Braintree District Council

# GOVERNANCE AND AUDIT SCRUTINY COMMITTEE
## AGENDA

**Thursday 13th January 2022 at 7.15pm**

This is a decision making public meeting of the Governance and Audit Scrutiny Committee which will be held as a hybrid meeting. Members of the Governance and Audit Scrutiny Committee and some Officers will be in attendance in the Council Chamber, Causeway House, Braintree, CM7 9HB.

Members of the public will be able to view and listen to this meeting via YouTube.
To access the meeting please use the link below:
http://www.braintree.gov.uk/youtube

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**Members of the Governance and Audit Scrutiny Committee are requested to attend this meeting to transact the business set out in the Agenda.**

**Membership:-**

| | |
|---|---|
| Councillor P Euesden | Councillor T Walsh |
| Councillor D Hume | Councillor Mrs L Walters |
| Councillor H Johnson (Vice Chairman) | Councillor D White |
| Councillor D Mann | Councillor J Wrench (Chairman) |
| Councillor Miss V Santomauro | |

Members unable to attend the meeting are requested to forward their apologies for absence to the Governance and Members Team on 01376 552525 or email governance@braintree.gov.uk by 3pm on the day of the meeting.

A WRIGHT
Chief Executive

**INFORMATION FOR MEMBERS - DECLARATIONS OF INTERESTS**

**Declarations of Disclosable Pecuniary Interest (DPI), Other Pecuniary Interest (OPI) or Non- Pecuniary Interest (NPI)**

Any member with a DPI, OPI or NPI must declare the nature of their interest in accordance with the Code of Conduct. Members must not participate in any discussion of the matter in which they have declared a DPI or OPI or participate in any vote, or further vote, taken on the matter at the meeting. In addition, the Member must withdraw from the Chamber where the meeting considering the business is being held unless the Member has received a dispensation from the Monitoring Officer.

**Public Question Time – Registration and Speaking on an Agenda Item**

The Agenda allows for a period of up to 30 minutes for Public Question Time. Members of the public wishing to speak are requested to register by contacting the Governance and Members Team on 01376 552525 or email governance@braintree.gov.uk by **midday on the second working day** before the day of the Committee meeting. For example, if the Committee Meeting is on a Tuesday, the registration deadline is midday on Friday, (where there is a Bank Holiday Monday you will need to register by midday on the previous Thursday). The Council reserves the right to decline any requests to register to speak if they are received after this time.

**Members of the public will be invited to participate in Public Question Time remotely and once registered they will be provided with the relevant link and joining instructions for the meeting.**

All registered speakers are requested to send a written version of their question/statement to the Governance and Members Team. In the event that a registered speaker is unable to connect to the virtual meeting, or if there are any technical issues, the question/statement will be read by a Council Officer. Questions/statements should be submitted by E-Mail to the Governance and Members Team at governance@braintree.gov.uk by no later than 9.00am on the day of the meeting.

Registered speakers wishing to address the Committee will be invited to speak at Public Question Time. All registered speakers will have three minutes each to make a statement.

**Public Attendance at Meeting:** The Council has reviewed its arrangements for this meeting in light of the continuing Covid pandemic and has considered that in order to protect the safety of the public, Councillors and Officers, this decision making meeting of the Governance and Audit Scrutiny Committee should be held as a hybrid meeting. Members of the Committee and some Officers will be in attendance in the Council Chamber at Causeway House, Bocking End, Braintree and members of the public will be able to view and listen to the meeting virtually. There will be no public attendance at Causeway House. The public may watch this meeting via the Council's YouTube channel.

**Documents:** Agendas, Reports and Minutes can be accessed via www.braintree.gov.uk

**Data Processing:** During the meeting the Council will be collecting performance data of participants' connectivity to the meeting. This will be used for reviewing the functionality of MS Teams/Zoom and YouTube as the Council's platform for virtual meetings and for monitoring compliance with the legal framework for Council meetings. Anonymised performance data may be shared with third parties.

For further information on how the Council processes data, please see the Council's Privacy Policy:
https://www.braintree.gov.uk/info/200136/access_to_information/376/privacy_policy

**Webcast and Audio Recording:** Please note that this meeting will be webcast and audio recorded. You can view webcasts for up to 6 months after the meeting using this link: http://braintree.public-i.tv/core/portal/home. The meeting will also be broadcast via the Council's YouTube Channel.

**Comments and Suggestions**: We welcome comments to make our services as efficient and effective as possible. If you have any suggestions regarding the meeting you have attended, you can send these to governance@braintree.gov.uk

| PUBLIC SESSION | | Page |
|---|---|---|
| **1** | **Apologies for Absence** | |
| **2** | **Declaration of Interests - Scrutiny Committee**<br>1. To declare the existence and nature of any interests relating to items on the agenda having regard to the Code of Conduct for Members and having taken appropriate advice (where necessary) before the meeting.<br>2. To declare the existence and nature of any instruction given by or on behalf of a political group to any Councillor who is a member of that group as to how that Councillor shall speak or vote on any matter before the Committee or the application or threat to apply any sanction by the group in respect of that Councillor should he/she speak or vote on any particular matter. | |
| **3** | **Minutes of the Previous Meeting**<br>To approve as a correct record the minutes of the meeting of the Governance and Audit Scrutiny Committee held on 28th October 2021 (copy previously circulated). | |
| **4** | **Public Question Time** (See paragraph above) | |
| **5** | **Key Financial Indicators as at 30th November 2021** | **5 - 10** |
| **6** | **Internal Audit Update, Including Progress Against 2021/22 Internal Audit Plan** | **11 - 20** |
| **7** | **Process for the appointment of external auditors 2023/24 to 2027/28** | **21 - 30** |
| **8** | **Draft Treasury Management Strategy for 2022/23** | **31 - 50** |
| **9** | **Urgent Business - Public Session**<br>To consider any matter which, in the opinion of the Chairman, should be considered in public by reason of special circumstances (to be specified) as a matter of urgency. | |

Braintree District Council

**Agenda Item: 5**

| | |
|---|---|
| **Report Title:** Key Financial Indicators as at 30th November 2021 | |
| **Report to:** Governance and Audit Scrutiny Committee | |
| **Date:** 13th January 2022 | **For:** Decision |
| **Key Decision:** No | **Decision Planner Ref No:** N/A |
| **Report Presented by:** Phil Myers, Head of Finance | |
| **Enquiries to:** Phil Myers, Head of Finance (phil.myers@braintree.gov.uk) | |

## 1. Purpose of the Report

1.1 To receive a suite of the key financial indicators of the Council on performance in the current financial year to 30th November 2021. To evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues as and when they may arise.

## 2. Recommendations

2.1 Members are asked to accept the report of the Key Financial Indicators as at 30th November 2021.

## 3. Summary of Issues

3.1 The attached schedule (Appendix A) of Key Financial Indicators provides details of performance recorded for the financial year to 30th November 2021.

3.2 **Commentary:**

3.2.1 The net General Fund revenue budget for the year is £15.4m. The anticipated position as at 30th November was for a net expenditure of £6.9m, the actual net expenditure recorded was £6.2m, with a positive variance of £676k. The main reason for the variance is due to a significant increase in income for recycling material collected from households paid to the Council by the processing contractor.

3.2.2 Assessments of the financial impact of Covid on the Council continue to be requested on a monthly basis by the Government. The latest return (17th) was submitted on 26th November 2021, and for this it was estimated that for the period up to the end of October, the Council had incurred additional expenditure of £418k, and suffered a reduction in fees and charge and other commercial income of £580k. An estimate for the year indicated additional expenditure of £574k and reduced income of £924k. The Council has received a number of sources of financial support: funds from the National Leisure Recovery Fund, received in 2020/21, part of which was carried over into 2021/22; Government emergency funding of £686k provided as part of the Local Government Finance Settlement for 2021/22; and £177k of Contain

Outbreak funding, a ringfenced grant. The Council has also submitted a claim for £108k to the Government's Income Compensation Scheme for losses from sales, fees and charges for the period April to June 2021.

3.2.3 Accountants are currently finalising work with service managers on the third quarter (end of December) information to further assess the impact of the Covid pandemic and to update predictions of the Council's financial outturn position for the year. The outcome of this will be included in the Quarterly Performance report which will be received by the Cabinet on 14th March 2022.

3.2.4 The total budget for Salaries for the whole year is £19.6m. Expenditure on salaries for the year to the end of November was £12.8m. This compares to a profiled budget of £12.9m. A positive variance of £154k was reported after allowing for £200k of the Efficiency Factor (£300k for the year).

3.2.5 The budget for the year for rental income received from commercial and industrial properties is £2.9m from 221 leased units, and is net of an allowance for voids of £52k. The actual value of rents invoiced to the end of November was £2.5m against a profiled budget of £2.4m, with a positive variance of £45k. The total number of units occupied at 30th November was 217, with 4 currently vacant, 3 of which were only recently made available to let following works carried out at the Braintree Enterprise Centre alongside the development of the I-Construct Innovation Centre.

3.2.6 The updated capital programme for the year is £37.7m, which includes estimated expenditure on strategic investment: Manor Street Development of £13.0m; Enterprise Centre at Horizon 120 of £11.05m; Horizon 120 infrastructure works of £4.2m; I-Construct of £1.5m; and Pedestrianisation of Braintree town centre of £1.1m. Actual expenditure incurred to the end of November was £19.6m, the majority of which was incurred on the projects within the strategic investment programme.

3.2.7 The capital resources plan includes the generation of £17.5m of capital receipts in the current financial year. Receipts are anticipated from a number of sources: right-to-buy sales and VAT shelter savings from agreements with Eastlight Community Housing; the disposal of apartments at Victoria Square; the sale of serviced land plots at Horizon 120; and the sale of various pieces of land which have been identified as sites for potential residential development. The actual value and timing of receipts can vary as they are subject to interest from prospective buyers; commercial arrangements; and, in some cases, contracts exchanged subject to satisfactory planning consents. The amount of capital receipts accrued to the end of November is £17.9m.

3.2.8 The total Council Tax collectable debit for the year is £102.4m. The collection rate as at the end of November is 75.7% (£77.5m collected), which is in line with the rate collected last year for the same period.

3.2.9 The total Business Rates collectable debit for the year is £38.1m. The collection rate as at the end of November is 71.8% (£27.3m collected), which compares to a rate of 73.5% for the same period last year. The amount collectable continues to be reduced from than in pre-pandemic years due to the continuation of Covid related reliefs provided by the Government. The total value of these reliefs awarded at the end of November was £8.3m. The collection rate for 2021/22 has been impacted by the requirement to rebill accounts part way through the year to reflect the reduction in Covid reliefs from 100% for the period April to June, down to 66% for the remainder of the year, impacting on payment plans.

3.2.10 A total of 584 write-offs of Council Tax, with a value of £88k have been authorised in the year to 30th November: 142 in respect of the current year and 442 in respect of previous financial years.

3.2.11 A total of 26 write-offs of Business Rates, with a net value of £17k, have been authorised in the year to 30th November: 6 in respect of the current year and 20 in respect of previous financial years.

3.2.12 The amount of sundry debts owed to the Council, i.e. monies other than for Council Tax and NNDR, was £3.3m, of which £1.5m was in respect of Housing Benefit overpayments. Payment plans are agreed and range from payment within 14 days, payments by instalments throughout the year, and plans determined under Regulations (prescribed maximum amount that can be received from a debtor's benefit award).

3.2.13 The proportion of supplier payments made within 30 days is 96.32%. A new integrated purchase order and payment system was introduced from April 2021, in part to support the move to hybrid working, which is currently still being embedded across the organisation. The target for this area of activity is being reviewed to take into account changes in services and working practices.

3.2.14 The rate of return achieved on short-term investment of the Council's balances and funds in the year to-date was close to zero, due to the ultra-low interest rates that have prevailed and the restrictions advised by the Council's treasury management advisors on duration limits for unsecured investments during a period of uncertainty. The average amount invested to the 30th November was £39.3m which was placed with the Debt Management Office, and various Money Market Funds.

3.2.15 Dividend received/declared in the year to 30th November is £442k, an annualised return of 3.48%. The market values of these pooled funds were £21.2m which represented an unrealised net gain of £2.2m as at 30th November 2021. The total invested in pooled funds; equity, property and multi-asset funds, was £19m at the end of November. These investments are placed in the knowledge that their capital values will be subject to volatility but overall their trend has been positive over the medium term (i.e. over a minimum of 3 years).

3.2.16 Detail of the Council's investments of surplus monies, totalling £63.9m, as at 30th November, is provided at Appendix B.

## 4. Options

4.1 To receive and ask questions as appropriate on the Key Financial Indicators as at 30th November 2021, contained in the appendices to this report.

## 5. Financial Implications

5.1 There are no financial implications arising from the recommendations set out in this report.

## 6. Legal Implications

6.1 There are no specific legal implications arising out of this report at this time.

## 7. Other Implications

7.1 There are no other implications arising out of this report at this time.

## 8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

(a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act

(b) Advance equality of opportunity between people who share a protected characteristic and those who do not

(c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The content of this report will not have a disproportionately adverse impact on any people with a particular characteristic.

## 9. List of Appendices

Appendix A – Key Financial Indicators (including Revenue, Capital and Taxation collection) for the period 1st April 2021 to 30th November 2021.

Appendix B – Treasury Management – Details of the Council's investments for the period 1st April 2021 to 30th November 2021.

## 10. Background Papers

None.

**Key Financial Indicators at 30th November 2021** **APPENDIX A**

| | Full Year Budget 2021/22 | Actual | Profile | Variance from Profile | |
|---|---|---|---|---|---|
| | £m | £m | £m | £'000 | % |
| **General Fund - Expenditure** | | | | | |
| Salaries | 19.6 | 12.8 | 12.9 | -154 | -1.2% |
| Other Controllable Expenditure | 41.5 | 25.3 | 25.0 | 303 | 1.2% |
| | | | | | |
| **General Fund - Income** | | | | | |
| Commercial & Industrial Property - Rental Income | -2.9 | -2.5 | -2.4 | -45 | 1.8% |
| Other Controllable Income | -42.7 | -29.4 | -28.6 | -780 | 2.7% |
| | | | | | |
| **General Fund - Net Revenue (Controllable)** | **15.4** | **6.2** | **6.9** | **-676** | **-9.8%** |
| | | | | | |
| **Capital Programme** | | | | | |
| Capital Expenditure | 37.7 | 19.6 | [redacted] | | |
| Capital Receipts | 17.5 | 17.9 | | | |

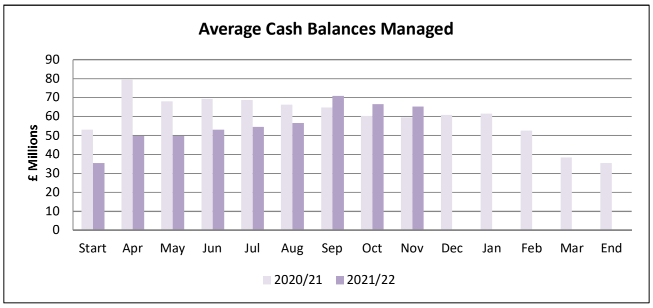
| | Full Year Target | Actual Nov 2021 | Actual Nov 2020 | Variance |
|---|---|---|---|---|
| Council Tax collection in year - % | 98.3% | 75.7% | 75.7% | 0.0% |
| Council Tax collection - income collected for year - £m | £102.4 | £77.50 | £74.20 | £3.40 |
| Write-offs in year - £'000 | | £18 | £8 | £10 |
| Write-offs in year - number | | 142 | 85 | 57 |
| Write-offs all years £'000 | | £88 | £23 | £65 |
| Write-offs all years - number | | 584 | 470 | 114 |
| | | | | |
| Business Rates collection in year - % | 98.6% | 71.8% | 73.5% | -1.7% |
| Business Rates collected for year - £m | £38.1 | £27.3 | £19.4 | £7.9 |
| Write-offs in year - £'000 | | £1 | £9 | -£8 |
| Write-offs in year - number | | 6 | 8 | -2 |
| Write-offs all years - £'000 | | £17 | £34 | -£17 |
| Write-offs all years - number | | 26 | 29 | -3 |
| | | | | |
| Creditors - payment of invoices within 30 days of receipt | TBC | 96.32% | 97.70% | -1.38% |

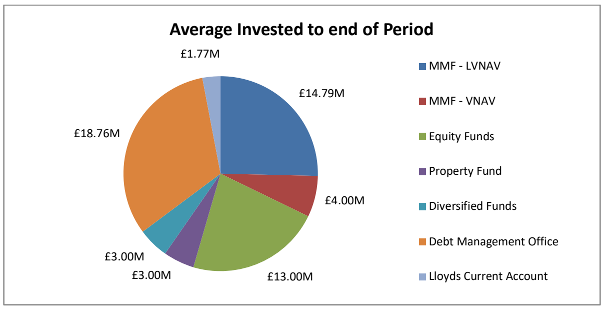
| **Debtors - Balance Outstanding** | **31-Mar-19** | **31-Mar-20** | **31-Mar-21** | **30-Nov-21** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Service Level Agreement charges - principally Tabor Academy and residents of Twin Oaks, Stisted | 190 | 181 | 182 | 181 |
| Charges for services provided by: Democratic Services, Training Services, Procurement Services, etc. | 12 | 12 | 109 | 3 |
| Charges for services provided by: ICT, Marketing, Offices, Elections, etc | 43 | 60 | 71 | 42 |
| Development & Environment | 485 | 284 | 420 | 231 |
| Finance | 91 | 92 | 102 | 157 |
| Leisure | 189 | 122 | 2 | 9 |
| Operations | 953 | 1,076 | 1,312 | 1,086 |
| Housing | 51 | 65 | 43 | 55 |
| Sub-Total - excluding Hsg. Benefits | 2,014 | 1,892 | 2,241 | 1,764 |
| Housing Benefits | 1,719 | 1,673 | 1,613 | 1,504 |
| Total | **3,733** | **3,565** | **3,854** | **3,268** |
| | | | | |
| Profile by Recovery Stage: | | | | |
| Invoice | 2,109 | 1,914 | 2,088 | 1,684 |
| Reminder | 421 | 648 | 791 | 694 |
| Pre-legal | 366 | 104 | 145 | 57 |
| Enforcement Agent | 354 | 328 | 184 | 172 |
| Tracing Agent | - | 3 | 2 | 1 |
| Charging Order | 31 | 30 | 22 | 22 |
| Attachment to Benefits/Earnings | 452 | 538 | 622 | 638 |
| | | | | |
| Total | **3,733** | **3,565** | **3,854** | **3,268** |
| | | | | |
| Write-offs (debits and credits) in year - value - £000 | £5.1 | £7.7 | £0.6 | £0.9 |
| Write-offs in year - number | 140 | 114 | 141 | 155 |

**Progress on achieving Efficiency Savings Targets**

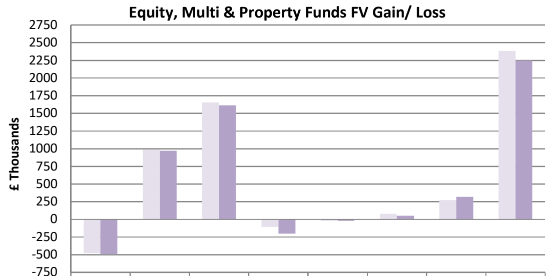
The amount of the Efficiency Savings target included in the budget for 2021/22 is a net amount of £300,000. The underspend on salaries of £154,000, recorded above, is after offsetting £200,000 of the target.

# APPENDIX B - Treasury Management Monitor - 30th November 2021




| | Investment Activity | | | |
|---|---|---|---|---|
| | This Month | | Cumulative | |
| | Made £m | Sold £m | Made £m | Sold £m |
| **External Investments** | | | | |
| Property Fund | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity Funds | 0.0 | 0.0 | 0.0 | 0.0 |
| Multi Funds | 0.0 | 0.0 | 0.0 | 0.0 |
| MMF - LVNAV | 0.0 | 0.0 | 11.0 | 6.0 |
| MMF - VNAV | 0.0 | 0.0 | 0.0 | 0.0 |
| **Sub-Total** | **0.0** | **0.0** | **11.0** | **6.0** |
| **Deposits - Fixed** | | | | |
| UK Bank & Building Soc. | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-UK Banks | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt Mgt Office | 11.5 | 10.0 | 130.5 | 106.5 |
| Local Authorities | 0.0 | 0.0 | 0.0 | 0.0 |
| **Sub-Total** | **11.5** | **10.0** | **130.5** | **106.5** |
| Lloyds Bank PLC | 1.7 | 0.0 | 0.0 | 0.5 |
| **Sub-Total** | **1.7** | **0.0** | **0.0** | **0.5** |
| **Total** | **13.2** | **10.0** | **141.5** | **113.0** |




| | Schroders | Threadneedle | M&G | M&G Extra Income | Investec | Kames Capital | CCLA Property | All Funds |
|---|---|---|---|---|---|---|---|---|
| Last Month | -477760 | 984118 | 1654006 | -104798 | -22379 | 76792 | 275673 | 2385652 |
| This Month | -489224 | 971854 | 1614654 | -199978 | -23361 | 52904 | 319799 | 2246648 |

***Commentary***

Average sum invested in the month £65.3m (Last year £59.6m)

Average sum invested for the year to date £58.31m (Last year £67.1m)

Actual sum invested at the end of the period £63.94m (Last year £60.93m)

Interest secured on instant access accounts, fixed deposits, and MMFs at the end of the period £7305 a return of 0.03% [Annual Updated Budget £23k]

Note: 3mth Libid 0.07% 6mth LIBID 0.15%

Dividends earned (declared) on equity, property and diversified funds to the end of the period £442k [Annual Budget £686k]

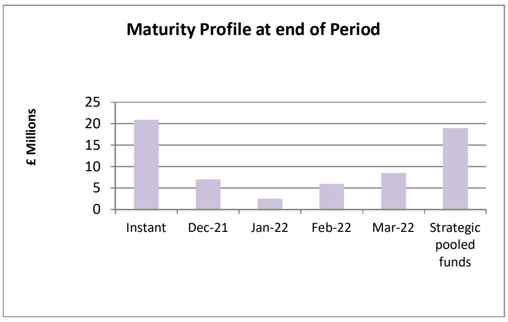
Unrealised gain/ -loss at end of period for equity, property and diversified funds is a net £2247k a change of £-139k from last month

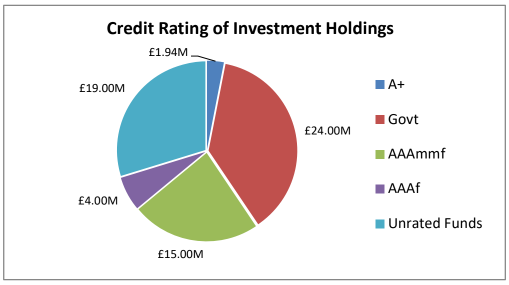
**INVESTMENT HOLDINGS AT END OF PERIOD**

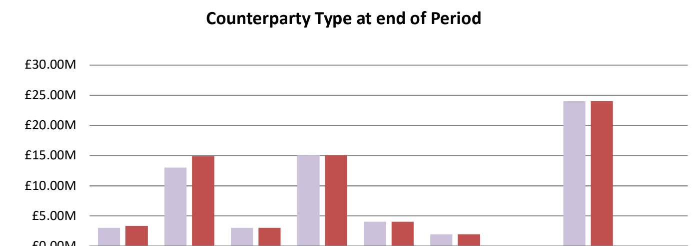
| COUNTERPARTY | Type | Principal | Start | Maturity | Yield |
|---|---|---|---|---|---|
| DEBT MANAGEMENT OFFICE | FIXED | 2000000 | 15/09/2021 | 22/12/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 2500000 | 01/10/2021 | 19/01/2022 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 5000000 | 07/10/2021 | 06/12/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 3000000 | 29/10/2021 | 01/03/2022 | 0.07% |
| DEBT MANAGEMENT OFFICE | FIXED | 3000000 | 01/01/2021 | 01/02/2022 | 0.06% |
| DEBT MANAGEMENT OFFICE | FIXED | 3000000 | 09/11/2021 | 21/02/2022 | 0.02% |
| DEBT MANAGEMENT OFFICE | FIXED | 3000000 | 09/11/2021 | 01/03/2022 | 0.03% |
| DEBT MANAGEMENT OFFICE | FIXED | 2500000 | 18/11/2021 | 21/03/2022 | 0.06% |
| LLOYDS BANK | CALL A/C | 1942000 | 30/11/2021 | 01/12/2021 | 0.00% |
| DEUTSCHE | MMF | 0 | | | 0.00% |
| GOLDMAN SACHS | MMF | 0 | | | 0.00% |
| CCLA PUBLIC DEPOSIT | MMF | 5000000 | 30/11/2021 | 01/12/2021 | Variable |
| FEDERATED PRIME | MMF | 5000000 | 30/11/2021 | 01/12/2021 | Variable |
| ABERDEEN STANDARD | MMF | 5000000 | 30/11/2021 | 01/12/2021 | Variable |

**EXTERNAL FUND INVESTMENTS**

| | | | | | |
|---|---|---|---|---|---|
| SHRODERS INCOME MAX. | EQUITY | 2500000 | [redacted] | | Variable |
| THREADNEEDLE UK EQUITY | EQUITY | 5000000 | | | Variable |
| M&G GLOBAL DIVIDEND | EQUITY | 2500000 | | | Variable |
| M&G EXTRA INCOME | EQUITY | 3000000 | | | Variable |
| KAMES CAPITAL | MULTI | 2000000 | | | Variable |
| INVESTEC | MULTI | 1000000 | | | Variable |
| CCLA – LAMIT PROPERTY | PROPERTY | 3000000 | | | Variable |
| ROYAL LONDON CASH PLUS | MMF-VNAV | 4000000 | | | Variable |




| | Property Fund | Equity Funds | Diversified Funds | MMF - LVNAV | MMF - VNAV | Lloyds Bank | Non-UK Banks | Debt Mgt Office | Other LAs |
|---|---|---|---|---|---|---|---|---|---|
| Exposure £m | £3.00M | £13.00M | £3.00M | £15.00M | £4.00M | £1.94M | £0.00M | £24.00M | £0.00M |
| MV £m | £3.32M | £14.90M | £3.03M | £15.00M | £4.01M | £1.94M | £0.00M | £24.00M | £0.00M |

Braintree District Council

**Agenda Item: 6**

| | |
|---|---|
| **Report Title:** Internal Audit Update, Including Progress Against 2021/22 Internal Audit Plan | |
| **Report to:** Governance and Audit Scrutiny Committee | |
| **Date:** 13th January 2022 | **For:** Decision |
| **Key Decision:** No | **Decision Planner Ref No:** N/A |
| **Report Presented by:** Angela Mitchell, Audit, Insurance and Fraud Manager | |
| **Enquiries to:** Angela Mitchell, Audit, Insurance and Fraud Manager (angmi@braintree.gov.uk) | |

## 1. Purpose of the Report

1.1 The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Governance and Audit Scrutiny Committee, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.

1.2 The 2021/22 Internal Audit Plan was approved by the Governance and Audit Scrutiny Committee on 22nd July 2021. This report provides Members with an update on the Internal Audit activity, and progress and performance against planned work and any other matters affecting the provision of the Internal Audit Service. This is in accordance with the Governance and Audit Scrutiny Committee role and the requirements of the PSIAS.

1.3 The report also provides an update on Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) applications made by the Authority

## 2. Recommendations

2.1 Members note the progress and performance against the 2021/22 Internal Audit Plan.

## 3. Summary of Issues

### 3.1 Progress against the 2021/22 Internal Audit Plan

3.1.1 The progress against the 2021/22 Internal Audit Plan is detailed in **Appendix 1**.

3.1.2 The following audits have been completed since the last progress report to the Governance and Audit Scrutiny Committee (28th October 2021). **Appendix 2** provides a summary of the outcomes of these audits:

- Uniform System Security – **Significant Assurance**
- Safer Recruitment – **Full Assurance**
- Information Management – **Significant Assurance**

- Social Media – **Significant Assurance**
- Performance Management – **Full Assurance**
- Climate Change– **Full Assurance**

3.1.3 The proportion of planned work completed was affected by the following factors:

- A significant proportion of the Audit Manager's time is spent on Insurance work, and some time also spent on Fraud work. In 2021/22 the insurance related work included the re-tender of three areas of insurance cover which required significant resource input. This tender was unplanned (as all insurance covers were tendered in 2020) but was a response to the former insurer deviating from the Long Term Agreement and imposing significant premium increases. In addition there remains a high claims caseload.
- Additional ad hoc advice and consultancy services have been provided in the areas summarised in Appendix 1.

3.1.4 The Internal Audit Plan is prioritised, and Audits are assigned based on their relative priority with consideration to Auditor experience and auditee preferred timescales, but is also flexible to respond to changing corporate needs. Progress of and any changes to planned work is reported to the Governance and Audit Scrutiny Committee.

3.2 **Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) Applications**

3.2.1 There were no RIPA / IPA applications in 2021/22 to the date of producing this report.

3.3 **Corporate Objectives**

3.3.1 The recommendations set out in this report will help the Council to deliver the following Corporate Objectives:

- The Internal Audit Plan 2021/22 includes work across all Corporate Objectives:
  - A sustainable environment and a great place to live, work and play;
  - A well connected and growing district with high quality homes and infrastructure;
  - A prosperous district that attracts business growth and provides high quality employment opportunities;
  - Residents live well in healthy and resilient communities where residents feel supported;
  - A high performing organisation that delivers excellent and value for money services;
  - Delivering better outcomes for residents and businesses and reducing costs to taxpayers.

## 4. Options

This report invites Members of the Governance and Audit Scrutiny Committee to receive and note the progress against the 2021/22 Internal Audit Plan, additional work performed, and any other matters affecting the Internal Audit service.

## 5. Financial Implications

There are no financial implications arising from the recommendations set out in this report.

## 6. Legal Implications

There are no specific legal implications arising from this report.

## 7. Other Implications

There are no other implications arising from this report.

## 8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

(a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act

(b) Advance equality of opportunity between people who share a protected characteristic and those who do not

(c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that ‘marriage and civil partnership’ is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The Equality Impact Assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

## 9. List of Appendices

Appendix 1 – Progress Against the 2021/22 Internal Audit Plan

Appendix 2 - Outcome of Audits Completed Since the Previous Report to Governance Committee (28th October 2021)

## 10. Background Papers

None.

## APPENDIX 1 – PROGRESS AGAINST THE 2021/22 INTERNAL AUDIT PLAN

This Appendix summarises the work completed in respect of the 2021/22 Internal Audit Plan (presented to the Governance and Audit Scrutiny Committee on 22nd July 2021).

| | Audit | Priority | Current Status | Date Report to Governance & Audit Scrutiny |
|---|---|---|---|---|
| **2021/22 Internal Audit Plan – All Audits** | | | | |
| 1 | Core Financial Systems – Back to Basic Reviews<br>• Business Rates Refunds<br><br>• Business Rates<br>• Council Tax | 1 | Part Completed (re Business Rates Refunds)<br><br>In progress<br>In progress | 22 July 2021 |
| 2 | Payroll Shared Service | 1 | External Source of Assurance | 28 October 2021 |
| 3 | Managers Self Service | 2 | In progress | |
| 4 | Procurement / P2P E-Procurement System | 2 | In progress | |
| 5 | North Essex Parking Partnership | 2 | In progress | |
| 6 | BACS System | 2 | Completed | 28 October 2021 |
| 7 | Corporate Credit Cards | 2 | In Progress | |
| 8 | Debtors Invoicing | 3 | In Progress | |
| 9 | LCTS Document Verification | 3 | In Progress | |
| 10 | Business Support Grants | 1 | Completed | 28 October 2021 |
| 11 | Leisure Provision Contract | 1 | *(Deferred at service request)* | |
| 12 | North Essex Economic Board Partnership | 2 | In Progress | |
| 13 | European Regional Development Funds | 2 | | |
| 14 | Uniform System Security | 2 | Completed | 13 January 2022 |
| 15 | Disabled Facilities Grants / Major Housing Grants | 2 | Completed | 28 October 2021 |
| 16 | Landlord Safety Checks | 1 | Completed | 28 October 2021 |
| 17 | Plant & Vehicle Workshop | 2 | | |
| 18 | Unit 4 Fuel System | 2 | In Progress | |
| 19 | Commercial Waste | 2 | In Progress | |
| 20 | Agency Supply Contract | 2 | | |
| 21 | Safe Recruitment | 2 | Completed | 13 January 2022 |
| 22 | Pest Control | 3 | | |
| 23 | Affordable Housing & Homelessness | 2 | | |
| 24 | Accuracy of Housing Application Processing | 2 | | |
| 25 | Projects Realisation of Benefits | 2 | | |
| 26 | Commercial Rents | 3 | Completed | 28 October 2021 |
| 27 | Risk Management | 1 | In Progress | |

| | | | | |
|---|---|---|---|---|
| 28 | Business Resilience | 2 | In Progress | |
| 29 | Information Management | 1 | Completed | 13 January 2022 |
| 30 | Cyber Security | 1 | | |
| 31 | Social Media | 2 | Completed | 13 January 2022 |
| 32 | Culture & Ethics | 2 | | |
| 33 | Homeworking – Security of Data | 2 | | |
| 34 | IT Inventory | 2 | | |
| 35 | Performance Management | 3 | Completed | 13 January 2022 |
| 36 | Major Projects – General | 1 | | |
| 37 | Major Project – in Depth Review | 1 | | |
| 38 | Strategic Investment | 2 | | |
| 39 | Climate Change | 2 | Completed | 13 January 2022 |
| 40 | Annual Governance Statement | 1 | | |
| 41 | Follow Up Limited Assurance Reports:<br>• Contract Management (2019/20)<br>• Manor Street (2019/20)<br>• Housing Application Document Verification (2019/20)<br>• Contract Management – Major Contracts (2020/21)<br>• PCI DSS Compliance (2020/21) | 2 | <br>•<br>•<br>•<br>•<br>• Completed | 22 July 2021 |

**ADDITIONAL WORK COMPLETED**

Since the last report to the Governance and Audit Scrutiny Committee, the function has provided ad hoc advice and guidance in a number of areas, including the following. No assurance levels are assigned to this work:

- Review of the **Local Authority Covid 19 Compliance & Enforcement Grant –** we were informed of a requirement for the grant declaration to be signed by the Chief Executive and Chief Internal Auditor, this required work to be performed to ensure grant criteria met (outcome is reported in Appendix 2)
- The service assisted the Illegal Money Lending Team with enquiries into a matter
- The service has assisted with a large quantity of financial appraisals in connection with procurement of contracts
- As a result of the retirement of the former Head of Finance, the service undertook additional administrative support for the Councils Barclaycard arrangements
- Advice was also provided in the following areas:
    - Controls relating to food vouchers
    - Advice regarding DBS checks
    - Recruitment advice
    - Advice on Data Protection requirements
    - Advice on disposal of obsolete equipment
    - Advice on options for prompting and tracking plan changes
    - Advice on risk management arrangements
    - Advice on reconciliation procedures for licence applications
    - Further advice on controls relating to the issue / recording of food vouchers

**APPENDIX 2 – OUTCOME OF AUDITS COMPLETED SINCE THE PREVIOUS REPORT TO GOVERNANCE COMMITTEE (28 October 2021)**

Recommendations reflect only High and Medium priority matters raised:

| Audit | Overview of Scope | Summary of Findings | High / Medium Priority Recommendation(s) | Priority | Agreed / Responsible Officer / Action Date |
|---|---|---|---|---|---|
| **Uniform System Security**<br><br>**Significant Assurance** | • Processes are in place to ensure access / edit rights are appropriate and unauthorised persons are not able to edit data<br>• Edit rights are applied to appropriate fields<br>• Exception reporting identifies post decision changes | Areas of good practice:<br>• Changes to access rights are approved by the service manager<br>• Majority of staff have correct access permissions<br>• Only 4 staff have access to the System Supervisor role (access is appropriate to their roles)<br>• Teams work to ensure access / edit rights are appropriate | The system wide read only access to be reviewed and more specific roles introduced to ensure staff only have access to the data they require for their role | Medium | **Agreed**<br><br>**Responsibility**: Uniform System Administrators<br><br>**Action date:** 31 January 2022 |
| **Safer Recruitment**<br><br>**Full Assurance** | • Procedures updated to reflect virtual recruitment<br>• Applicant Identity checks are completed<br>• References are checked<br>• Pre-employment checks are completed and documented | Areas of good practice:<br>• The Human Resources team have procedures for recruitment to ensure all documents received and identity is checked<br>• A pre-employment checklist details all processes including obtaining references, and sending conditional and unconditional letters of employment<br>• Identity is checked by a member of the HR team | There were no recommendations arising from this review | N/A | N/A |

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|---|---|---|---|---|---|
| **Information Management**<br><br>**Significant Assurance** | • Processing of data held in large Council databases is GDPR compliant<br>• Special category data is processed lawfully | For databases operated by the Planning & Economic Development Directorate:<br>• Staff did not have any old databases containing personal data<br>• Consultation was carried out to support the Statutory Duty to prepare a Local Plan – Planning Policy staff contacted consultees to check whether they wished to remain on the database<br>• Relevant data is held (for example market trader data does not include date of birth or card details)<br>• None of the databases reviewed held any special category data | Access to the Market Trader folders is restricted to only those staff requiring direct access | Medium | **Agreed**<br><br>**Responsibility**: Head of Economic Development & Planning<br><br>**Action date**: 31 January 2022 |
| **Social Media**<br><br>**Significant Assurance** | • Social media policies and procedures identify relevant risks<br>• Access to the Council's social media is restricted<br>• Access to social media accounts is subject to approval<br>• Social media accounts used by Officers are monitored | Areas of good practice:<br>• The Council has both a Social Media Policy, and a Policy for the Use of Social Media in Investigations. These have been approved and are available for staff via the intranet<br>• Policies clarify the responsibilities of officers relating to social media<br>• Additional access is only provided where relevant to the Officer's role and on approval from the Service Unit Manager<br>• IT reports identify staff social media usage | Seek improvements to the internet reporting functionality at the next internet software package upgrade | Medium | **Agreed**<br><br>**Responsibility**: ICT & Facilities Manager<br><br>**Action date**: April 2022 |
| **Performance Management**<br><br>**Full Assurance** | Review of a sample of indicators to ensure:<br>• Robust data collection resulting in accurate performance figures<br>• Clear presentation of results | For the following indicators reviewed in the course of this audit<br>• NI155 - Number of affordable homes delivered<br>• DC1 - Number of homes granted planning permission | There were no recommendations arising from this review | N/A | N/A |

| | | | | | |
|---|---|---|---|---|---|
| | | • WCLP2 – Number and percentage of accessible non-hazardous Fly Tips on Public Land cleared within 24 hours of being reported<br>• DFG03 – Average waiting time for applicants of Disabled Facilities Grants<br>• CHLP7 Average call answer time (Customer Service Centre)<br>• BV8 – Percentage of Invoices paid within 30 days of receipt<br>• BV78b – Time taken to process Housing Benefit Claim Changes<br><br>Areas of good practice:<br>• Indicators were collected and calculated in accordance with the guidance for each indicator<br>• Supporting evidence was held | | | |
| **Climate Change**<br><br>**Full Assurance** | • Approval of strategy and action plan<br>• Processes for determining strategy<br>• Recording of decisions<br>• Completion of strategy consultation<br>• Protocols for monitoring targets in action plan | Areas of good practice:<br>• The Council's Climate Change Working Group and supporting Officer Working Group developed a programme of work to enable Cabinet and Full Council (September 2021) to approve the Climate Change Strategy and Action Plan, and regular reviews are scheduled<br>• Meeting minutes record decisions and action logs are completed and reviewed<br>• Extended consultation was undertaken to maximise participation | There were no recommendations arising from this review | N/A | N/A |
| | | | | | |

**<u>Updates for Matters Previously Notified to the Governance and Audit Scrutiny Committee (formerly the Corporate Governance Group) / Follow Up Reviews:</u>**

**2018/19 – Leased Car Audit** (**Significant Assurance**)

- There were 4 medium priority recommendations relating to:
    - Scheme documentation and the clarification of Leased Car criteria, application of approved criteria and transparency over any exceptions applied
    - Enforcement of mileage criteria for eligibility
    - Clarity of arrangements for early termination and recharge of termination payments
    - Arrangements for charging excess mileage

  *As at December 2021 – we were previously advised that the recommendations had been implemented but were pending a report to Management Board. The timescale for resolving the amended scheme is pending*

**2018/19 – Risk Management** (**Significant Assurance**)

- Whilst most recommendations were completed, there are 2 medium priority recommendations outstanding relating to the review and regular update of the risk policy and strategy, and ensuring the updated policy and strategy are accessible to staff
  *As at December 2021, the Risk Management policy and strategy are pending update (the policy was last reviewed in 2006). The Audit Manager has prepared information and risk management proposals for consideration by the Corporate Director and Management Board*

**2019/20 – Contract Management (Significant Assurance)**

- There was 1 high priority and 3 medium priority recommendations of which the following remain outstanding (latest *updates are in italics*):
    - Inclusion of performance measures in contracts to ensure delivery as contracted (medium). – *Update December 2021 - The Risk Register was updated in November 2020, this is a Strategic Investment project which is managed via the PPAT (Programme and Project Assurance Team) mechanism alongside the other strategic investment projects*
    - Record learning from Contract Management to apply to future contracts (medium). – *Update December 2021 – Learning is picked up from key contracts (particularly agency staff and Fusion). A Group was set up by BDC for Fusion Council customers to share learning, and meetings have been held with contract managers across the organisation to feed back learning which will be included in the procurement guidance for setting up new contracts. The Procurement Team will move away from simple award by acceptance letter and instead create contracts to better manage against*

**2019/20 – Housing Application Document Verification (Limited Assurance)**

- There were 3 high priority recommendations relating to the checking of original documents, certifying copies, and procedures to clarify mechanism for reporting false documents. *– The Covid-19 pandemic created additional challenges for the service, which is exploring additional options for validating applications – the service trialled an Application Checker system, and The IT system was enhanced to enable applicants to upload supporting documents with their applications. In addition Housing staff work to the 'Gateway to Homechoice – Prevention and Detection of Fraud Procedure'. This area will be reviewed again in 2021/22.*

**2019/20 – Manor Street (Limited Assurance)**

- 11 high priority, 2 medium priority and 1 low priority recommendations – *formal audit follow up review pending (Governance and Audit Scrutiny Members were provided with a an update from the Corporate Director in July 2021)*

**2020/21 Audits** – Audit follow up work is in progress and will be reported at a later date.

***Key:***

*For the scope of objectives subject to review during the audit:*

| | |
|---|---|
| *Full Assurance* | *Internal controls meet acceptable standards and are consistently applied.*<br>*Reasonable, but not absolute, assurance that adequate risk management and controls are in place.* |
| *Significant Assurance* | *Significant assurance that the internal control framework meets minimum acceptable standards.*<br>*Some weaknesses or inconsistent application in control means some risks are not adequately mitigated.* |
| *Limited Assurance* | *Internal control framework does not meet minimum acceptable standard.*<br>*Weaknesses or inconsistent application of controls means some risks are not mitigated and require significant improvement* |
| *No Assurance* | *The internal control framework does not meet the minimum acceptable standards and no assurance can be given* |

Braintree District Council

**Agenda Item: 7**

| | |
|---|---|
| **Report Title:** Process for the appointment of external auditors 2023/24 to 2027/28 | |
| **Report to:** Governance and Audit Scrutiny Committee | |
| **Date:** 13th January 2022 | **For:** Recommendation to Full Council |
| **Key Decision:** No | **Decision Planner Ref No:** DP/2021/38 |
| **Report Presented by:** Phil Myers, Head of Finance | |
| **Enquiries to:** Phil Myers, Head of Finance (phil.myers@braintree.gov.uk) | |

## 1. Purpose of the Report

1.1 This report sets out proposals for appointing Braintree District Council's (the Council) external auditor for the Council's accounts for the five-year period from 2023/24.

1.2 The Committee is asked to consider the options for procuring the external auditors and agree the preferred approach for recommendation to Full Council as set out below.

## 2. Recommendations

2.1 The Committee agree that the following recommendations will be put forward to Full Council:

2.1.1 that the Council approves the decision to accept Public Sector Audit Appointments' (PSAA's) invitation to opt into the sector-led option for the appointment of external auditors for the five financial years commencing from 1st April 2023; and

2.1.2 that the Council approves a delegation to the Council's Responsible Finance Officer (S151 Officer), in consultation with the Cabinet Member for Finance and Corporate Transformation, to consider and, if appropriate, to make representation on behalf of the Council to a proposed external auditor appointment by the PSAA.

## 3. Background

3.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

3.2 The PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. The Council needs to consider how it wishes to procure its external audit arrangements from 2023/24.

3.3 If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council. The opt-in period started on 22nd September 2021 and closes on 11th March 2022. To opt into the national scheme from 2023/24, the Council needs to return the completed opt-in documents to PSAA by 11th March 2022.

## 4. Procurement of External Audit for the period 2023/24 to 2027/28

4.1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the Council is required to appoint an auditor to audit its accounts for each financial year. In doing so the Council has three options;

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
- To act jointly with other authorities to procure an auditor following the procedures in the Act.
- To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

4.2 In order to opt in to the national scheme, a Council must make a decision at a meeting of the Full Council.

## 5. The Appointed Auditor

5.1 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the Council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

5.2 The auditor must act independently of the Council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

5.3 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and to employ authorised Key Audit Partners to oversee the work. At present there is currently a shortage of registered firms and Key Audit Partners.

5.4 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.

5.5. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

## 6. Appointment by the Council itself or jointly

6.1 The Council may elect to appoint its own external auditor under the Act, which would require the Council to establish an independent auditor panel to make a stand-alone appointment.

6.2 The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

6.3 The Council will then have to manage the contract for its duration, overseen by the Auditor Panel.

6.4 Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

## 7. The national auditor appointment scheme

7.1 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let the Councils five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

7.2 In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1st April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;

- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

## 8. Pressures in the current local audit market and delays in issuing opinions

8.1 Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1st April 2018.

8.2 During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

8.3 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. The growing scale of the challenge is illustrated by the recent figures that showed only 9% of local government bodies having had 2020/21 audits completed by the target publishing date, compared to 45% for 2019/20 audits and 57% for 2018/19 audits.

8.4 Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

8.5 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.

8.6 None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

8.7 The PSAA procurement approach has been designed to assist with addressing these concerns by:

- ensuring that the procurement exercise brings fees into line with the audit work;
- encouraging companies to bid for an appropriate size of work using an increase in the total number of lots and a reduction in size of the largest lots;
- the inclusion of one or two lots specifically targeted at encouraging new entrants such as through joint arrangements with experienced suppliers; and
- promoting audit quality through the adoption of an 80/20 weighting towards quality and price respectively, as compared to the previous process which applied a 50/50.

## 9. The invitation

9.1 PSAA is now inviting councils to opt in for the second appointing period, for 2023/24 to 2027/28. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

9.2 The PSAA consulted on a draft prospectus for the national scheme in June 2021, seeking views and comments from audited bodies and other stakeholders. The feedback from this engagement has now been reflected in the PSAA's prospectus and procurement strategy issued with the invitation.

## 10. The next audit procurement

10.1 The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme); and
- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.

10.2 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

10.3 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by the Chartered Institute of Public Finance and Accounting or CIPFA) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

10.4 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

## 11. Corporate Objectives

11.1 By applying a robust procurement process to the appointment of external audit services which includes obtaining the benefits of participating in a national procurement scheme, the recommendations set out in this report will help the Council to deliver its Corporate Objectives of:

- being a high performing organisation that delivers excellent and value for money services; and
- delivering better outcomes for residents and businesses and reducing costs to taxpayers.

## 12. Assessment of Options

12.1 If the Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

12.2. The Council could seek to join with other authorities, if there was interest, to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Legal advice would be required on the exact constitution of such a panel having regard to the obligations of each authority. The Council would need to liaise with other local authorities to assess the appetite for such an arrangement. Indications from other Essex authorities are that most are looking to opt-in to the national arrangements.

12.3 Both of the above options would be more resource-intensive processes to implement for the Council, and without the bulk buying power of the sector-led procurement may result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The Council is unable to influence the scope of the audit and the regulatory regime inhibits the Council's ability to affect quality.

12.4 There would be a need for the Council and its auditor panel to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

12.5 The national offer provides the appointment of an independent auditor with limited administrative cost to the Council. By joining the scheme, the Council would be acting with other Councils to optimise the opportunity to influence the market that a national procurement provides.

12.6 The recommended approach is to opt into the national auditor appointment scheme. This is the recommendation of the Corporate Director (Finance). The Local Government Association's (LGA) view is that the national framework remains the best option for councils.

## 13. Next Steps

13.1 The report will be considered by Full Council at the meeting on 21st February 2022, at which the views of the Governance and Audit Scrutiny Committee will be shared by the Cabinet Member for Finance and Corporate Transformation.

## 14. Financial Implications

14.1 Audit fee levels are expected to increase when current contracts end, irrespective of procurement approach. This is in part as a result of reduced capacity and sustainability in the local audit market. The scope of audit work has also increased as a result of the Audit Code of Practice issued by the National Audit Office (NAO), and from increased work required of auditors on property assets and pension fund liabilities from regulators. Proposals for the 2022/23 budget include an additional £20k per annum for audit fees. With annual inflation, the total budget proposed for 2022/23 is £84k.

14.2 The Government recently announced on 16th December 2021, that additional funding will be made available to councils in future to support further implementation of changes to the local auditing regime following the Redmond review which reported and made recommendations to government in September 2020. Funding is for a package of measures to improve the timely completion of local audit as well as being aimed at improving transparency and accountability in councils.

14.3 A total of £45million over the next three years of the Spending Review 2021, along with £15million in the current year is being provided to councils. Details of the amount allocated to this Council is still awaited.

14.4 The estimated total value of a new external audit contract from April 2023 is estimated to be around £500k over the full five year term of the contract.

14.5 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

14.6 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

## 15. Legal Implications

15.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31st December in the preceding year.

15.2 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.

15.3 Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the

Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

15.4 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

**16. Other Implications**

16.4 There are no other implications.

**17. Equality and Diversity Implications**

17.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

(a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act

(b) Advance equality of opportunity between people who share a protected characteristic and those who do not

(c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

17.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

17.3 The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

**10. List of Appendices**

10.1 None.

**11. Background Papers**

11.1 Public Sector Audit Appointments Invitation Letter to the Chief Executive (copied to the Section 151 Officer and Chair of the Governance and Audit Scrutiny Committee) – dated 22nd September 2021.

11.2 Letter from the Chairman of the Local Government Association to the Chief Executive (copied to the Section 151 Officer) – dated 23rd September 2021.

11.3 Local Audit and Accountability Act 2014.

11.4 Local authority financial reporting and external audit: independent review - Independent review by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting in local authorities.

Braintree District Council

**Agenda Item: 8**

| | |
|---|---|
| **Report Title:** Draft Treasury Management Strategy for 2022/23 | |
| **Report to:** Governance and Audit Scrutiny Committee | |
| **Date:** 13th January 2022 | **For:** Decision |
| **Key Decision:** No | **Decision Planner Ref No:** N/A |
| **Report Presented by:** Phil Myers, Head of Finance | |
| **Enquiries to:** Phil Myers, Head of Finance (phil.myers@braintree.gov.uk) | |

## 1. Purpose of the Report

1.1 The Council has adopted the Code of Practice for Treasury Management in Public Services published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the Council to approve a Treasury Management Strategy before the start of each financial year. A draft strategy is attached to this report for the 2022/23 financial year. The Strategy will be included as part of the Budget report to be considered by Full Council on 21st February 2022.

1.2 The Council's Constitution requires that prior to consideration by Full Council, the draft Treasury Management Strategy is reviewed and scrutinised by the Governance and Audit Scrutiny Committee.

## 2. Recommendations

2.1 To consider the draft Treasury Management Strategy for 2022/23 and recommend its submission to Full Council.

2.2 To consider if the Committee wishes to propose any amendments to the strategy or provide any comments or observations which the Cabinet Member for Finance and Corporate Transformation can take into account when presenting the final Treasury Management Strategy to Full Council.

## 3. Summary of Issues

3.1 The draft Treasury Management Strategy for 2022/23 is attached to this report as an **Appendix**.

3.2 Figures provided in the Strategy at this stage are provisional and will be updated to reflect the Cabinet's final budget recommendations to Full Council. It not expected that any changes will alter significantly the Strategy as currently drafted.

## 4. Options

4.1 To consider the draft Treasury Management Strategy for 2022/23, and if considered appropriate, suggest any changes; or provide comments and observations for the Cabinet Member for Finance and Corporate

Transformation to take into account when presenting the report to Full Council.

## 5. Financial Implications

5.1 The estimated financial implications of the treasury management activities are set out in the tables and indicators contained in the draft Strategy. These show an anticipated increase in prudential borrowing based on the Council's current capital investment plans.

5.2 The Council's proposed budget for investment income in 2022/23 is £809k.

5.3 Interest payable on current borrowing is £282k per annum. With an increase in prudential borrowing anticipated in 2022/23, interest costs are forecast to rise by up to a further £366k on a full-year basis; however, the actual increase in cost in 2022/23 will be subject to the timing of any new borrowing and the actual rate of interest incurred at the time. The business cases for the projects for which the additional borrowing is expected, include anticipated income through lease arrangements and other income generating activities to meet these additional financing costs.

## 6. Legal Implications

6.1 The Treasury Management Strategy fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the guidance issued by CIPFA and any other statutory guidance issued by government.

## 7. Other Implications

7.1 There are no other implications arising from this report.

## 8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

(a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act

(b) Advance equality of opportunity between people who share a protected characteristic and those who do not

(c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 This report will not have a disproportionately adverse impact on any people with a particular characteristic.

## 9. List of Appendices

Draft Treasury Management Strategy 2022/23

## 10. Background Papers

None.

## 1. INTRODUCTION

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has substantial investments and legacy borrowing, with plans to increase the latter in future, meaning it is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code).

## 2. TREASURY MANAGEMENT POLICY & PRACTICES

2.1 The following treasury management policy is adopted by the Council:

2.2 Treasury management activities are defined as the management of investments and cash flows, banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2.3 The successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

2.4 Effective treasury management will provide support towards the achievement of the Council's business and service objectives. The Council is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.5 The manner in which the Council will seek to achieve its policies and objectives for treasury management are set out in a number of Treasury Management Practices (TMPs), along with supporting schedules – see **Appendix A** for a list of TMPs that are currently maintained.

2.6 Arlingclose Ltd (Arlingclose) are the Council's appointed treasury management advisors until November 2022.

## 3. EXTERNAL CONTEXT

3.1 Treasury management activities take place within an economic and market backdrop, including changes in credit outlook. **Appendix B** provides an Economic and Interest Rate Forecast by Arlingclose as at 17th December 2021, which has been used for the purposes of formulating this strategy. Inevitably, events and circumstances will change and as such the Council's treasury management activities will respond accordingly.

## 4. LOCAL CONTEXT

4.1 The following table shows the actual and forecast amounts of borrowing and investments for the Council over the medium-term.

**Table 1 Balance Sheet Analysis**

| | 31.3.21 Actual £m | 31.3.22 Forecast £m | 31.3.23 Forecast £m | 31.3.24 Forecast £m | 31.3.25 Forecast £m |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | **23.8** | **25.9** | **26.3** | **23.2** | **20.3** |
| Less: Lease Liabilities | -2.0 | -1.9 | -1.9 | -1.9 | -1.9 |
| **Borrowing CFR** | **21.8** | **24.0** | **24.4** | **21.3** | **18.4** |
| Less: External borrowing | -6.0 | -6.0 | -18.6 | -18.4 | -18.1 |
| **Internal Borrowing** | **15.8** | **18.0** | **5.8** | **2.9** | **0.3** |
| Less: Usable reserves | -52.5 | -39.9 | -35.9 | -34.3 | -34.7 |
| Less: Working capital | -1.5 | -2.8 | -1.8 | -2.2 | -2.1 |
| **Investments** | **38.2** | **24.7** | **31.9** | **33.6** | **36.5** |

4.2 The Capital Financing Requirement (CFR) measures the underlying need to borrow for capital purposes – actual borrowing may differ. Usable reserves (capital and revenue) and working capital represent underlying resources available for investment. The current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

4.3 In recent years the CFR has increased due to an anticipated increase in borrowing as part of the agreed financing for a number of strategic capital projects. This increased borrowing requirement is currently being met through internal borrowing, which has the effect of reducing investment balances. From 2022/23, external borrowing is projected to increase in line with the long-term financing proposals for the Manor Street regeneration and Horizon 120 Enterprise Centre projects. The decision as to whether to commit to this additional borrowing will be kept under review in light of prevailing forecasts of cash balances and interest rates. The CFR reduces in later years reflecting the financing of the Horizon 120 Business Park expenditure which is being achieved through sale of serviced land plots. The table above demonstrates that total debt is expected to be lower than the highest forecast CFR, a key requirement of the CIPFA Prudential Code.

4.4 **The Liability Benchmark** is a measure of borrowing need based on an alternative strategy which aims to show the lowest risk level of borrowing. This assumes the same forecasts as in Table 1 above, but that all cash and investment balances are kept to a minimum level of £10m, at each year-end to maintain sufficient liquidity and minimise credit risk. This would also maintain investments at a level that ensures the Council retains its 'professional status' for investment activities.

**Table 2 Liability Benchmark**

| | **31.3.22 Forecast £m** | **31.3.23 Forecast £m** | **31.3.24 Forecast £m** | **31.3.25 Forecast £m** | **31.3.26 Forecast £m** |
|---|---|---|---|---|---|
| Borrowing CFR | 24.0 | 24.4 | 21.3 | 18.4 | 15.3 |
| Less: Usable reserves | -39.9 | -35.9 | -34.3 | -34.7 | -27.3 |
| Less: Working capital | -2.8 | -1.8 | -2.2 | -2.1 | -2.1 |
| Plus: minimum investments | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| **Liability Benchmark** | **-8.6** | **-3.3** | **-5.2** | **-8.5** | **-4.1** |

4.5 Under this alternative strategy the borrowing requirement is minimised such that no new external borrowing would be required over the medium-term. However, this strategy would have an overall negative impact on the General Fund revenue account as it would require the Council to divest from its holdings in long-term pooled funds. However, such considerations would be in line with the recently revised CIPFA Prudential Code, which advises authorities to consider the position on any long term investments prior to undertaking new borrowing.

## 5. BORROWING STRATEGY

5.1 The Council currently holds £6m of loans, which were taken out in 2002. The balance sheet forecast in Table 1 shows that borrowing is expected to increase from 2022/23. Additional borrowing may be incurred to pre-fund future years' requirements, providing this does not exceed the Council's own authorised limit for borrowing.

5.2 **Objectives:** The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should long-term plans change is a secondary objective.

5.3 **Strategy:** The borrowing strategy is to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, net borrowing costs (after allowing for foregone investment income) can be reduced alongside a reduction in overall treasury risk. The benefits of this approach will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist in calculating the ‘cost of carry’ and breakeven analysis.

5.4 The Council will consider long-term loans from a variety of potential sources, including Public Works Loan Board (PWLB), the capital markets, and local authorities. The Council acknowledges that PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, which will be a key consideration on future capital investment projects.

5.5 As part of any borrowing activity, forward starting loans might be used, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.6 In addition, short-term loans may be used to cover unplanned cash flow shortages.

5.7 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury’s PWLB lending facility
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body

5.8 Other specialist lenders of finance may be considered, e.g. the Municipal Bonds Agency Plc; however, in these circumstances any proposal would be included within the business case that would require separate Council approval.

5.9 As a condition of accessing the PWLB, the Council will be required to confirm there is no intention to buy investment assets primarily for yield in its medium term capital plans.

5.10 **Other sources of debt finance:** In addition, capital finance may be raised by leasing or other similar arrangements that are not borrowing, but may be classed as other debt liabilities.

5.11 **LOBOs:** The Council holds £6m of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. In the current interest rate environment it is unlikely that the lender will exercise their options, although there remains an element of refinancing risk.

5.12 **Short-term and variable rate loans**: These loans result in exposure to the risk of short-term interest rate rises and are therefore subject to an appropriate level of interest rate exposure in any future portfolio determination. Financial derivatives may be used to manage this interest rate risk (see section below).

5.13 **Debt rescheduling:** The lender of the LOBOs may be prepared to negotiate premature redemption terms which might be agreed if this was expected to lead to an overall cost saving or a reduction in risk. The Council continues to work with Arlingclose in reviewing any opportunities for refinancing the existing loans.

## 6. TREASURY INVESTMENT STRATEGY

6.1 Significant investments are maintained representing income received in advance of expenditure plus balances and reserves held. Table 3 shows the average investment balances projected over the medium-term:

**Table 3 Average Investment Balances**

| | 2020/21 Actual £m | 2021/22 Forecast £m | 2022/23 Forecast £m | 2023/24 Forecast £m | 2024/25 Forecast £m |
|---|---|---|---|---|---|
| Pooled Funds (long-term) | 18.5 | 19.0 | 19.0 | 19.0 | 19.0 |
| Short-term investments | 44.1 | 40.0 | 22.9 | 27.4 | 29.7 |
| **Total Average Investment** | **62.6** | **59.0** | **41.9** | **46.4** | **48.7** |

6.2 Cash balances in 2020/21 and 2021/22 have been affected by the passporting of significant funds through local authorities by government to support businesses and individuals. Average cash balances are higher than the underlying amounts expected at year-end from holding balances and reserves due to normal in-year cashflow benefits.

6.3 **Objectives:** The CIPFA Code requires treasury funds to be invested prudently, having regard to security and liquidity before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim will be to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.4 **Negative interest rates:** The coronavirus pandemic saw market rates, including those offered by the Debt Management Office, become negative. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.5 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council has in the past diversified into more secure and/or higher yielding asset classes. This scope for increasing this diversification will be kept under review.

6.6 **Approved counterparties:** Surplus funds may be invested with any of the counterparty types in Table 4 below, subject to the limits shown.

**Table 4 Approved Investment Counterparties**

| Sector | Time limit | Counterparty limit | Sector limit |
|---|---|---|---|
| UK Government | 50 years | Unlimited | n/a |
| Local authorities (UK) | 5 years | £5m | Unlimited |
| Secured investments* | 5 years | £5m | (a) Unlimited (UK)<br>(b) Foreign £5m per country – max all £10m |
| Banks (unsecured)* | 13 months | £3m | (a) Unlimited (UK)<br>(b) Foreign £3m per country – max all £6m |
| Building societies (unsecured) | 13 months | £3m | £5m |
| Registered providers (unsecured)* | 5 years | £3m | £5m |
| Money market funds* | n/a | £5m | Unlimited |
| Strategic pooled funds | n/a | £5m | £25m |
| Real estate investment trusts | n/a | £3m | £6m |

6.7 **Minimum credit rating*:** Treasury investments in these sectors will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

6.8 For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

6.9 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

6.10 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

6.11 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated and as providers of public services, they retain the likelihood of receiving government support if needed.

6.12 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, care is taken to diversify investments over a variety of providers to ensure access to cash at all times.

6.13 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow diversification into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the investment objectives will be monitored regularly.

6.14 **Real estate investment trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

6.15 **Operational bank accounts:** The Council has financial exposure, for example though current accounts, collection accounts and merchant acquiring services. These are not classed as investments but are still subject to the risk of a bank bail-in, and therefore balances are maintained at a minimum level commensurate with operational requirements.

6.16 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.17 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn at short notice will be made with that organisation until the outcome of the review is announced.

6.18 **Other information on the security of investments**: Full regard is given to other available information on the credit quality of organisations, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from Arlingclose. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

6.19 When deteriorating financial market conditions affect the creditworthiness of all organisations, investments will be restricted to those of higher credit quality along with reductions in the maximum duration. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest in, then increased amounts will be held with UK Government or other local authorities. This will likely cause investment returns to fall but will protect the principal sum invested.

6.20 **Investment limits**: Revenue reserves available to cover investment losses are forecast to be around £25m at 31st March 2022, reducing over the medium term to an average of around £22m. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5m.

6.21 **Liquidity management**: A medium-term cash flow forecast is maintained to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of being forced to borrow on unfavourable terms to meet financial commitments. Limits on long-term investments are set by reference to a medium-term financial plan and cash flow forecast. A daily cash flow for the financial year is maintained to manage short-term liquidity requirements.

6.22 Liquid cash is spread over a number of accounts and funds to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## 7. TREASURY MANAGEMENT INDICATORS

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

7.2 **Security:** A voluntary measure of exposure to credit risk has been adopted by monitoring the value-weighted average credit rating of the investment portfolio. The target is to maintain the portfolio at an overall equivalent credit rating of at least A.

7.3 **Refinancing risk:** Current exposure to refinancing risk of borrowing is limited to the existing LOBOs which have six-monthly call dates. Liquid funds are maintained which mitigate this risk, along with access to refinancing through PWLB, LA to LA lending, or capital markets if necessary. Any new borrowing undertaken in line with this strategy will be arranged to control future refinancing risk by ensuring a spread of maturities.

7.4 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

**Table 5 Investment beyond One Year Limit**

| Price risk indicator | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| Limit on principal invested beyond year end | £15m | £10m | £5m |

## 8. OTHER RELATED MATTERS

8.1 **Financial derivatives:** Standalone financial derivatives (such as swaps, forwards, futures and options) will only be used where they can be clearly demonstrated to reduce the overall level of financial risk exposure, and having taken appropriate advice. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.2 **Markets in Financial Instruments Directive (MiFID)**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of treasury management activities, the Corporate Director (Finance) believes this to be the most appropriate status.

## 9. FINANCIAL IMPLICATIONS

9.1 The budget for investment income in 2022/23 is £809k, based on an average investment portfolio of £41.9m. This represents an overall estimated return of 1.9%.

9.2 Interest payable on current borrowing is £282k per annum. With an increase in prudential borrowing anticipated in 2022/23, interest costs are forecast to rise by up to a further £366k on a full-year basis; however, the actual increase in cost in 2022/23 will be subject to the timing of any new borrowing and the actual rate of interest incurred at the time. The business cases for the projects for which the additional borrowing is expected, include anticipated income through lease arrangements and other income generating activities to meet these additional financing costs.

9.3 If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

9.4 A treasury management reserve is maintained to cover future financial risks associated with varying investment returns or borrowing costs; and potential reductions in the fair value of investments where these might be realised. Outperformance on treasury management activities that generate increased revenue income (or reduced costs) against the budget will normally be added to the reserve.

9.5 Interest charges arising from lease arrangements are covered by the relevant service revenue budgets.

## 10. Other Options Considered

10.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Corporate Director (Finance) believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

| Alternative | Impact on income and expenditure | Impact on risk management |
|---|---|---|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower | Lower chance of losses from credit related defaults, but any such losses may be greater |

| | | |
|---|---|---|
| Invest in a wider range of counterparties and/or for longer times | Interest income will be higher | Increased risk of losses from credit related defaults, but any such losses may be smaller |
| Borrow additional sums at long-term fixed interest rates | Debt interest costs will rise; this is unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain |
| Borrow short-term or variable loans instead of long-term fixed rates | Debt interest costs will initially be lower | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain |
| Reduce level of borrowing | Saving on debt interest is likely to exceed lost investment income | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain |

## Appendix A – Treasury Management Practices (TMPs)

| | |
|---|---|
| TMP1 | Risk management |
| TMP2 | Performance measurement |
| TMP3 | Decision making and analysis |
| TMP4 | Approved instruments, methods and techniques |
| TMP5 | Organisation, clarity and segregation of responsibilities, and dealing arrangements |
| TMP6 | Reporting requirements and management information arrangements |
| TMP7 | Budgeting, accounting and audit arrangements |
| TMP8 | Cash and cash flow management |
| TMP9 | Money laundering |
| TMP10 | Training and qualifications |
| TMP11 | Use of external service providers |
| TMP12 | Corporate governance |

**Appendix B - Arlingclose Economic & Interest Rate Forecast – 17th December 2021**

## 1. Economic Background

1.1 The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

1.2 The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

1.3 Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 Gross Domestic Product (GDP) growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with the Consumer Price Index (CPI) likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

1.4 UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

1.5 In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

1.6 GDP grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

1.7 GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

1.8 The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

## 2. Credit Outlook

2.1 Since the start of 2021, credit default swap (CDS) prices for the larger UK banks have remained low throughout the year up until mid-November when the emergence of Omicron caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

2.2 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

2.3 Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

## 3. Interest Rate Forecast

3.1 Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

3.2 Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

3.3 Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

## 4. Detailed Interest Rate Forecast

4.1 **Underlying assumptions:**

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.

- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.

- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.

- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.

- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.

- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

4.2 **Forecast:**

- The MPC will want to build on the strong message it delivered in December 2021 by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

| | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Arlingclose Central Case | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Downside risk | 0.00 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 |
| 3-month money market ra | | | | | | | | | | | | | |
| Upside risk | 0.05 | 0.05 | 0.25 | 0.35 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Arlingclose Central Case | 0.25 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 |
| Downside risk | 0.00 | -0.25 | -0.25 | -0.30 | -0.30 | -0.30 | -0.30 | -0.35 | -0.35 | -0.35 | -0.35 | -0.35 | -0.35 |
| 5yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.35 | 0.45 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.55 | 0.50 | 0.50 | 0.45 | 0.45 |
| Arlingclose Central Case | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.65 | 0.70 | 0.75 | 0.75 |
| Downside risk | -0.10 | -0.20 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.30 | -0.35 | -0.40 | -0.40 |
| 10yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.10 | 0.25 | 0.35 | 0.40 | 0.45 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 |
| Arlingclose Central Case | 0.80 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.90 | 0.90 | 0.95 | 0.95 |
| Downside risk | -0.10 | -0.25 | -0.30 | -0.35 | -0.35 | -0.35 | -0.35 | -0.35 | -0.35 | -0.40 | -0.40 | -0.40 | -0.40 |
| 20yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.30 | 0.40 | 0.45 | 0.45 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Arlingclose Central Case | 1.00 | 1.05 | 1.10 | 1.10 | 1.10 | 1.10 | 1.15 | 1.15 | 1.15 | 1.20 | 1.20 | 1.20 | 1.20 |
| Downside risk | -0.15 | -0.30 | -0.35 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.45 | -0.45 | -0.45 | -0.45 |
| 50yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.30 | 0.40 | 0.45 | 0.45 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Arlingclose Central Case | 0.70 | 0.75 | 0.80 | 0.85 | 0.90 | 0.95 | 1.00 | 1.05 | 1.05 | 1.10 | 1.10 | 1.15 | 1.15 |
| Downside risk | -0.15 | -0.30 | -0.35 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.45 | -0.45 | -0.45 | -0.45 |

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%