

2. This Council will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs and IMPs.

3. 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, TMPs and IMPs, and, as a CIPFA member, CIPFA's Standard of Professional Practice on treasury management.

4. This organisation 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 Omotayo Lawal, Head of Finance, ext 246 or Stefan Garner, Executive Director Finance, ext 242.

Background Papers:-	***Budget & Medium Term Financial Strategy 2023/24***
	Mid-year Treasury Report 2022/23 Council, 13/12/22
	Annual Treasury Report 2021/22 Council 27/09/22
	Treasury Management Strategy Statement, Treasury Management Policy Statement, Minimum Revenue Provision Policy Statement & Annual Investment Statement 2022/23 Council 22/02/22
	Treasury Management Training slides 20th November 2019
	CIPFA Code of Practice on Treasury Management in Public Services 2017
	CIPFA Code of Practice on Treasury Management in Public Services 2021
	CIPFA Prudential Code for Capital Finance in Local Authorities 2021
	DCLG Guidance on Local Government Investments March 2010
	Local Government Act 2003
	Treasury Management Practices 2023/24 (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.

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.

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.

1.2 Updated Treasury Management and Prudential Codes

CIPFA released new editions of the Treasury Management Code and Prudential Code on 20th December 2021, with reporting requirements effective from 2023/24 financial year. The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property. The Codes require an authority to ensure that: -

- it defines its risk appetite and its governance processes for managing risk.
- it sets out, at a high level, its investment policy in relation to environmental, social and governance aspects.
- it adopts a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
- it does not borrow to finance capital expenditure to invest primarily for commercial return.

- increases in the CFR and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority. Where any financial returns are related to the financial viability of the project in question, they should be incidental to its primary purpose.
- an annual review is conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
- its capital plans and investment plans are affordable and proportionate.
- all borrowing/other long-term liabilities are within prudent and sustainable levels.
- risks associated with commercial investments are proportionate to overall financial capacity to sustain losses.
- treasury management decisions are in accordance with good professional practice.
- reporting to members is done quarterly, including updates of prudential indicators.
- it should assess the risks and rewards of significant investments over the **LONG TERM,** as opposed to the usual three to five years that most local authority financial planning has been conducted over, to ensure the long-term financial sustainability of the authority.
- it has access to the appropriate level of **expertise** to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

1.3 Reporting Requirements

1.3.1 Capital Strategy

The CIPFA 2021 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.

1.3.2 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.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/ September/ December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role will be undertaken by the Corporate Scrutiny Committee as part of their review of the quarterly Performance Healthcheck.

1.4 Treasury Management Strategy for 2023/24

The strategy for 2023/24 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, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIFPA Prudential Code, and the CIPFA Treasury Management Code.

1.5 Training

The CIPFA Treasury Management 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.

Furthermore, the Code states that they expect all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and Council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and Council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a self-assessment by members responsible for the scrutiny of treasury management, with a template available which will be taken to Audit and Governance Committee and used to inform Member training requirements.

Training on Treasury Management issues was most recently delivered for Members in February 2022, with training on the Corporate Capital Strategy in February 2020, and will be provided as and when required. Further training is planned in February 2023. The training needs of Treasury Management officers are regularly reviewed. A formal record of the training received by officers central to the Treasury function will be maintained by the AD Finance. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the AD Finance.

1.6 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 2023/24 – 2025/26

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 forecast.

Capital Expenditure **£m**	**2021/22** **Actual**	**2022/23** **Predicted Outturn***	**2022/23** **Budget**	**2022/23** **Re-profiling**	**2023/24** **Estimate****	**2024/25** **Estimate**	**2025/26** **Estimate**
Non-HRA	3.740	5.805	26.431	20.550	5.820	1.601	1.317
HRA	9.993	15.695	22.012	6.249	8.364	7.194	7.851
Commercial Activities/Non-Financial Investments ***	4.083	0.100	4.718	4.618	-	-	-
Total	**17.816**	**21.600**	**53.162**	**31.417**	**14.184**	**8.795**	**9.168**

** Actual Projected at Period 9* *** excludes projected slippage from 2022/23*

**** commercial activities/non-financial investments relate to investments in property funds.*

The projected slippage into 2023/24 of £31.4m relates mainly to Future High Street Funds (FHSF) schemes, 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)	**2021/22** **Actual**	**2022/23** **Predicted Outturn***	**2022/23** **Budget**	**2022/23** **Re-profiling**	**2023/24** **Estimate****	**2024/25** **Estimate**	**2025/26** **Estimate**
Capital Receipts	6.997	2.922	8.938	6.871	2.778	0.525	1.201
Capital Grants	3.082	5.509	21.410	15.826	1.501	0.571	0.571
Capital Reserves	4.403	7.856	13.183	4.402	5.165	4.306	4.418
Revenue Reserves	2.784	5.050	6.617	1.567	2.979	2.859	2.858
Revenue Contributions	0.066	-	-	-	-	-	-
Net financing need for the year	0.483	0.264	3.015	2.751	1.762	0.535	0.120
Total	**17.816**	**21.600**	**53.162**	**31.417**	**14.184**	**8.795**	**9.168**

** Actual Projected at Period 9* *** excludes projected slippage from 2022/23*

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	**2021/22 Actual**	**2022/23 Predicted Outturn***	**2022/23 Budget**	**2022/23 Re-profiling**	**2023/24 Estimate****	**2024/25 Estimate**	**2025/26 Estimate**
Capital Expenditure	4.083	0.100	4.718	4.618	-	-	-
Financing Costs	(4.083)	(0.100)	(4.718)	(4.618)	-	-	-
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	**2021/22 Actual**	**2022/23 Revised Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Capital Financing Requirement					
CFR – non housing	3.937	3.909	6.608	6.729	6.419
CFR – housing	69.893	69.982	71.582	71.582	71.582
CFR - commercial activities	-	-	-	-	-
Total CFR	**73.831**	**73.890**	**78.190**	**78.310**	**78.000**
Movement in CFR	**0.325**	**0.060**	**4.299**	**0.121**	**(0.310)**

Movement in CFR represented by					
Net financing need for the year (above)	0.483	0.264	4.513	0.535	0.120
Less MRP/VRP and other financing movements	**(0.158)**	**(0.204)**	**(0.214)**	**(0.414)**	**(0.430)**
Movement in CFR	**0.325**	**0.060**	**4.299**	**0.121**	**(0.310)**

* CFR 2021/22 £73.831m

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.

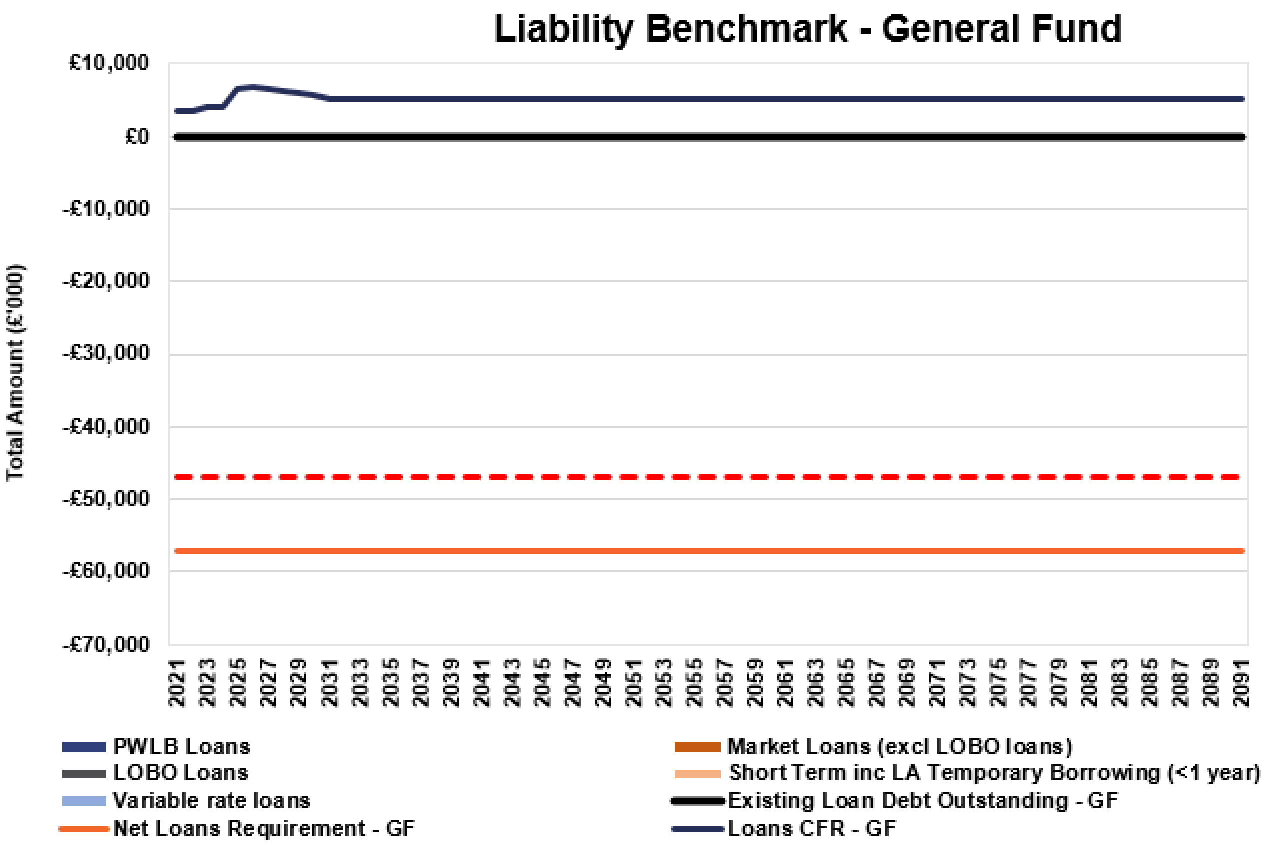
2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. The liability benchmark analysis should be seen as a tool which will assist the Council with its future borrowing requirements and it highlights the Council's optimum position for external borrowing.

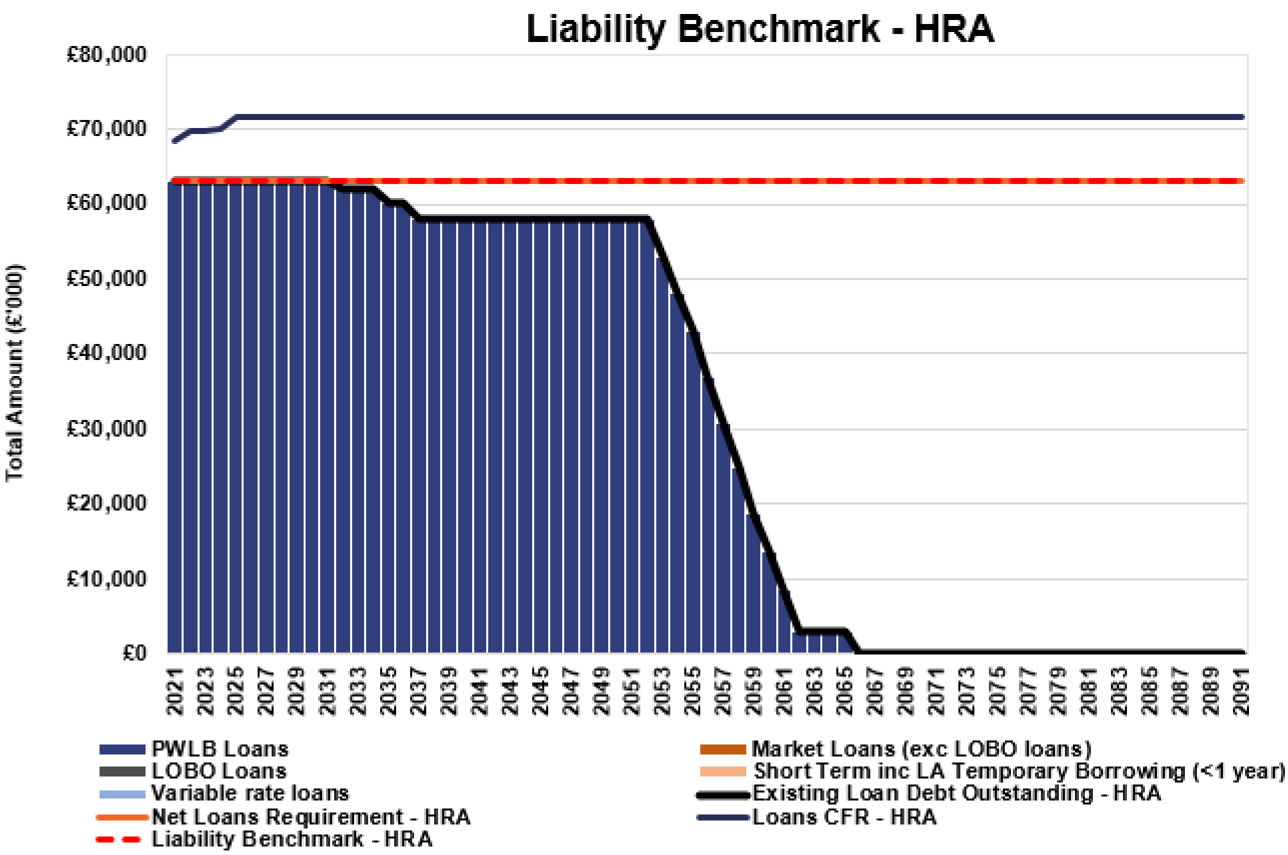
There are four components to the LB: -

1. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans Capital Financing Requirement definition in the Prudential Code, reflecting the Council's borrowing need and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this is a forecast of the level of gross loan debt the Council will require in line with its budget plans. It is based on the net loans requirement, plus a liquidity allowance for treasury management investments, which is an estimate of the level of short-term investments needed to provide an adequate level of liquidity for daily cash flow management. We have estimated our liquidity allowance at £10m.

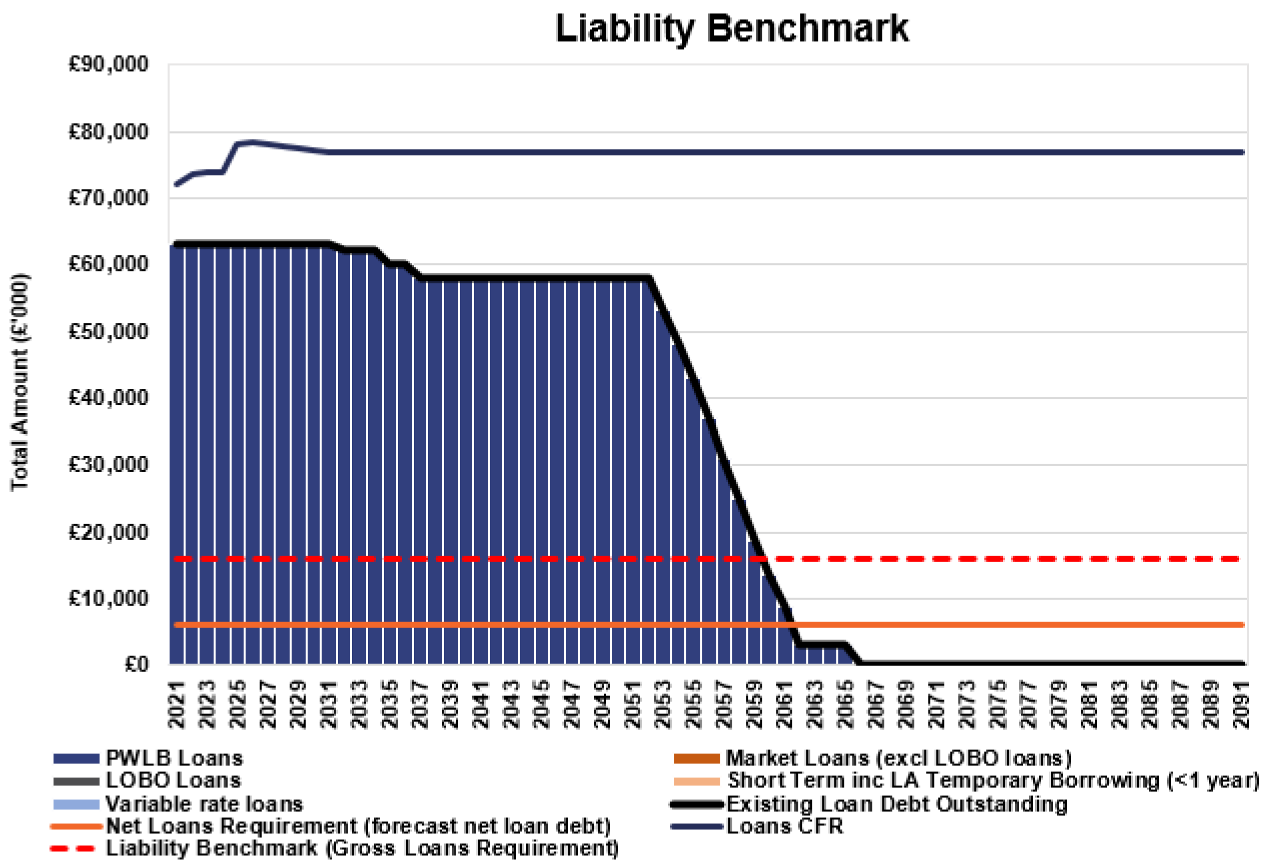
The following graphs detail the liability benchmark for each of the General Fund and HRA, and then the combined position.



The net loans requirement and liability benchmark for the General Fund is negative as this is reflective of the balance of GF treasury investments held.



The liability benchmark for the HRA is set at the same level as the net loans requirement (£63m reflecting PWLB loans outstanding) as there is no need to maintain additional borrowing to meet liquidity needs as this falls to the General Fund.



The combined liability benchmark chart above shows the existing loan debt outstanding, the capital financing requirement, net loans requirement and liability benchmark indicator.

The difference between the loans capital financing requirement and existing debt indicates internal borrowing. Prior to any new borrowing, the Council will have regard to underlying assumptions of liability benchmark analysis as part of prudent treasury management.

2.4 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund Balances/Reserves	42.366	36.875	11.699	8.841	3.785
Capital Receipts	14.804	13.092	6.554	7.124	7.218
Provisions*	1.916	1.916	1.916	1.916	1.916
Other	-	-	-	-	-
Total Core Funds	**59.086**	**51.883**	**20.169**	**17.881**	**12.919**
Working Capital**	32.004	20.211	10.154	4.771	9.358
(Under)/Over Borrowing	(10.770)	(10.830)	(15.129)	(15.250)	(14.940)
Expected Investments	**80.320**	**61.264**	**15.194**	**7.402**	**7.336**

* Includes full provision for NNDR appeals

** Working capital balances shown are estimated year end; these may be higher mid year.

2.5 Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

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 DLUHC 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 – Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts 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 2022 and for the position as at 31st December 2022 are shown below for both borrowing and investments.

	TREASURY PORTFOLIO			
	ACTUAL AT 31/3/22		CURRENT AT 31/12/22	
	£m	%	£m	%
Treasury Investments				
Banks	38.767	48.36	54.000	60.51
Building Societies	-	-	-	-
Local Authorities	15.000	18.71	15.000	16.81
DMADF (H M Treasury)	-	-	-	-
Money Market Funds	13.299	16.59	9.260	10.38
Certificates of Deposit	-	-	-	-
Total Managed in-House	**67.066**	**83.66**	**78.260**	**87.69**
Bond Funds	-	-	-	-
Property Funds	13.095	16.34	10.984	12.31
Total Managed Externally	**13.095**	**16.34**	**10.984**	**12.31**
Total Treasury Investments	**80.160**	**100**	**89.244**	**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)	**17.100**		**26.184**	

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.

Treasury Portfolio	2021/22 Actual £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £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	**73.831**	**73.890**	**78.190**	**78.310**	**78.000**
Under / (over) borrowing	**10.770**	**10.830**	**15.129**	**15.250**	**14.940**

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 2023/24 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.

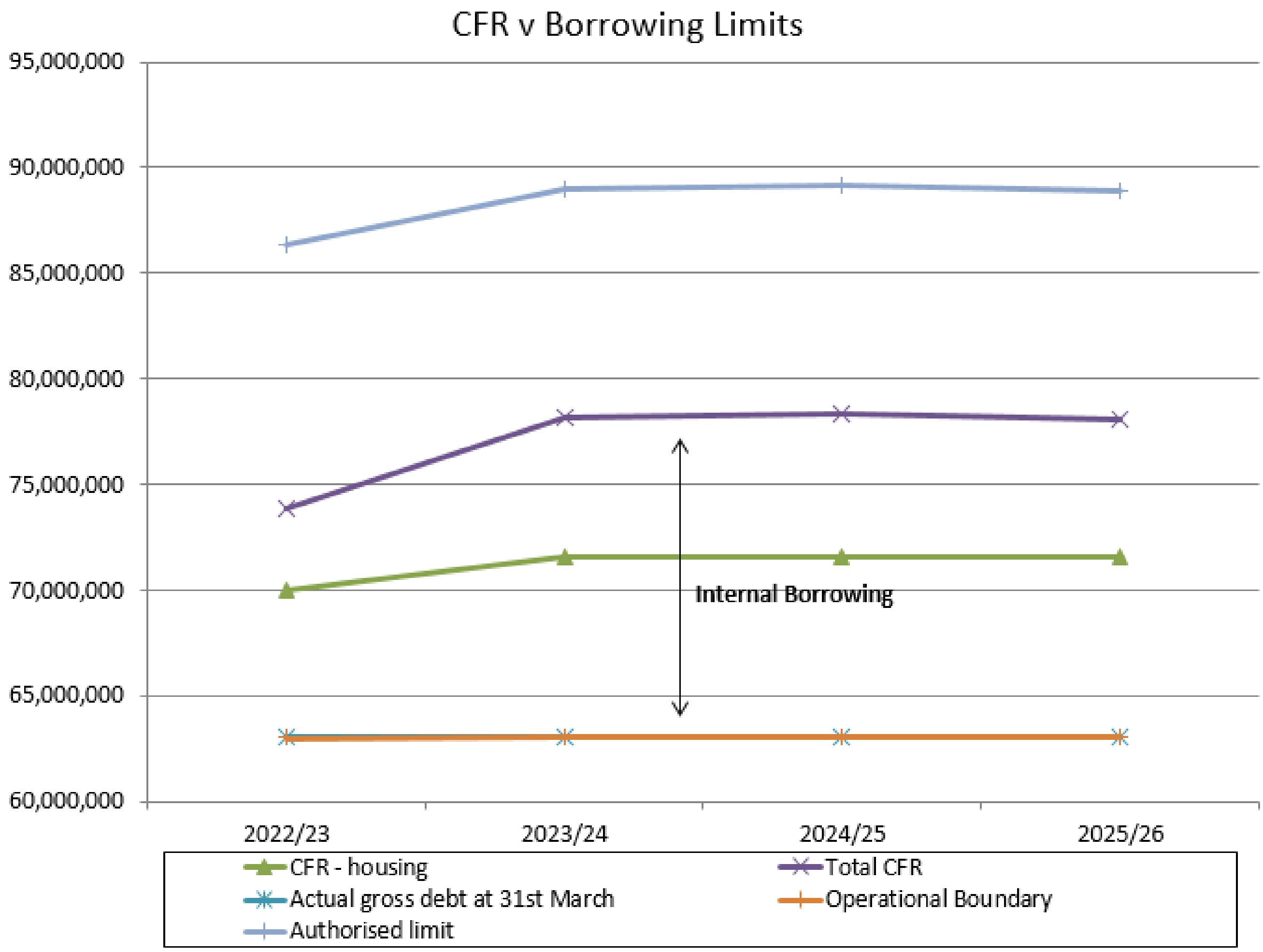
Operational Boundary	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Borrowing	63.060	63.060	63.060	63.060
Other long term liabilities	-	-	-	-
Commercial Activities/non-financial Investments	-	-	-	-
Total	**63.060**	**63.060**	**63.060**	**63.060**

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	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
Borrowing	86.316	89.015	89.136	88.826
Total	**86.316**	**89.015**	**89.136**	**88.826**



3.3. Prospects for Interest Rates

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 7th February 2023. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's continued policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our best judgment is that there will be scope for an early Christmas present for households with a December rate cut priced in, ahead of further reductions in 2024 and 2025.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on significant excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.75%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- 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 and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate later in the year or in 2024.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields consequently.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps as follows: -

Average earnings in each year	
2022/23 (remainder)	4.30%
2023/24	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

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 2023/24 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 there is still a very large difference between premature redemption rates and new borrowing 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

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA 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 out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency
- UK Infrastructure Bank

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

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	●	●
UK Infrastructure Bank	●	●
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 Department of Levelling Up, Housing and Communities (DLUHC – this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (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:-

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

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 maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

The above guidance from the DLUHC 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 35% 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 2022/23 under IFRS 9, this Authority 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, the MHCLG, concluded a 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 31.3.23.. The Department for Levelling Up, Housing and Communities (DLUHC) has announced that the IFRS 9 statutory override in local government will be extended for another two years until 31 March 2025.

13) 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	£10m	6 months

	rating		
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**
Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**£10m**	**Liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light pink / 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

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

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. 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 35% 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

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023

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: -

Average earnings in each year	
2022/23 (remainder)	4.30%
2023/24	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

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.

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			
	2023/24 £m	**2024/25 £m**	**2025/26 £m**
Principal sums invested > 365 days	5.318	2.591	2.568
Current investments as at 31.12.22 in excess of 1 year maturing in each year	-	-	-

4.5 Investment Performance/Risk Benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month SONIA.

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 2023/24 – 2025/26

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.	2021/22 Actual %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
Non-HRA	(6.74)%	(6.40)%	(18.17)%	(6.17)%	(3.66)%
HRA	28.16%	27.33%	26.48%	25.46%	25.39%
Commercial Activities/non-Financial Investments	(6.65)%	(7.99)%	(5.97)%	(5.18)%	(4.19)%

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.

b) Housing Revenue Account Debt Ratios

HRA Debt to Revenues Ratio	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA Debt £m	69.893	69.982	71.582	71.582	71.582
HRA Revenues £m	19.241	20.071	21.404	22.348	22.414
Ratio of Debt to Revenues %	363	349	334	320	319

HRA Debt per Dwelling	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA Debt £m	69.893	69.982	71.582	71.582	71.582
Number of HRA Dwellings	4,122	4,080	4,050	4,020	3,990
Debt per Dwelling £'000	16.956	17.152	17.674	17.806	17.940

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 2023/24		
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 2023/24		
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

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

PWLB forecasts are based on PWLB certainty rates.

ANNEX 3 ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	**4.0%**	**2.5%**	**4.5%-4.75%**
GDP	**-0.3%q/q Q3 (1.9%y/y)**	**+0.3%q/q Q3 (2.3%y/y)**	**2.9% Q4 Annualised**
Inflation	**10.5%y/y (Dec)**	**8.5%y/y (Jan)**	**6.5%y/y (Dec)**
Unemployment Rate	**3.7% (Nov)**	**6.6% (Dec)**	**3.5% (Dec)**

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will face some further upward pressures before dropping back slowly through 2023 to finish the year in the range of 4% - 5%.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

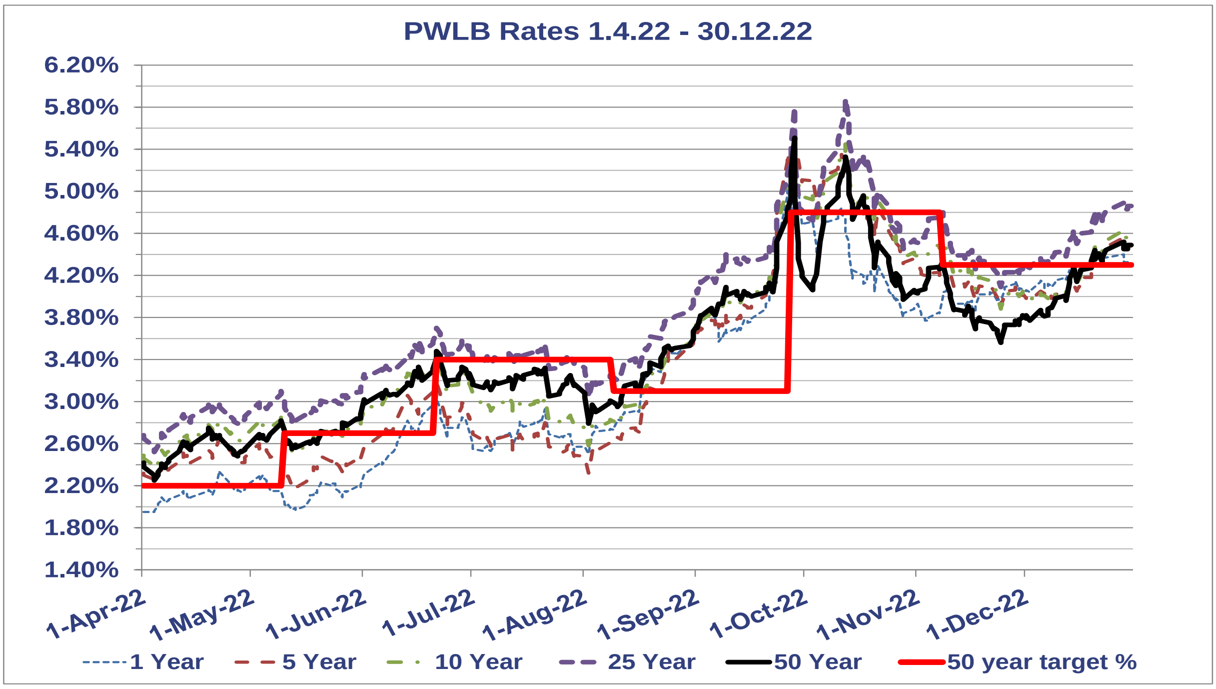
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and 4% in February and the market currently expects Bank Rate to hit 4.5% by June 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction in 2023. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank. Indeed, their February Monetary Policy Report suggests five quarters of negative growth, albeit a shallow recession with GDP expected to shrink 0.5% in 2023 and 0.25% in 2024.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first nine months of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to December 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1.25% lower now whilst the 50 years is over 1% lower.

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.12.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%

Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

The S&P 500 and FTSE 100 have climbed in the early weeks of 2023, albeit the former finished 19% down in 2022 whilst the latter finished up 1%.

CENTRAL BANK CONCERNS – DECEMBER 2022 & FEBRUARY 2023

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

At the start of February, US rates have further increased by 0.25% to a range of 4.5% - 4.75%, whilst UK Bank Rate increased 0.5% to 4%.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.25% - 4.5%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data and labour market have proven stronger than expected.

In addition, the Bank's central message that GDP will fall for five quarters starting with Q1 2023 may prove to be a little pessimistic. Will the excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

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 35% 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
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£10m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink / AAA	£10m	Liquid

Counterparty	Minimum credit criteria / colour band	£ limit per institution	Max. maturity period
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£10m	12 months 12 months 6 months 100 days 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 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
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- UK *

(Per Link 07/02/23)

* 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 2023/24.

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.

ANNEX 8 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.

The Council's prime consideration when assessing the suitability of counterparties and investments is Security, Liquidity and then Yield. Environmental, social and governance (ESG) factors will then be considered. The Council does not invest in bond or equity markets, therefore there is currently a lack of data available on which to base ESG considerations relevant to the Council's investments. The main ratings agencies are increasingly including ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. Therefore the incorporation of ESG risks is already being considered, to an extent, by the use of mainstream rating agencies. Our treasury advisors Link also continue to look at ways in which ESG factors can be incorporated into their creditworthiness assessment service, and they have advised clients that they will review the options and will update clients as progress is made. As the Council develops its environmental and climate change policies, including the net zero strategy, ESG investment policies and procedures will then be developed to align with these.

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 or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

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.

APPENDIX B

CABINET

THURSDAY 1ST DECEMBER 2022

COUNCIL

TUESDAY 13th DECEMBER 2022

REPORT OF THE PORTFOLIO HOLDER FOR FINANCE, RISK AND CUSTOMER SERVICES

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2022/23

EXEMPT INFORMATION

None

PURPOSE

To present to Members the Mid-year Review of the Treasury Management Strategy Statement and Annual Investment Strategy.

RECOMMENDATIONS

That Council be requested to approve the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2022/23.

EXECUTIVE SUMMARY

This mid-year report has been prepared in compliance 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 2022/23 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 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

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, excluding property fund returns, for the first six months of the year is 1.78% (0.26% for the same period in 2021/22) compared to the average 3 Month SONIA benchmark rate of 1.71% for the period (previously benchmarked against 3 Month LIBID which was -0.043% for the same period in 2021/22).

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 February 2022 and further training is planned during 2022/23.

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.

EQUALITIES IMPLICATIONS

None

SUSTAINABILITY IMPLICATIONS

None

REPORT AUTHOR

Please contact Stefan Garner, Executive Director Finance, extension 242, or Jo Goodfellow, Assistant Director 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 2021/22 – Council 20th September 2022

	Treasury Management Strategy & Prudential Indicators Report 2022/23 - Council 23rd February 2021
	Budget & Medium Term Financial Strategy 2021/22 - Council 22nd February 2022
	Quarter 2 2022/23 Performance Report Including Financial Healthcheck

APPENDICES

Appendix 1 – Investments Held at 30th September 2022

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW

In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes. These require all local authorities 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 2023.

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 2022/23 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:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s Treasury Management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- 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.
- 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.
- 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. Economics and Interest Rates

1.1 Economics update

The second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;

- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the “fiscal event” of the Prime Minister and Chancellor on 23rd September.

The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, it is expected to see fuel prices fall further in the coming months.

However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

During H1 2022, there was a change of both Prime Minister and Chancellor, with Liz Truss and Kwasi Kwarteng making a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts were set to add to existing domestic inflationary pressures and potentially leave a legacy of higher interest rates and public debt. The long list of tax measures announced at the "fiscal event" led to fears that the government had no fiscal anchor and meant that the pound weakened again, adding further upward pressure to interest rates.

Following the turmoil within the financial markets, the Chancellor was dismissed and shortly afterwards the Prime Minister resigned, triggering a further Tory leadership contest. The UK now has a new Prime Minister, Rishi Sunak, a new Chancellor, Jeremy Hunt, and new fiscal policies – to be firmed up on the 17th November Autumn Statement - that seek to ensure that the public finances are kept on a sound footing and that any projected gaps (possibly £50bn to £60bn) are fully funded from services efficiencies and/or net tax increases.
In the interim period, since the end of September, the Government scrapped the reduction in the basic rate of income tax by 1p in the £; maintained the higher band 45p in the £ income tax rate; did not reduce Corporation Tax to 19% from 25%; and only put in place support for businesses and households for 6 months (October to March) regarding caps on the unit costs of gas and electricity.

Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind. In recent days, calm has returned to the markets, the £ has risen from a historic low of $1.03 to $1.14, and the cumulative movement in gilt yields since the turn of the year is now broadly in line with that seen in the US and Euro-zone bond markets.

After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the

FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

1.2 Interest Rate Forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

The Bank of England's Quarterly Monetary Policy Report detailed that the UK economy is headed for eight quarters of negative growth based on the market's expectation for Bank Rate to increase to 5.25%. Since then, market expectations have been recalibrated, and now view a peak in Bank Rate of between 4.5% and 4.75%. These views are similar to those held by Link Group's Interest Rate Strategy Group (IRSG). IRSG has reduced its view on the peak of Bank Rate from 5% to 4.5%. However, although rates are seen to be peaking in May of 2023, it is now also believed that there are several challenges to the Bank that could see them leave rates at this level until early 2024.

The first of those challenges is the tight labour market (unemployment is at a 48 year low 3.5%), which shows no signs of dissipating, and that could mean wage increases continue to be north of 5% well into 2023 (the Bank would broadly want wages to be in the range of 3% - 3.5%). There is also the prospect that unless the workforce participation rate increases and/or immigration policies are relaxed, there is no clear route that would give rise to sustainable increases in economic growth. And, of course, inflation could be somewhat "sticky" if the Russian invasion of Ukraine remains unresolved and puts continued pressure on global energy prices and staple foods (e.g., wheat), among the many areas negatively impacted.

Against this backdrop, it is believed the MPC will have to tread carefully. It will need to evidence to the markets that it sees the reduction in inflation as a primary objective, but also that it remains alert to the fact that it does not want any recession to be deeper and more prolonged than it needs to be. On that basis Link's forecast sees Bank Rate increasing 50 basis points in both December and February before the MPC scales down the rate of increase to just 25 basis points in both March and May 2023.

Regarding Link's forecast for PWLB rates, the impact of the Truss/Kwarteng fiscal experiment has faded in the past month but it is thought investors will still remain a little nervous over the UK's future fiscal policy and therefore Link have reduced their forecast for near-term PWLB rates across the curve, compared to September's forecast, but have left the longer end of the curve slightly higher to reflect the potential demand by foreign investors for a "confidence premium" in the light of recent market volatility.

As for the housing market, the most recent survey by Nationwide Building Society showed house prices starting to fall and the MPC will be very cognisant that affordability could be stretched now that fixed rate mortgages are somewhat higher than they were a few weeks ago. Historically, the MPC has appeared reluctant to tighten monetary policy in a falling housing market, but it may be willing to leave rates less high than the market had been pricing in prior to the 3rd of November Quarterly Monetary Policy Report but keep them there for longer as a compromise of sorts.

Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 375 basis points in the year to date and is expected to increase rates further before the end of the year, and possibly into 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan. Arguably, though, it is US monetary policies that will have the greatest impact on global bond markets.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

Link's central forecast for interest rates was previously updated on 28th September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, Link anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present so as to prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, Link's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.20% to 4.80%. Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile.

The balance of risks to the UK economy: -

The overall balance of risks to economic growth in the UK is to the downside.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.
-

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

- 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 and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than currently expected.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government’s fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** continue to rise strongly and pull gilt yields up even higher than currently forecast.

2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by Council on 22nd February 2022.

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	2022/23 Original Programme	Budget B'fwd from 2021/22	Virements in Year	Total 2022/23 Budget	Actual Spend @ Period 6	Predicted Outturn	2022/23 Revised Estimate*
	£m	£m	£m	£m	£m	£m	£m
General Fund	11.790	19.230	0.110	31.130	2.679	15.677	22.117
HRA	10.715	11.298	-	22.012	14.124	21.700	21.960
Total	**22.505**	**30.527**	**0.110**	**53.142**	**16.803**	**37.377**	**44.077**

* Includes potential expenditure slippage into 2023/24 of £6.7m

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	**2022/23 Capital Programme £m**	**2022/23 Predicted Outturn £m**	**2022/23 Budget * £m**
Unsupported	0.252	2.940	3.015
Supported	22.253	34.437	50.127
Total spend	**22.505**	**37.377**	**53.142**
Financed by:			
Grants - Disabled Facilities	0.547	0.852	0.852
Coalfields Grant	0.157	0.157	0.157
Section 106's	-	1.076	1.253
GF Receipts	0.004	6.422	6.845
GF Reserve	0.673	0.270	0.764
Sale of Council House Receipts	0.139	0.349	0.521
HRA Receipts	0.420	0.910	0.910
Future High Street Fund	9.995	5.180	19.262
Community Infrastructure Levy (CIL)	-	-	0.030
Other Grants/Contributions	1.024	1.119	1.119
MRR	4.117	5.064	5.334
HRA 1-4-1 Replacements Receipts	0.100	0.661	0.661
HRA Reserve	2.648	8.745	8.787
HRA Regeneration Fund	2.430	3.631	3.631
Total Financing	**22.253**	**34.437**	**50.127**
Borrowing need	**0.252**	**2.940**	**3.015**

* includes schemes re-profiled from 2021/22 of £30.527m

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

	2021/22 Outturn £m	2022/23 Capital Programme £m	2022/23 Projected Outturn £m	2022/23 Budget £m
CFR – Non Housing	3.937	5.029	4.985	5.060
CFR – Housing	69.893	70.590	71.582	71.582
Total CFR	73.831	75.619	76.567	76.642
Net movement in CFR	**0.325**	**1.534**	**2.736**	**2.811**
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 2022/23 and the 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.

	2021/22 Outturn £m	2022/23 Original Estimate £m	2022/23 Projected Outturn £m	2022/23 Budget £m
Gross borrowing	63.060	63.060	63.060	63.060
Less investments	80.310	15.829	61.339	61.264
Net borrowing	-17.250	47.231	1.721	1.796
CFR (year end position)	**73.831**	**75.619**	**76.567**	**76.642**

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	2022/23 Original Indicator	Current Position	2022/23 Revised Indicator
Borrowing	87.436	87.436	87.436
Total	87.436	87.436	87.436

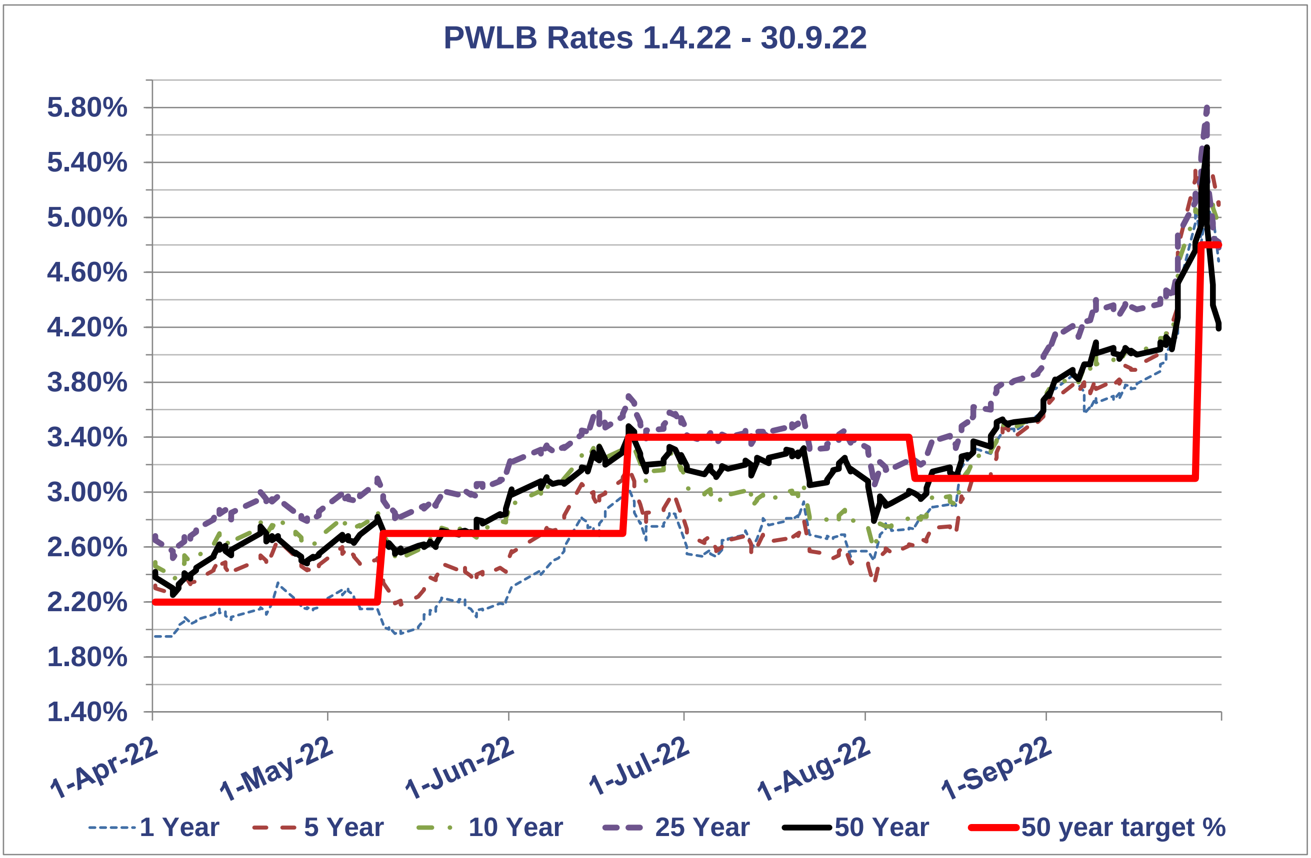
4. Borrowing

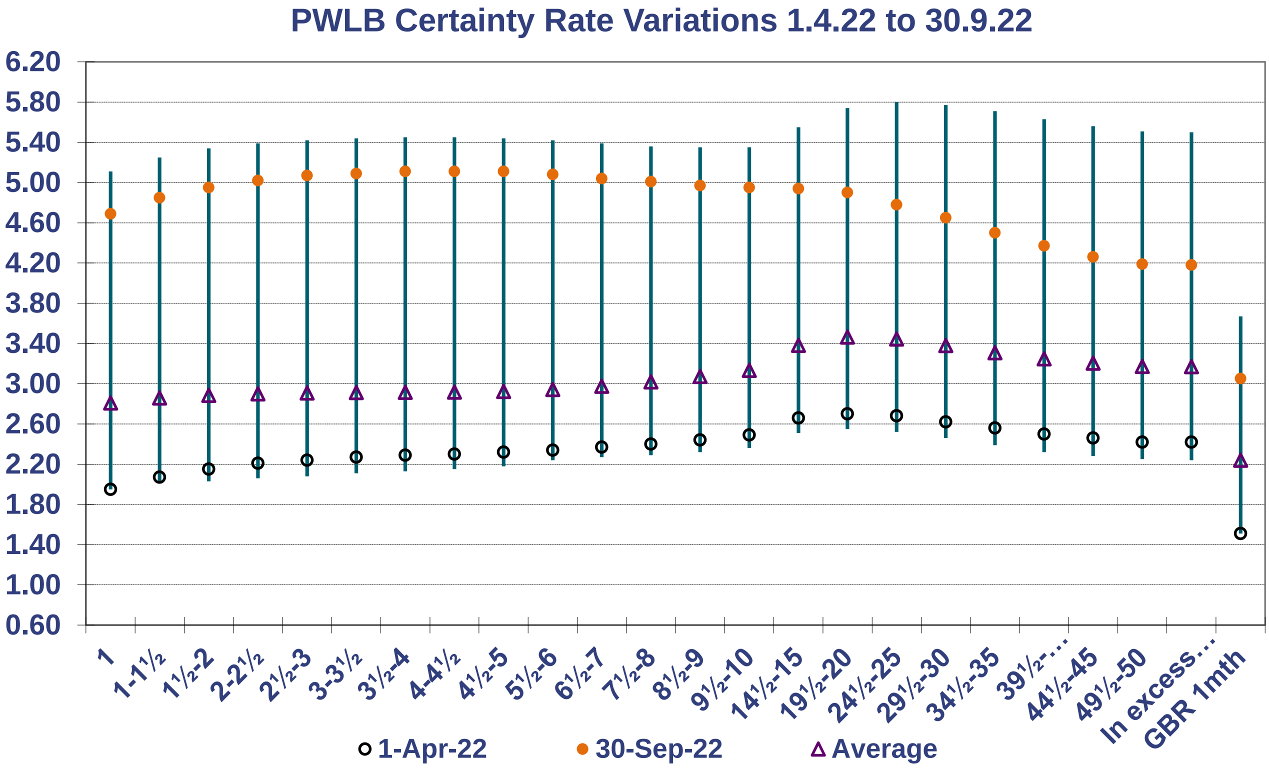
The Council's estimated revised capital financing requirement (CFR) for 2022/23 is £76.567m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary 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 £13.507m 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 2022/23.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2022

Gilt yields and PWLB rates were on a generally rising trend throughout H1 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September. The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%.


PWLB Rates 1.4.22 - 30.9.22
5.80%
5.40%
5.00%
4.60%
4.20%
3.80%
3.40%
3.00%
2.60%
2.20%
1.80%
1.40%
1-Apr-22
1-May-22
1-Jun-22
1-Jul-22
1-Aug-22
1-Sep-22
1 Year
5 Year
10 Year
25 Year
50 Year
50 year target %


PWLB Certainty Rate Variations 1.4.22 to 30.9.22
6.20
5.80
5.40
5.00
4.60
4.20
3.80
3.40
3.00
2.60
2.20
1.80
1.40
1.00
0.60
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-…
44½-45
49½-50
In excess…
GBR 1mth
1-Apr-22
30-Sep-22
Average

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.09.22

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

The current PWLB rates are set as margins over gilt yields as follows: -.

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

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. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

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 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23. 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 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 22nd February 2022. 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.

Creditworthiness
Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

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

CDS prices
It is noted that sentiment in the current economic climate 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 £78.144m of investments as at 30th September 2022, excluding investments in property funds (£68.299m at 31st March 2022) and the investment portfolio yield for the first six months of the year is 1.78% against a benchmark of the average 3 months SONIA of 1.71%. A full list of investments held as at 30th September 2022 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 2022/23.

The Council's budgeted investment return for 2022/23 is £120.71k, and we are currently forecasting an additional £966k in investment income as at September Period 6, due to increased balances available for investment due to capital slippage, plus increasing interest rates.

Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS and as approved by Council on 22nd February 2022 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

To date, the Council has invested £1.85m with Schroders UK Real Estate Fund, £6.057m with Threadneedle Property Unit Trust, and £4.057m with Hermes Federated Property Unit Trust, total investment £11.962m. Although the capital values of the funds did initially fall, mainly since 31st March 2020, they then recovered and as at 31st March 2022 there was an overall gain of £1.32m. However, since then capital values have fallen again, and as at 30th September the valuation stands at £12.89m, with an overall gain of £928k. It should be noted that investments in property are subject to fluctuations in value over the economic cycle and should yield capital growth in the longer term as the economy grows.

Fund Valuations	Investment	Valuation 31/03/2019	Valuation 31/03/2020	Valuation 31/03/2021	Valuation 31/03/2022	Valuation 30/09/2022
Schroders UK Real Estate Fund	1,848,933	1,897,716	1,884,412	1,848,933	2,139,618	2,092,044
Valuation Increase / (reduction)		48,783	35,479	0	290,685	243,111
Threadneedle Property Unit Trust	2,000,249	1,921,884	1,836,032	1,794,439	2,097,097	2,066,097
Valuation Increase / (reduction)		(78,365)	(164,216)	(205,810)	96,848	2,066,097
Threadneedle Property Unit Trust	4,056,536	-	-	-	4,407,163	4,342,015
Valuation Increase / (reduction)					350,627	285,478
Hermes Federated Property Unit Trust	4,056,500	-	-	-	4,450,808	4,389,967
Valuation Increase / (reduction)					394,308	333,467
Total		**3,819,601**	**3,720,444**	**3,643,372**	**13,094,687**	**12,890,122**
Valuation Increase / (reduction)		(29,581)	(128,738)	(205,810)	1,132,469	927,904
Annual Revenue % Return		-0.8%	-2.6%	-1.2%	12.5%	1.1%

The following table details the dividend returns achieved from the property fund investments, which support the revenue budget. The Council received £269k in dividends from its property fund investments in 2021/22 (£128k in 2020/21), and has received £220k for the current financial year as at 30th September 2022.

Fund Valuations	Investment	Dividend Returns 31/03/2019	Dividend Returns 31/03/2020	Dividend Returns 31/03/2021	Dividend Returns 31/03/2022	Dividend Returns 30/09/2022
Schroders UK Real Estate Fund	1,848,933	48,118	56,638	52,898	61,655	34,925
Threadneedle Property Unit Trust	2,000,249	60,056	90,274	75,452	79,231	39,336
Threadneedle Property Unit Trust	4,056,536	-	-	-	70,417	82,667
Hermes Federated Property Unit Trust	4,056,500	-	-	-	57,352	62,955
Total		**108,174**	**146,911**	**128,350**	**268,655**	**219,883**
Annual Revenue % Return		2.8%	3.8%	3.3%	2.2%	3.7%

APPENDIX 1

Investments held as at 30th September 2022:

Borrower	*Deposit £*	*Rate %*	*From*	*To*	*Notice*
Thurrock Council	5,000,000	0.65%	09-Oct-20	07-Oct-22	-
Slough Council	5,000,000	0.15%	06-Oct-21	05-Oct-22	-
Goldman Sachs	5,000,000	1.60%	29-Apr-22	28-Oct-22	-
Lloyds Bank	5,000,000	1.55%	11-May-22	11-Nov-22	-
Standard Chartered	10,000,000	1.50%	13-May-22	11-Nov-22	-
Slough Council	5,000,000	2.60%	15-Jul-22	14-Jul-23	-
NatWest	5,000,000	2.50%	11-Jul-22	10-Jul-23	-
Thurrock Council	5,000,000	2.30%	15-Jul-22	14-Jul-23	-
NatWest	5,000,000	2.60%	08-Aug-22	08-Aug-23	-
Goldman Sachs	5,000,000	2.48%	12-Aug-22	10-Feb-23	
Lloyds Bank	4,000,000	3.35%	15-Sep-22	15-Mar-23	-
Santander	10,000,000	1.52%	-	-	180 day
MMF – Aberdeen	158,000	2.08%*	-	-	On call
MMF – PSDF	44,000	1.93%*	-	-	On call
MMF – Federated	8,942,000	2.08%*	-	-	On call
Total	**78,144,000**	**1.85%**	-	-	-
Schroders UK Real Estate Fund	1,848,933	3.77%	-	-	-
Threadneedle Property Unit Trust	6,056,785	3.68%	-	-	-
Hermes Federated Property Unit Trust	4,056,500	3.15%	-	-	-
Total	**90,106,218**	**2.07%**	-	-	-

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

Fund	**Initial Investment**	**Fund Value 30/09/2022**	**2022/23 Return to Date**		
Schroders UK Real Estate Fund	£1,848,933.03	£2,092,043.94	£34,294.51	3.77%	Returns Received Monthly. Received up to Sep-22.
Threadneedle Property Unit Trust	£6,056,785.32	£6,408,111.87	£122,003.45	4.02%	Returns Received Quarterly. Received up to Sep-22
Hermes Federated Property Unit Trust	£4,056,499.57	£4,389,966.58	£62,955.29	3.10%	Returns Received Quarterly. Received up to Sep-22
Total	**£11,962,217.92**	**£12,890,122.39**	**£219,889.25**	**3.67%**	

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Appendix C

Effective Scrutiny of Treasury Management

Self-assessment by members responsible for the scrutiny of treasury management

CIPFA's Treasury Management In The Public Services: Code of Practice and Cross-sectoral Guidance Notes (2021 edition) requires public service organisations to nominate a responsible body for the scrutiny of treasury management strategy and policies. To undertake this role effectively, the nominated committee will require support, training and guidance. CIPFA's publication Audit Committees: Practical Guidance for Local Authorities and Police (2022 edition) provides guidance for the audit committee if it is nominated to take on the scrutiny role. It also identifies core areas of knowledge committee members would need to undertake this role effectively.

Effective scrutiny is important. As well as demonstrating compliance with the Treasury Management Code, scrutiny is an important part of ensuring effective governance of treasury management.

- It helps develop a better understanding of the treasury risks faced by the organisation.
- It helps ensure better decision making on strategy and policy matters.
- It improves accountability and transparency.
- It improves knowledge and understanding of treasury matters among the members of the governing body.

This self-assessment tool has been designed to support the development of effective scrutiny. There are several ways it can be used, including the following.

- For self-assessment by the committee responsible for undertaking the scrutiny.
- For self-assessment by the responsible committee with additional input from the audit committee (where the audit committee doesn't undertake this function directly).
- For review as part of an internal audit of treasury management.
- For review by the treasury officers/finance team responsible for reporting to the committee.

The most important thing is that the review is used to identify any areas where support or training is needed to ensure the development of effective scrutiny.

This assessment tool replaces the 2014 edition.

CIPFA Better Governance Forum and Treasury Management Network 2022

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
Clearly defined responsibility					
Has the organisation nominated a responsible committee for scrutiny in compliance with the CIPFA Treasury Management Code of Practice?	✓			Audit & Governance Committee	
Does the committee responsible for scrutiny have appropriate and up-to-date terms of reference outlining its role in relation to treasury management?	✓			* Annex 6 of the Treasury Management Strategy outlines the Audit & Governance Committee delegation for: • reviewing the Treasury Management policy and procedures and making recommendations to the Cabinet • receiving and reviewing regular monitoring and making recommendations to the Cabinet	

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
Knowledge and training					
Do those responsible for scrutiny have an appropriate level of knowledge in the following areas:					
• Regulatory requirements?	✓			Covered in Member Training	
• Treasury risks?	✓			Covered in Member Training	
• The organisation’s treasury management strategy?	✓			Covered in Member Training	

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
• The organisation's policies and procedures in relation to treasury management?	✓			Covered in Member Training	
Have committee members been provided with training for their role?	✓			Covered in Member Training	
Support for effective scrutiny					
Has adequate time been made on the committee agenda to allow for sufficient scrutiny to take place?	✓			Agenda planning in place – work plan reported to each meeting	
Have reports and briefings been provided in good time to committee members?	✓			Committee papers sent out 8 days prior to meeting	
Have reports and briefings been presented to the committee with adequate explanations and minimal jargon?	✓				

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
Coverage of the required areas					
During the past year, has the committee undertaken scrutiny as follows:					
• Reviewed whether appropriate policy and procedures have been adopted?	✓			Annual Treasury Report (September), Mid Year Treasury Report & Treasury Strategy (April) have been considered by the Committee	
• Reviewed the robustness of the process for strategy development – for example, whether option appraisals and opportunity costing have been used?	✓			Review of Property Fund investments requested / reported in 2021	
• Received regular briefings on performance, issues and trends affecting treasury management?	✓			Performance reported in Mid Year Report and in Annual Treasury report	
• Reviewed the organisation's risk profile and treasury risks and how these are managed?	✓			Treasury risks covered in training and reported in Treasury Strategy.	

Aspects of delivering effective scrutiny	**Yes**	**No**	**Partly**	**Comments/examples**	**Action plan for improvement or development**
• Reviewed the role of external advisors and the adequacy of other sources of financial information?	✓			Role of external advisors reported in Treasury Strategy and covered in training provided by Link Asset Services	
• Reviewed assurances on treasury management, including internal audit reports and management reports?	✓			Level of assurances on treasury management reviewed and reported by Internal Audit Level of assurance for Treasury Management is Substantial	
During the past year, has the committee scrutinised how effectively decision-making bodies are performing their roles as defined by clauses 2 and 3 in the Treasury Management Code of Practice? For instance, does the committee know whether the nominated body responsible for implementation and monitoring (clause 3) has carried out this role satisfactorily?	✓			As above * & Reported in the Annual Report of the Chair of the Audit and Governance Committee to Council	

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
Quality of scrutiny					
Is the committee able to demonstrate its effectiveness in providing scrutiny in any of the following ways:					
• Questioning and constructive challenge?	✓			Questioning and constructive challenge demonstrated at Committee meetings	
• Recommendations for additional actions?	✓			Any additional actions followed up by officers and reported at the next appropriate meeting	
• Ensuring that adequate plans are in place to provide assurance?	✓			Work Plan in place which details dates of all Treasury Management reports. Regular reports submitted to Committee in accordance with the CIPFA Code of Practice on Treasury Management	
• Following up any recommendations or action plans?	✓			Recommendations/actions from the previous Committee are followed up at the next meeting.	

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
• Providing a report to full council on the scrutiny undertaken?	✓			Annual report submitted to Council which provides assurance on the effectiveness and performance of the Treasury Management function	
• Other examples?					
Impact of scrutiny					
Is the committee able to demonstrate the impact of undertaking scrutiny?	✓			Assurance given by Internal Audit that internal controls are Substantial which provides assurances to the Committee	

Aspects of delivering effective scrutiny	Yes	No	Partly	Comments/examples	Action plan for improvement or development
Examples might include the following: • Improvements in internal controls as a result of scrutiny of policies and procedures. • Improvements made to reports to make them more understandable. • Members of full council can better understand the risks shaping the organisation's treasury strategy.	✓			Appropriate training provided and challenge by the Committee over the investment in property funds Additional information on performance now included in reports following Committee feedback	

Completion date of assessment: April 2023

Completed by: Stefan Garner, Executive Director Finance

AUDIT & GOVERNANCE COMMITTEE

20th April 2023

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 Financial Guidance.

RECOMMENDATION

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 terms of reference, this Committee is empowered to maintain an overview of the Council's Financial Guidance. The last review of Financial Guidance was approved by this Committee in March 2021. This latest review includes updates to some job titles (for example Audit Manager or Monitoring Officer as appropriate rather than Head of Audit and Governance); amendments with regard to the Procurement section to reflect the updated Public Contracts Regulations tender thresholds, requirements to advertise contract opportunities on the Government's Contract Finder portal, and an update to the requirement to advertise contracts on In-Tend from £4k to £5k; clarifications around the approval of overtime and other additional payments such as honoraria; and some minor formatting changes.

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

RESOURCE IMPLICATIONS

None

LEGAL/RISK IMPLICATIONS

None

EQUALITIES IMPLICATIONS

None

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

None

REPORT AUTHOR

If Members require further information, please contact Jo Goodfellow, Assistant Director Finance on ext 241.

LIST OF BACKGROUND PAPERS

None

APPENDICES

Appendix 1 – Proposed updated Financial Guidance with tracked changes.

Tamworth Borough Council

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Section A

Financial RegulationPolicy

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 Audit Manager;
    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, Audit Manager, and the 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.

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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 andfor 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 toone 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;

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j) Making, amending, revoking, re-enacting or adopting bylawsand 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 and Annual Pay Policy Statement;

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: The Monitoring Officer

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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: The Monitoring Officer

Deleted: 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 Audit Manager'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

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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, Social Housing Regulator, 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.

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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 attendmeetings of the Sub-committee and the Sub-committee shall have regards to the views of the Independent Person(s).

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

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

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CONTACT: The Audit Manager, the Monitoring Officer

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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 Admin and Democratic Services Manager

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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

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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 willinvolve 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 respectiveroles;
- 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, the Monitoring Officer, Executive Director – Finance

1.7 **Scheme of Delegation**

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

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

CONTACT: The Monitoring Officer

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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 AuthorityAccounting 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

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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, the Audit Manager, or Executive Director - Finance.

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2.1.6 The review and updating of Financial Regulations, Standing Orders and Financial Guidance will be completed by the Assistant Director Finance.

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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: Audit Manager, Executive Director – Finance

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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 fluidor 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 Audit Manager 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).

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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, Audit Manager

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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 Corporate Management Team will be the forum where risk is performance managed.

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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 claimagainst 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;

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d) Consult the Executive Director - Finance in respect of any indemnity which the Council is requested to give;

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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 allinsurances 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 commenceby 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 operatingeffectively which will feed into the Annual Governance Statement. Chief Officers are required to produce an annual statement inrespect 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: Audit Manager

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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 Audit Manager shall have direct access to all levels ofmanagement and elected members.

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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 Audit Manager 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.

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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 Audit Manager will develop and maintain a Quality Assurance & Improvement Programme (QAIP) that covers all aspects ofthe 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 completedin accordance with the frequency as determined by the Audit & Governance Committee (minimum at least every 5 years).

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CONTACT: Audit Manager

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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 theExecutive 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 prudentialindicators 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 Executive Director can approve a virement (up to £50,000) across budgets within service activities within their Directorate and between Directorates with theapproval of the Executive Director - Finance. The Chief Officer or Headof 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, andno material departure from the service plan.**

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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 ofthe 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 mayapprove 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: Assistant Director Finance

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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

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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 portfolioholder 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. ChiefOfficers and Heads of Service must therefore continuously monitor boththe 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 shouldbe 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 toensure 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 Assistant Director Assets for land or buildings and the Assistant Director People for IT equipment. In most cases the specialist manager should assume responsibility for the disposal.

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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 sumtotal 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 ofcertification 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 isimmediate 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 £5,000, these may be verbal for up to £1,999. Any spend between

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£2,000 and £4,999 must have a minimum of 3 written quotations/ estimates.

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All tenders or invitations to quote of £5,000 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 £5,000 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.

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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 required timescales.

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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 anauditable reason not to.

6.2.2 Please see overleaf.

Value	Contact Other Officers	Process for Obtaining Prices	Contract Issues	Supply Process
£0 - £4,999	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
£5,000 - £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

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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 purchasesat 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 usedin 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 beconsulted 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 £4,999. 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 bemade known to any other party. All quotations and estimates received should be retained in the register until the Accounts have been signed offfor 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 mustbe accepted. Advice on how to determine this canbe sought from the Procurement Team.

CONTACT: Corporate Procurement Officer

Further Guidance

6.2.9 Under £5,000

Different practices will apply at different levels:

- The petty cash procedure may be used for veryminor items. See the section on cash advances etc;
- The three estimates for a supply up to £4,999 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.

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6.2.10 £5,000 - £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.

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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. In all cases the Procurement Team must be advised in writing 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 £30,000 **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 ProcurementTeam, and a tender/ QQ reference numberestablished, before the procurement process is initiated on in-Tend. A written specification must be included on the Invitation to Quote/ Tenderdocument. *Formal Terms and Conditions of Contract* must be used.

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6.2.13 £100,000 plus

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The Chief Officer must appoint a Project Officer with overall responsibility for the procurement. The Procurement Team must be advised in writingin 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 supplyfor an individual Service area may be below the threshold, but similar needs in another Servicearea may mean aggregation rules apply. If they do, then, due to their complexity, the Procurement Team **must** be involved in such projects. A formaltender exercise is compulsory, as is a formal written contract.

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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 ofpurchasing. 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 StaffordshireCounty 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 Teambecause 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 supplieroperates 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

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becoming too reliant onthe Council for its business. The Executive Director - Finance will undertake or arrange theseappraisals 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 thecontract 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 beappropriate 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 beforeexpiry 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 thecontractor 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 bechecked 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 thatappropriate 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 tothe Supplier Register. There is no pre-set requirement for contractors when signing up to theregister. Appropriate

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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 severalorganisations, there must be at least two in number.

6.6.2 Contracts based on Framework Agreements maybe awarded by either:

- Applying the terms laid down in the FrameworkAgreement (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 completefor the particular call off, by holding a mini competition in accordance with the followingprocedure:

- Inviting the organisations within theframework Agreement that are capable of executing the subject of the contractto 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 FrameworkAgreement.

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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 theoutset 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

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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 tendersubmissions, and a list of the evaluation criteria and sub-criterion together with theweightings 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 shouldset 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 publishedin 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. NB these thresholds are inclusive of VAT.

Thresholds	Supplies & Services (£)	Concessions (£)	Works (£)
Contract Value	£213,477	£5,336,937	£5,336,937

6.7.8 These figures apply from 1 January 2022. The Procurement Team must be advised in writing at least six months in advance of the supply andguidance 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

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in achieving best value in the provision of a supply or service. This could involve consulting with stakeholders includingcustomers, 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 shouldcomment 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 thedecision 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 l egal advice (as necessary).

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

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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 beopened 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 notbe 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 thetender period. Chief Officers must consult with Procurement, and where appropriate the Executive Director - Finance, and 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 tenderingsystem. In responding to clarifications andqueries, the response should be addressed to all tendering organisations, and issued at the same time via the in-tend portal. All correspondence willbe 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 peoplecarry out the evaluation of tenders. For majorcontracts 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 tothe 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 arecorrect. They must be evaluated objectively in linewith the specified evaluation mode, ensuring fair and equitable treatment for each tender. Reasonsfor 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 detailany 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 thefinancial 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 withappropriate officers, for example, the CorporateProcurement 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 theoriginal Tender; or
c) The Tenderer withdraws the Tender; or
d) (where an error is found before completion oftender 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 besought on any of the tenders received. The questions and answers must always be submitted via the in-tend portal and incorporated into thetender 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

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submission deadline and in good time for them to make any necessary changes to their tender. Guidance is availablefrom 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.

Post Tender Negotiation & Clarification

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

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

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6.7.32 All tender bids are covered by the Public Contract Regulations which state all negotiations withtenderers 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 fairlyand 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 workrequired. 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

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Director - Financeor legal before entering into clarifications or negotiations.

6.7.39 Chief Officers must not enter into negotiationsexcept:

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 areagreed 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 thespecification (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 tenderafter 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 **<u>MUST</u>** 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 standstillnotice 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 ensurethat 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.

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6.7.43 The standstill notice must contain a precisestatement 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 technicalspecifications;
- 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 standstillperiod 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 amendmentagreed 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 theCouncil'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 ofthe contract documents.

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

Prices and/or rates together with any adjustment mechanisms that shall apply during the term of thecontract;
Invoice procedures;
Performance indicators and/or service levels required;
Conditions of contract that shall include:

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- 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 HarmPolicy requirements, if relevant
- Conflict of Interests requirements
- Freedom of Information Act requirements
- Bribery act requirements
- Right of access to relevant documentationand 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 adviceof 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 arepassed 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 parentcompany, or
There is some concern about the stability of the contractor.

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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 allinterested managers it has taken place. The Executive Director -Finance must be notified inevery 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 ofwork 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 Officershould seek appropriate advice, for example, from Legal before proceeding.

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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 thatconform 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 Officermust ensure that either a VAT invoice or receipt is obtained in order to substantiate the VAT reclaimed.

6.9.5 Where liquidated and ascertained damages are to be deducted, the Chief Officer must ensure that the contractor is notified as soon as possible and

given details of the basis of calculation. Any liquidated damages applied at any stage of the contract must be deducted from any subsequent valuation certificate before any payment is made.

Contract Monitoring and Variations (including claims)

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

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During the life of the contract, the officer mustmonitor 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 systemduring the contract period;
- Undertake appropriate risk assessments andfor 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 meetspecified outcomes or service levels (e.g. in a partnering-type arrangement) appropriate arrangements must be made by the Chief Officerto ensure that the expected outcomes/service levels are provided or that clear processes existfor reporting and approving any variations fromthese 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 isbased 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, Audit Manager.

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 thefinal account/payment is correct and has been accurately calculated. They must also ensure there is adequate separation

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of duties in preparingand 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 relevantproject manager must prepare a detailed statement of account before a final certificate (where required) is issued showing variations against the original contract price, payments madeto 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 certificateare sent to the contractor by the due date. In caseof 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, Audit Manager

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 deliverservices
- To forge new relationships

6.12.3 A partner is either:

An organisation (either private or public)undertaking, part funding or participating as a

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beneficiary in a project; or

A body whose nature or status gives it a rightor obligation to support the project.

6.12.4 Partners participate by:

- Acting as a project deliverer, provider orsponsor, solely or in connection with others;
- Acting as a project funder, part funder,commissioner or joint commissioner;
- Being a beneficiary group of the activityundertaken 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 thatmay 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 dutiesthat is of a confidential or commercially sensitive nature;
- To act wherever possible as ambassadors forthe 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 thepartner 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

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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 aredocumented within the contract documentation;
- Partners and contractors are made aware ofthe Authority's Whistleblowing and Counter

  Fraud and Corruption Policy Statement,Strategy & Guidance Notes;
- Arrangements for ownership after the projecthas 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 noteto be entered into the Authority's statement of

  accounts concerning material matters;
- There are robust and transparent arrangements for partnership governancewhich 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 andconduct/conflict of interest issues;
- They maintain and update the partnershipdatabase 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

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6.13 **Orders for Supply from External Sources**

6.13.1 Official orders must be issued for all work, goodsor 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 ExecutiveDirector - Finance.

6.13.2 Individuals must not use official orders to obtaingoods 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, quotationsand 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, qualityand compliance with specification at the time of delivery, or as soon as possible thereafter. Whereit is not possible to carry out this check at the time of the delivery, the employee should ensure this is made clear on the delivery note.

Goods Receipting

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

CONTACT: Audit Manager, Operations Accountant

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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 processedseparately. . 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 madeto correct the accounting entries.

CONTACT: Executive Director – Finance

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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 appropriatepartnership 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 termsused in this guidance.

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

CONTACT: Operations Accountant

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6.18 **Further Advice & Guidance**

6.18.1 The Council employs a number of officers who have responsibilitiesin 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	Audit Manager	
The law and legal opinion and sealing and retention of documents	Legal Admin & 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

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7. **Payment of Accounts**

7.1 **Introduction**

7.1.1 One of the main requirements of a sound system ofexpenditure control is that at any point in time, a budget holderknows:

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,

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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.

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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 thefinancial 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.

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7.3.4 Before any order is goods receipted, the officer receiving the goods/services must satisfy themselves that the payment is properly due, and that the work, goods or services have been received and/or carried out in accordance with the order/contract/schedule of rates and this has been evidenced.

7.3.5 Officers must ensure that in respect of charges for gas, electricity, water etc. adequate records are maintained to ensure the charges are correct and the following checks are undertaken:

- i Any standing charges are correct;
- ii Consumption is charged on the correct tariff;
- Iii That the consumption recorded is reasonable in light of current and previous readings.

7.3.6 Officers should ensure that all credit notes are immediately claimed against invoices or a cheque reimbursement should be requested.

7.3.7 The Accountancy Section will check the payee, prices, quantities, trade discounts, other allowances, credits and tax are correct, not previously paid, properly incurred and within the budget provision. They will also check any copy/facsimile invoices to ensure that they have not been previously paid and that payments are not made against suppliers' statement of accounts.

7.3.8 The Accountancy Section will ensure that where the invoice includes VAT, it is correctly calculated. Where a VAT invoice is not supplied, the full cost of the invoice including the VAT must be charged to the budget code. The Chief Officer must ensure that an authenticated VAT receipt is subsequently obtained to support this payment and passed to the Accountancy Section immediately on receipt so that the accounting entry can be adjusted.

7.3.9 The controls over invoice processing also applies to work done on our behalf by partners.

Amendments

7.3.10 VAT invoices must not be amended. If an incorrect VAT invoice is received, the supplier must be asked to send:

a) A corrected invoice, or

b) A credit note.

7.3.11 Any amendment to a non-VAT invoice must be made in ink and initialled by the officer making it, stating reasons briefly where they are not self-evident.

Year End

7.3.12 Each Chief Officer must ensure that where goods and services (goods, materials, services and works, including electricity, gas, water etc) have been received by 31st March, that commitment orders and goods receipt notes

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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

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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 madeby 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 23 and above only where prior written approval is obtained from the Head of Paid Service (Executive Director Organisation). This would normally be in exceptional circumstances only for work of a specific nature such as in covering for a long-term vacancy, one-off pieces of work, etc.

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8.1.7 Chief Officers may request additional payments such as honoraria for additional responsibility incurred by employees. Any such payments will be paid in accordance with the relevant HR procedures.

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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: Head of Human Resources and Organisational Development

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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 publicsector through an intermediary will pay employment taxes in a similarway 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 formsmust 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 duringthe 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

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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 Admin and 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 andany 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 Admin and Democratic Services Manager

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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 tothe 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 into the account are for the reimbursement of the float and any change relating to purchase where an advance has

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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 thatrecords 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 ofboth 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 Audit Manager. All discrepancies must be recorded in a cashier's over/unders book, signed daily by the supervisor.

CONTACT: Audit Manager

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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 Audit Manager, however attempts to pay above this amount must be approved by the Audit Manager or the Executive Director - Finance.

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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 Monitoring Officer is the nominated officer to act as the Council’s Money Laundering Reporting Officer.

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10.6.6 If a case of money laundering is suspected, the Monitoring Officer and Audit Manager should be consulted immediately.

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CONTACT: Monitoring Officer, Audit Manager

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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.

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10.7.3 It is essential that all accounts issued are timely; therefore, accounts raised after the service has been completed should be raised within five working days.

10.7.4 Timescales for the recovery process are detailed in the Corporate Credit Policy.

10.7.5 At the start of each financial year, Chief Officers must promptly supply information to the Executive Director - Finance on amounts due where a debtors account has not yet been raised for the previous financial year within the required deadlines.

Credit Policy

10.7.6 Cabinet, on 14 June 2018, 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.

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CONTACT: Head of Revenues and Benefits

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:

Authority	Limit
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 and Benefits

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

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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 lowervalue.

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.

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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 Audit Manager or the Executive Director - Communities.

CONTACT: Executive Director - Finance, Audit Manager, Executive Director - Communities

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12. **Stocks & Stores**

12.1 **Responsibilities**

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

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

To achieve this Chief Officers must ensure:

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

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

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

CONTACT: Audit Manager

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 Audit Manager 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

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appropriate procedures to follow, and who may inform the Audit Manager.

CONTACT: Audit Manager

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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: Audit Manager, Assistant Director - People

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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** beretained 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

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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 could have a differential impact due to dependant/caring responsibilities?		N	
17. Are there concerns that the policy could 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?			N/A

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• **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**		

Thursday, 20 April 2023

Report of the Audit Manager

Public Sector Internal Audit Standards/Quality Assurance and Improvement Programme

Exempt Information

None.

Purpose

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

Recommendations

It is recommended that the committee endorses:

1. **Internal Audit's assessment of compliance with the PSIAS (Appendix 1);**
2. **The QAIP (Appendix 2); and**
3. **The EQA Action Plan (Appendix 3).**

Executive Summary

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

An EQA was last completed in January 2023 and reported to this committee on 22 March 2023. Due to the short period of time between the closure of the EQA and the self-assessment, the assessment includes the findings of the EQA and has been linked to the agreed EQA Action Plan. An overview of compliance is attached at **Appendix 1** which shows that Internal Audit operations have been self-assessed as generally conforming to the standards. Confirmation has also been obtained on conformance against the PSIAS from third parties who have delivered audit engagements on behalf of the Council.

Part of the requirement of the PSIAS is for the 'Chief Audit Executive' to develop a QAIP. Under the QAIP, quality should be assessed at both individual audit engagement level as well as a broader operational level. A well developed QAIP is to ensure quality is built in to, rather than on to, the way Internal Audit operates. Following the recent EQA the QAIP has been fully reviewed and specifically updated in the following areas;

- Confirmation annually that all QAIP measures have operated correctly;
- Summarise any outcomes influencing future development of the service within the Audit Manager's Annual Report; and
- Ensure that training records are maintained and used to inform the QAIP.

Attached as **Appendix 2** is the Quality Assurance & improvement Programme (QAIP). From the areas identified above ongoing actions will be required to be carried forward into 2023/24 and these will link into the EQA Action Plan for 2023/24.

As outlined and highlighted in **Appendix 1** a number of actions were required following the conclusion of the recent EQA and these are contained in **Appendix 3.** As presented to this committee on 22 March 2023, the Action Plan will be brought to this committee each quarter to confirm progress of the outstanding actions.

Options Considered

None.

Resource Implications

None.

Legal/Risk Implications Background

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

Equalities Implications

None.

Environment and Sustainability Implications (including climate change)

None.

Background Information

None.

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List of Background Papers

Appendices

Appendix 1 Public Sector Internal Audit Standards Compliance Overview
Appendix 2 Quality Assurance & Improvement Programme
Appendix 3 External Quality Assessment Action Plan 2023/24

Public Sector Internal Audit Standards Compliance Overview

Tamworth Borough Council

Mission Statement, Definition of Internal Auditing and Code of Ethics

Mission Statement & Definition of Internal Auditing	✓
Integrity	✓
Objectivity	✓
Confidentiality	✓
Competency	✓

Performance Standards

1000 – 1322 Attribute Standards

1000 – 1110 Purpose, Authority and responsibility

Purpose, Authority, and Responsibility	⚠
Recognising Mandatory Guidance in the Internal Audit Charter	✓

1110 – 1130 Independence and Objectivity	

Organisational Independence	
Independence and Objectivity	
Direct Interaction with the Board	
Chief Audit Executive Roles Beyond Internal Auditing	
Individual Objectivity	
Impairment to Independence or Objectivity	

1210 – 1230 Proficiency and Due Professional Care	

Proficiency	
Due Professional Care	
Continuing Professional Development	

1300 – 1322 Quality Assurance and Improvement Programme (QAIP)	

Quality Assurance and Improvement Programme (QAIP)	
Requirements of the Quality Assurance and Improvement Programme	
Internal Assessments	

External Assessments	✔
Reporting on the Quality Assurance and Improvement Programme	✔
Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✔
Disclosure of Non-conformance	✔

2000 – 2600 Performance Standards

2000 – 2060 Managing the Internal Audit Activity

Managing the Internal Audit Activity	⚠
Planning	⚠
Communication and Approval	✔
Resource Management	✔
Policies and Procedures	⚠
Coordination	✔
Reporting to Senior Management and the Board	✔

2070 External Service Provider and Organisational Responsibility for Internal Audit

External Service Provider and Organisational Responsibility for Internal Audit	✔

2100 – 2130 Nature of Work

Nature of Work	
Governance	
Risk Management	
Control	

2200 – 2240 Engagement Planning

Engagement Planning	
Planning Considerations	
Engagement Objectives	
Engagement Scope	
Engagement Resource Allocation	
Engagement Work Programme	

Performing the Engagement	✓
Identifying Information	✓

Analysis and Evaluation	✓
Documenting Information	✓
Engagement Supervision	✓

2400 – 2440 Communicating Results

Communicating the Results	✓
Criteria for Communicating	⚠
Qualities of Communications	✓
Errors and Omissions	✓
Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"	✓
Engagement Disclosure of Non-conformance	✓
Disseminating Results	✓

2450 Overall Opinions

Overall Opinions	✓

2500 Monitoirng Progress

Monitoring Progress	✔

2600 Communicating the Acceptance of Risks

Commuinicating the Acceptance of Risks	✔

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Appendix 2

Internal Audit
Quality Assurance & Improvement Programme

1 Introduction

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

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

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

The QAIP is reviewed on an annual basis.

2 Internal Assessments

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

<u>Ongoing reviews</u>

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

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

<u>Periodic reviews</u>

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, Definition of Internal Auditing, the Code of Ethics, the quality of the audit work and supervision, policies and procedures supporting the internal audit activity, the added value to the organisation and the achievement of performance standards.

Periodic assessments will be conducted through:

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

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

3 External Assessment

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

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

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

4 Assessment scale

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

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

5 Reporting on the Quality Programme

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

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

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

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

Identification of added value to the authority's operations	Continuous	Audit Manager	Annual report to the Audit & Governance Committee
Periodic Self Assessments			
Self assessment against the Public Sector Internal Audit Standards (PSIAS)	Annual	Audit Manager	Annual report to the Audit & Governance Committee
Compliance with applicable laws, regulations and other standards that the Internal Audit activity may be subject to	Continuous review	Audit Manager	Report to Audit & Governance Committee when applicable
Benchmarking review of Internal Audit Services	When practical	Audit Manager	Report to Audit & Governance Committee
Reviews of KPI's skills and training requirements	Annual	Audit Manager	Report as part of QAIP annually to Audit & Governance Committee.
External Assessments			
Assessment against the PSIAS	Every 5 years	Audit Manager and external reviewer	Report to the Audit & Governance Committee
PSIAS EQA Action Plan	Quarterly	Audit Manager	Report to the Audit & Governance Committee

External Quality Assessment Action Plan

	Priority	Issue Identified	Recommended Action	Management response	Officer responsible/ timescale	Status
1.	Review	**Internal Audit Charter (IAC)** The IAC is comprehensive regarding engagement reports however does not contain details of the requirement for the Chief Audit Executive (CAE) to deliver an Annual Report including an opinion in relation to risk management, governance and control.	Include an appropriate statement in the Internal Charter with regard to the provision of an Annual Report and align this with regard to the benefit of aligning the internal audit planning process with a continuous assessment of the risk environment faced by each client, in order to support the provision of the annual opinion regarding risk management, governance and control. . **PSIAS 1000**	Agreed. To be implemented via a review of Internal Audit Charters for 2023/24. This will improve wider outcomes in the Council so that the audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.	Audit Manager May 2023	Completed as part of the Internal Audit Charter update for 2023/24
2.	Review	**Performance appraisal** The self-assessment identified that the CAE's appraisal which is undertaken by the Chief Executive at Tamworth Borough Council (TBC) has not taken place. A new appraisal process is to be introduced at Lichfield District Council (LDC). .	Ensure that a robust performance appraisal process is in place within the Internal Audit Team With regard to the Audit Manager consider Inviting observations from both Chairs of Audit Committee in advance of the performance appraisal, as this would provide valuable client feedback and reflect best practice. **PSIAS 1110**	Agreed. Ongoing review of Audit Manager performance maintained by Chief Executive at Tamworth BC and both Section 151 Officers. Discussions to agree further approach.	Audit Manager March 2024	Ongoing inclusion of PDR being developed currently at Tamworth Borough Council. A new Performance Development Review (PDR) template and

						guidance note has been approved at Appointments and Staffing Committee following consultation with our recognised Trade Unions – and launched for completion by June 2023
3.	Consider	**Declarations of interest** Each Council has adopted different practices regarding the protocol for declarations or conflicts of interest. Due to the independent nature of internal audit work it would be beneficial for internal audit staff and any contractors to confirm the position on an annual basis.	The CAE should obtain confirmation regarding potential conflicts of interest on 1 April each year and on appointment of any further staff or contractors undertaking internal audit engagements at the Councils. **PSIAS 1100**	Agreed Previous declarations of interest have been recorded but only updated if changes have occurred. However to comply with best practice will implemented annual reviews.	Audit Manager April 2023	
4.	Review	**Audit Universe** The current internal audit planning model reflects use of a “standard audit universe’ to which a cyclical approach to reviewing areas of activity is applied in consultation with management. This is provided for in circumstances where the	The development of a comprehensive internal audit plan that reflects the significant risks that are recorded within each Councils risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an	Agreed Review of current audit universes at both Tamworth and Lichfield. Change of current working practices to develop the auditing	Audit Manager March 2024	Ongoing progress started with 2023/24 Audit Plan and will be developed moving forward during the financial year to be fully

		client risk management system cannot be relied upon. Internal Audits of risk management have provided positive opinions in relation to their application and as a result it would be beneficia therefore to increasing align the focus of strategic and engagement planning with each clients risk environment as this would enhance internal audits' ability to demonstrate a commitment to helping each Council achieve its objectives. It may be beneficial to consider the content of each clients risk management process as the Audit Universe in future.	indication of the resources required to provide continuous independent assurance. Internal Audit works with each client manager at the time of an engagement to identify significant risks; it would be opportune to increasingly recognise and promote the value of 'Control Risk' at an operational level and transparently integrate this within the planning process, identifying sources of assurance as a matter of routine. It would be beneficial therefore to increasingly align development of the internal audit planning system with each Councils risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level. It may be that such an approach would also help embed effective risk management within each clients governance processes. **PSIAS 2000/2010**	of control risks and linking into strategic and operational risk registers are both authorities. To be supported by the current reviews of Strategic Risk Registers which looks at mitigating controls. Additionally, this will improve wider outcomes in the Council so that the audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.		implemented and included in plan for 2024/25
5.	Consider	**Purpose of the system subject to review** Audit Planning Memorandum currently contains a statement	The inclusion of a Management Objective is regarded as good practice however it may be beneficial to increasingly capture the specific aims	Agreed Audit Planning and pre-meetings will	Audit Manager April 2023	Complete - Audit Planning and pre-meetings to

		which reflects the 'Management Objective' of the area subject to review. Whilst the terminology is correct statements tend to focus on a generic statement regarding the internal control environment rather than focusing on what management are aiming to achieve, in accordance with Public Sector Internal Audit Standards (PSIAS) requirements, which recognise the value of focusing on operational management objectives.	of management in each review to which can be aligned the significant risks being faced within the area under review . This will assist with the discussions with client managers and specifically the identification of the significant risks which may impact upon achievement of the established objectives and upon which the assurance opinion should be based. The significant risks may be all or some of those identified with the risk management process as well as others recognised at the time of audit. **PSIAS 2201**	incorporate aims of management in the Audit Brief.		include aims of the service in the planning document.
6.	Consider	**Recognition of identified key controls** The current risk management methodologies require identification of the primary controls which exist as well as the further mitigating controls which are to be developed. These are likely to represent the key controls upon which the audit should be based, as they represent 'Control Risk' and the implications should a failure of controls occur.	It would be beneficial to increasingly focus on what is regarded as a 'significant risk' within each Councils risk management processes and the associated primary controls as this would increase efficiency through allocating appropriate resources to those areas of most concern. There is limited feedback from the client survey which indicates that the Shared Service might provide increased focus on significant risk and introducing advice best practice within the audit approach and these may be areas where increased understanding of risk throughout the process may produce results which	Agreed. To be developed over 2023/24 towards full implementation. This will improve wider outcomes in the Council so that the audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.	Audit Manager March 2024	Ongoing work in this area to link into the strategic and operational risks of the council.

			are regarded as adding value by clients. **PSIAS 2010**			
7.	Review	**Consideration of Fraud** The Team maintain a Fraud Risk Register demonstrating compliance with the standards regarding the recognition of potential fraud, however this is not directly considered when scoping engagements.	Ensure that the areas reviewed within an engagement include those where potentially significant fraud risks exist. **PSIAS 2030**	Agreed. As part of annual review of Fraud Risks and reported to respective Committees at Tamworth and Lichfield.	Audit Manager October 2023	Ongoing to be developed and included following review of fraud risks as part of the council reporting arrangements.
8.	Review	**Quality Improvement Assurance Policy** The service has introduced a Quality Improvement Assurance Policy (QIAP) in accordance with the requirements of the standards. The policy focuses on consistent internal review of engagements, an annual assessment against the standards and the External Quality Assessment (EQA) review on a five year cycle. The Head of Internal Audit's Annual report confirms that aspects of the policy have been completed in a diagrammatic presentation. Industry best practice now reflects an extension of the quality review process to	It would be beneficial to update the policy in line with best practice and as required confirm annually that all measures have operated during the year as well as summarise any outcomes influencing future development of the service within the Head of Internal audit's Annual Report. **PSIAS 1300**	Agreed. QIAP to be reviewed at both Councils and implemented. Changes to be incorporated into the QIAP for 2023/2024.	Audit Manager July 2023	Complete QIAP updated in accordance with standards and presented as part of updated QIAP for 2023/24.

		include consideration of wider performance in the form of KPI's, resources, skills and training requirements.				
9.	Review	**Governance** The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements. Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and Members expenses.	In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to map internal audit activity to the content of the Code in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report. **PSIAS 2110**	Agreed. To be implemented as part of AGS for 2022/2023 and ongoing development. To be linked with Monitoring Officer at LDC and internally within TBC.	Audit Manager March 2024	Ongoing progress in this area, assurance mapping to be completed.
10.	Review	**Risk Management** Internal Audit last reviewed risk management as an assignment in TBC (March 2021) and LDC (March 2022) providing a 'Reasonable' assurance opinion.	The standards require an annual opinion to be made in the Head of Internal Audit's Annual Report regarding the adequacy and effectiveness of each Councils risk management processes. It would therefore be beneficial to support the opinion with evidence of how this has been reached through a combination of the assurances gained at both a strategic level and at an operational level within engagements. It would be beneficial to document in this approach how any potential conflict of interest with regard to the Audit Manager and Principal Auditor's roles relating to risk management is managed.	Agreed To be implemented as part of Annual Internal Audit Reports submitted to each Council Audit Committees.	Audit Manager April 2023	Ongoing, review of Risk Management to be completed at TBC in 2023/24.

			PSIAS 2120			
11.	Consider	**Head of Internal Audit Annual Opinion** The current statement is largely based upon the work completed in the current financial year. Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks which each client is facing and information from other assurance sources.	In practice, the opinion is actually based upon the continuous thread or trend of assurance work completed in recent years as a result of the focus of internal audit plans, the wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes. Future opinions should state the full basis upon which the opinion has been reached. **PSIAS 2450**	Agreed. Updating of audit opinion for new financial year 2023/24	Audit Manager. April 2023	Complete to be included in Annual Report to be presented to A&G Committee in June 2023.
12.	Consider	**Internal Audit Risk Based Strategy** The teams approach to assessment of the perceived risk at inherent and residual levels within an engagement is reflected in the grading of recommendations and opinions which are then used in reporting. Audit Engagement Plans and Reports contain an explanation of how the Internal Audit Team relate the level of risk evaluation to the conduct of the audit. It would be beneficial to ensure that the wording used	Consider reviewing the wording of definitions that support the grading of recommendations and opinions to better reflect risk appetite of each client. Particular attention should be given to the use of wording such as Fundamental and Significant. Within engagement reports this would then link to alignment of assurance opinions where fundamental or a series of significant recommendations automatically generated a 'Limited Assurance' opinion. Consider whether maintained a fourth level of assurance (being no assurance) is necessary.	Agreed. In conjunction with further reviews of wording and audit opinion, to be carried out in conjunction with these reviews.	Audit Manager December 2023	Ongoing development and practice to be brought into place for 2023/24.

		is consistent with risk management terminology used by each client. PSIAS guidance emphasises that the focus of internal audit should be on 'significant' risk.	**PSIAS 2420**			

Suggested Enhancements for consideration

	Issue Identified	Recommended Action	Management response	Officer responsible/ timescale	Status
1.	**Job descriptions** Current job descriptions are in a consistent form abut are not routinely reviewed as part of the PDR process..	Best practice reflects regular update of job descriptions, it may be beneficial to review all job descriptions at the same time to ensure that any inter-dependencies are fully reflected, particularly as the two currently vacant posts are advertised **PSIAS 1210**	Agreed Review of job Descriptions to be undertaken.	Audit Manager. April 2023	Complete
2.	**Client surveys** Progress has been made in obtaining feedback from auditees following each audit through discussions with client	Internal Audit may find it useful to utilise Survey Monkey or similar technology for collecting feedback and capture similar feedback in relation to each contractors performance, as	Agreed. Will review the possibility and functionality of Survey	Audit Manager April 2023	Ongoing review to ascertain best systems going forward.

	managers and within the annual planning process. Current completion reflects 66% TBC and 82% LDC. This provides informal confirmation from clients regarding the Teams ability to deliver upon its responsibilities and particularly add value.	this can prove to be an efficient means of gathering an early response. Feedback should be included as part of the QAIP process. **PSIAS 2000**	Monkey and determine a way forward.		
3.	**Contract support** A contract is in place with each contractor which states that delivery of services should comply with the PSIAS.	In order to evidence that the Shared Service is compliant in overall terms it would be helpful if each contractor were requested to provide evidence that their work had been independently assessed in accordance with the PSIAS. **PSIAS 1312**	Agreed	Audit Manager	Complete
4.	**Key Performance Indicators** Completion of the Internal Audit Plan is regarded as the current focus of performance monitoring, although other indicators based on recommendations and opinions made in the year are recorded in the Head of Internal Audit's Annual Report. Good practice elsewhere utilises a range of quantitative and qualitative measures to demonstrate performance against the Internal Audit Charter.	Consideration could be given to devising a more comprehensive list of indicators and a summary of client feedback received. This may include: • Reports issued to agreed timescales • Recommendations accepted/not accepted by risk rating • Recommendations acted upon in a timely manner • Client satisfaction • Staffing levels and qualifications • Planned training completed **PSIAS 1310**	Agreed Will review current KPI's and in conjunction with client managers determine a suite of KPI's for Internal Audit.	Audit Manager March 2024	Ongoing, to be reviewed and considered for 2024/25

5.	**Training** The Internal Audit Team has developed a comprehensive training and skills matrix which includes reference to mandatory requirements although this has not been maintained. As the internal audit planning process devises a forward looking three year plan it would be beneficial to consider the future training needs of internal audit staff and include these in future resource planning.	Consider the benefits of using the priorities included in internal audit plans to identify potential courses or seminars which may provide increased understanding of the risk environment that will be reviewed. Ensure that training records are maintained and used to inform the QAIP. **PSIAS 1210**	Agreed Review training and implement as determined by the knowledge and experience of auditors.	Audit Manager March 2024	Ongoing CPD requirements and training opportunities in place. Maintenance of training records to be updated.
6.	**Internal Audit Manual** The Team has compiled an Internal Audit Manual which was last reviewed in December 2022.	Following completion of the EQA, consider revising the Manual to fully reflect current practice rather than generic example as this will assist when training new staff. It may be useful to include the Internal Audit Protocol document within the Manual as this represents an excellent way of explaining the internal audit process to all stakeholder **PSIAS 2030**	Agreed. Implement changes as suggested.	Audit Manager March 2023	Ongoing review of manual to bring into line with best practice.

Thursday, 20 April 2023

Report of the Audit Manager

Annual Report of the Chair of Audit & Governance Committee

Exempt Information

None.

Purpose

This report presents the proposed Annual Report of the Audit & Governance Committee 2022/23 for Council.

Recommendations

It is recommended that the proposed Annual Report of the Audit & Governance Committee 2022/23 be endorsed.

Executive Summary

Audit Committees are an important source of assurance about an organisations' 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 Committee adds value. The Audit & Governance Committee's annual report fulfilling these requirements is set out at **Appendix 1**.

Options Considered

None.

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.

Environment and Sustainability Implications (including climate change)

None.

Background Information

None.

Report Author

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List of Background Papers

Audit Committees in Local Authorities and Police (2018), CIPFA
Audit Committee agendas, minutes and reports for the Committee year 2022/23

Appendices

Appendix 1 – Annual Report of the Audit & Governance Committee 2022/23

Appendix 1

Annual Report of the Audit & Governance Committee 2022/23

1. Introduction from the Chair of the Audit Committee

I am pleased to present the Annual Report of the Audit Committee for the 2022/23 Committee year.

2022/2023 has continued to be a challenging year for all in the recovery from the pandemic and the changes encountered as we progress into new more agile ways of working. The Committee plays an even more vital role in being able to gain assurance that the Council's governance, risk and internal control environment remain fit for purpose and concurrent with the challenges faced.

From the challenges faced by the Committee in 2021/22 we have been able to gain assurance in respect of 'business as usual' and also Covid-19 risks together with the cost pressure crisis due to increases in energy costs arising from the war in Ukraine and as the economy began to open up again. In addition we have obtained regular reports from management to ensure that the Council's overall governance framework remained robust and fit for purpose.

As a committee we continue to review the risks both faced generally by the council but also around the Future High Street Fund and other major projects, this work will continue during 2023/24.

Both the Future High Street Fund and further projects will be reviewed during 2023/24 and future risks will be kept on the risk horizon. Cyber Security risks were high on the agenda during the year with notable 'cyber attacks' being reported at other Councils, this oversight will continue into 2023/24.

As the work continues to move in to a post pandemic recovery, any new or emerging threats or opportunities will be identified, notably the Council's response to Climate Change.

As reported last year 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 P Turner,
Chair of the Audit & Governance Committee 2022/23
20 April 2023

2. Terms of Reference

The terms of reference, which the Committee operated to during 2022/23, 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 8 times during 2022/23.

Membership of the Audit & Governance Committee during 2022/23 and their attendance is detailed at below:

Audit & Governance Committee Member	Date of Committee							
	8/6/22	10/8/22	28/9/22	27/10/22	15/11/22	9/2/23	22/3/23	20/4/23
Councillor P Turner	☑		☑	☑	☑	☑	☑	TBC
Councillor R Ford	☑	☑	☑	☑	☑			
Councillor D Cook	☑	☑	☑	☑	☑	☑	☑	TBC
Councillor A Cooper	☑	☑	☑	☑	☑	☑	☑	TBC
Councillor S Daniels				☑		☑	☑	TBC
Councillor J Jones						☑	☑	TBC
Councillor R Kingstone						☑		TBC
Councillor P Thurgood		☑						
Councillor P Thompson							☑	

During the year Councillors R Ford & P Thurgood left the Committee and Councillors R Kingstone and P Thompson joined. Cllr A Cooper was elected vice chair with effect of 9th February 2023.

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 re-assessed the pros and cons of this during the year. Further work will be completed during 2023/24 to assess this further.

Senior officers from the Council also attend the Audit Committee as appropriate, including the Executive Director Finance (Chief Finance Officer), Assistant Directors and the Audit Manager. 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 September 2022 on the role of the Committee; the internal control environment, governance, risk management and counter fraud. A ‘skills audit’ will be completed in June 2023 to assess training requirements for 2023/24.

5. Sources of Assurance during 2022/23

In fulfilling its terms of reference, the business conducted by the Audit Committee during 2021/22 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 2022/23 from these themes as follows:

Internal Audit

In respect of the 2022/23 financial year, a positive Internal Audit Opinion was given from the Audit Manager as follows:

‘On the basis of audit work completed, the Audit Manager’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.

The Council can be assured that no issues have been identified in the 2022/23 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 2021/22 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 2021/22 statement of accounts and also received reports on accounting policies. The Committee also had oversight of a review of the Council's financial guidance 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.

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 & cost pressures; 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 2021/22 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 and all policies were updated in line with required timescales.

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 2022/23 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 2023/24 with the Committee's refreshed work programme.

Appendix A

Summary of Audit & Governance Committee Work Plan by Assurance Theme 2022/23

Meeting Date	Report	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
8/6/22	Risk Management Update				☑	
	Regulation of Investigatory Powers Act					☑
	Internal Audit Annual Report and Update	☑				
	Public Sector Internal Audit Standards & Quality Improvement Programme	☑				
	Annual Governance Statement and Code of Corporate Governance					☑
	Role of Audit Committee		☑			
	Audit Plan		☑			
	LGA Model Code of Conduct					☑
	Independent Member Update					☑
10/8/22	External Audit Update		☑			
	Risk Management - Quarterly Update				☑	
	Internal Audit Quarterly Report	☑				
	Independent Member Update					☑
28/9/22	External Audit Update		☑			
	Review of annual report on Treasury Management Service and Actual Prudential Indicators			☑		
27/10/22	Modern Slavery Statement 21/22					☑
	Risk Management - Quarterly Update				☑	
	Counter Fraud Update	☑				
	Internal Audit Quarterly Report	☑				
	Local Government & Social Care Ombudsman Report 21/22					☑
15/11/22	Audit Findings Letter and Management Report Letter		☑			
	Annual Statement of Accounts and Report 21/22			☑		
	Code of Conduct Review					☑
9/2/23	Risk Management Quarterly Update				☑	
	FHSF Quarterly Update			☑		

Meeting Date	Report	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	Internal Audit Quarterly Progress Report	☑		☑		
	Audit Committee Effectiveness					☑
	Code of Conduct Review					☑
22/3/23	Public Sector Internal Audit Standards and External Quality Assessment	☑				
	Internal Audit Plan Charter and Protocol 23/24	☑				
	Final Accounts 22/23 Accounting Policies and Action Plan			☑		
20/4/23 to be confirmed	External Audit Update		☑			
	PSIAS Quality Assurance and Improvement Programme	☑				
	Annual Report of Chair of A&G Committee					☑
	Review of Financial Guidance			☑		
	Review of Constitution & Scheme of Delegation			☑		
	Review of Treasury Management Statement			☑		
	Audits Annual Report		☑			

ROLLING AUDIT & GOVERNANACE TIMETABLE OF PLANNED REPORTS TO AUDIT AND GOVERNANCE COMMITTEE

	Report	Committee Date	Report Of	Comments
1.	**Public Sector Internal Audit Standards/Quality Assurance and Improvement Programme**	**20 April 2023**	**Audit Manager**	***Update following receipt of EQA Report from 22 March 2023 meeting***
2.	**Annual Report of the Chair of Audit & Governance Committee**	**20 April 2023**	**Audit Manager / Chair**	
3.	**Review of Financial Guidance**	**20 April 2023**	**Assistant Director Finance**	***From 2023 onwards to be considered in April each year.***
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	20 April 2023	Executive Director Finance	*March or April*

2023/24 Year

1.	Audit & Governance Committee update	[late June] 2023	Grant Thornton	*Moved from April 23 Meeting*
2.	**External Audit Plan**	**[late] June 2023**	**Grant Thornton**	
3.	**Internal Audit Annual Report and Quarterly Update for 2022/23**	**[late] June 2023**	**Audit Manager**	
4.	**Annual Governance Statement and Code of Corporate Governance**	**[late] June 2023**	**Chief Executive**	
5.	**Risk Management Quarterly Update**	**[late] June 2023**	**Assistant Director, Finance**	
6.	**Future High Street Fund Risk Report**	**[late June] 2023**	**Assistant Director, Growth & Regeneration**	
7.	**Review of the Constitution and Scheme of Delegation for Officers**	[late June] 2023	**Monitoring Officer**	
8.	Independent Member update	[late June] 2023	Audit Manager	Provisional date
9.	Councillor Code of Conduct	[late June] 2023	Monitoring Officer	*Provisional date – Annual refresh to normally be in April each year.*
10.	External Quality assessment – Action Plan (quarterly update)	[late June] 2023	Audit Manager	

11.	Auditor's Annual Report	[late June] 2023	Grant Thornton	*Moved from April 23 Meeting*
1	**Audit & Governance Committee update**	**xx August 2023**	**Grant Thornton**	
2	**Risk Management Quarterly Update**	**xx August 2023**	**Assistant Director – Finance**	
3	**Internal Audit Quarterly Update**	**xx August 2023**	**Audit Manager**	
	Private meeting of Internal and External Auditors and Committee members	xx August 2023		
1	**Audit Findings**	**Xx September 2023**	**Grant Thornton**	
2	**Management Representation Letter**	**XX September 2023**	**Grant Thornton**	
3	**Annual Statement of Accounts**	**Xx September 2023**	**Executive Director Finance**	
4	Annual Treasury Outturn	xx September 2023	Executive Director Finance	*Could be moved to October if required*
5	Regulation of Investigatory Powers Act (RIPA) Annual Report & Review of the	Xx September 2023	Assistant Director, Partnerships	Agreed that this be moved to September 2023.

	RIPA Policy			
6	Local Government Ombudsman's Annual Review and Report 2022/23	XX September 2023	Assistant Director – People	
7	External Quality assessment – Action Plan (quarterly update)	XX September 2023	Audit Manager	
1	**Audit & Governance Committee update**	**XX October 2023**	**Grant Thornton**	
2	**Internal Audit Quarterly Update**	**XX October 2023**	**Audit Manager**	
3	**Counter Fraud Update**	**XX October 2023**	**Audit Manager**	
4	**Risk Management Quarterly Update**	**XX October 2023**	**Assistant Director – Finance**	
5	**Future High Street Fund Risk Report**	**XX October 2023**	**Assistant Director, Growth & Regeneration**	
6	Modern Slavery and Human Trafficking Statement	XX October 2023	Assistant Director – Partnerships	*Check whether September or October meeting is preferred for 2023*
1	**Internal Audit Quarterly Update**	**XX February 2024**	**Audit Manager**	

2	**Risk Management Quarterly Update**	**XX February 2024**	**Assistant Director – Finance**	
3	**Audit Committee Effectiveness**	**XX February 2024**	**Audit Manager**	
4	**Future High Street Fund Risk Report**	**XX February 2024**	**Assistant Director, Growth & Regeneration**	
5	External Quality assessment – Action Plan (quarterly update)	XX February 2024	Audit Manager	
1	**Audit and Governance Committee update**	**XX March 2024**	**Grant Thornton**	*Verbal Update*
2	**Internal Audit Charter and Audit Plan**	**XX March 2024**	**Audit Manager**	
3	Final Accounts – Accounting Policies and Action Plan	XX March 2024	Assistant Director of Finance	*March or April (ideally March)*
	Private meeting of Internal and External Auditors and Committee members	**March**		

Note: It is proposed that training on the role of the Audit Committee from the external auditors and training on the role of internal audit to take place in early June outside of the Committee meeting as part of the annual Member Training programme.

The Portfolio Holder for Finance, Risk and Customer Services