Castle House
Great North Road
Newark
NG24 1BY

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Tuesday, 26 January 2021

Chairman: Councillor Mrs S Michael

Members of the Committee:

Councillor Mrs B Brooks
Councillor M Brown
Councillor R Crowe
Councillor D Cumberlidge
Councillor Mrs M Dobson

MEETING:	**Audit & Accounts Committee**
DATE:	**Wednesday, 3 February 2021 at 10.00 am**
VENUE:	**Broadcast from Castle House, Great North Road, Newark, Notts, NG24 1BY**

You are hereby requested to attend the above for the purpose of transacting the business on the Agenda as overleaf.

Attendance at this meeting and public access will be by remote means due to the Covid-19 Pandemic. Further details to enable remote access will be forwarded to all parties prior to the commencement of the meeting.

If you have any queries please contact Karen Langford on Karen.Langford@newark-sherwooddc.gov.uk. Any questions relating to the agenda items should be submitted to Nick Wilson- Business Manager - Financial Services, at least 24 hours prior to the meeting in order that a full response can be provided.

AGENDA

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Remote Meeting Details

This meeting will be held in a remote manner in accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

The meeting will be live streamed on the Council's social media platforms to enable access for the Press and Public.

To consider resolving that, under section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

15. Date of Next Meeting

Wednesday 21 April 2021

NEWARK AND SHERWOOD DISTRICT COUNCIL

Minutes of the Meeting of **Audit & Accounts Committee** Broadcast from Castle House, Great North Road, Newark, Notts, NG24 1BY on Wednesday, 25 November 2020 at 10.00 am.

PRESENT: Councillor Mrs S Michael (Chairman)

Councillor Mrs B Brooks, Councillor M Brown, Councillor R Crowe and Councillor D Cumberlidge

APOLOGIES FOR ABSENCE: Councillor Mrs M Dobson (Committee Member)

55 DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS AND AS TO THE PARTY WHIP

That no Member or Officer declared any interest pursuant to any statutory requirement in any matter discussed or voted upon at the meeting.

The meeting was held remotely, in accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

56 DECLARATION OF ANY INTENTIONS TO RECORD THE MEETING

There were no declarations of intention to record the meeting.

57 MINUTES OF THE MEETING HELD ON 30 SEPTEMBER 2020

That the Minutes of the meeting held on 30 September 2020 be approved as a correct record and signed by the Chairman.

58 EXTERNAL AUDITORS' SUPPLEMENTARY LETTER TO ANNUAL AUDIT COMPLETION REPORT

The Committee considered the External Auditors' Supplementary Letter to the Annual Audit Completion report from the Business Manager for Financial Services at Appendix A.

The Committee had been updated with an amendment to the Management Letter of Representation at Appendix C of the report, to include a paragraph on 'Unadjusted Misstatements'.

The Audit Completion report follow up letter identified that 3 out of the 4 outstanding audit items had been completed with no matters to report, the audit area for Pension was ongoing. This was due to the lateness of the IAS19 assurance letters and the audited financial statements being made available and therefore the Council's external auditors were unable to gain satisfactory assurance over the net pension liability figure within the accounts.

Whilst this is out of the Council's control, the auditors advised the Committee that they were hoping to issue the audit report by the second week of December. This was also impacting on other Councils within Nottinghamshire in the same way.

AGREED (unanimously) that:

a) the Committee received the External Auditors Annual Audit Completion Report Supplementary Letter for 2019/20; and

b) the Letter of Representation signed by the Director of Resources – S151 Officer and the Chairman of the Committee, be approved.

59 GOING CONCERN STATUS OF THE COUNCIL

The Committee considered the Going Concern Status of the Council report from the Business Manager for Financial Services.

The concept of a 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. The report was able to conclude in regard to the Council's arrangements and those factors as highlighted in the report, that the Council remained a going concern.

AGREED (unanimously) that the conclusion of the assessment made of the Council's status as a going concern for the purposes of the Statement of Accounts 2019/20 be noted.

60 APPROVAL OF THE STATEMENT OF ACCOUNTS

The Committee considered the report from the Business Manager for Financial Services for the approval of the Council's Statutory Accounts for the financial year ended 31 March 2020.

The report highlighted the aim of the Regulations was for the Committee to demonstrate ownership of the accounting statements. To assist Members of the Committee to review the accounts before final adoption, the Audited Draft Statement of Accounts and Annual Governance Statement was brought to the last committee on 30 September 2020.

AGREED (unanimously) that:

a) Members approved the Annual Governance Statement for the financial year ended 31 March 2020;

b) Members approved the Statement of Accounts for the financial year ended 31 March 2020;

c) Members give delegation to the S151 Officer and the Chairman to sign a revised set of accounts if required as per paragraph 4.5; and

d) Members noted that as per the previous report the S151 Officer and the

Chairman had signed the Letter of Representation.

61 STRATEGC RISK MANAGEMENT

The Committee considered the report from the Safety and Risk Management Officer to provide an update on the Council's Risk Management arrangements and status of the Council's Strategic Risks.

The report highlighted how Strategic Risks were those that have the potential to halt or interfere with the Council's ability to achieve its priorities and/or deliver its statutory duties.

The Committee were advised that once agreed with SLT, the new Strategic Risk Register would be provided to the Committee for their consideration.

AGREED (unanimously) that the arrangements for reviewing the Strategic Risks and the proposal for bringing the new Risk Register back to this Committee be noted.

62 INTERNAL AUDIT PROGRESS REPORT

The Committee considered the report from Assurance Lincolnshire providing the Internal Audit Progress report with a summary of Internal Audit work undertaken during 2020/21 against the agreed audit plan and any remaining reports from 2019/20.

The report provided the latest progress report covering the period up to 31 October 2020 having agreed the Audit Plan for 2020/21 at the February Audit and Accounts Committee, reporting throughout the year on the progress made and if any changes to the plan are requested.

AGREED (unanimously) that the Committee considered and commented upon the latest Internal Audit Progress Report and approved the extensions to the implementation dates.

63 TREASURY MANAGEMENT 2020-21 MID YEAR REPORT

The Committee considered the report from the Assistant Business Manager for Financial Services, providing Members with an update on the Council's treasury activity and prudential indicators for the first half of 2020/21.

The report provided the Committee with a summary of the Council's borrowing, investment and capital expenditure position as at 30 September 2020.

The Council were able to confirm that no prudential indicators had been breached during the first six months of the financial period 2020/21, with a further breakdown at section 9 of the report.

AGREED (unanimously) that:

a) the Treasury Management activity be noted and recommended to Full

Council on 15 December; and

b) the Prudential Indicators detailed in Section 9 of the report be noted.

64 REDMOND REVIEW

The Committee considered the report from the Business Manager for Financial Services, summarising the review conducted by Sir Tony Redmond on the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England.

The review recommended 23 recommendations across a range of areas. Based on the recommendations contained within the report, there would likely be major changes to the financial reporting and external audit framework over the coming years. Officers will continue to monitor the external environment to ensure that if and when these recommendations are approved for use by the relevant organisations, the Council ensures the relevant provisions are in place to accommodate the change.

The Committee then discussed the pros and cons as to recruiting an Independent person to assist the Committee and from this a job description to be prepared and approved prior to any advertising. A report to be taken to the next Audit & Accounts Committee providing more information for Members to consider.

AGREED (unanimously) that:

a) the Committee noted the review concluded by Sir Tony Redmond and discussed the recommendations raised.

65 AUDIT COMMITTEE WORK PLAN

The Committee noted the Work Plan.

66 EXCLUSION OF THE PRESS AND PUBLIC

That, under section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

67 DATE OF NEXT MEETING

The next meeting would be held on Wednesday 3 February 2021.

Meeting closed at 10.50 am.

Chairman

AUDIT AND ACCOUNTS COMMITTEE
3 FEBRUARY 2021

EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2019/20

1.0 Purpose of Report

1.1 To present the External Auditor's Annual Audit Letter for 2019/20 for Newark & Sherwood District Council.

1.2 The Annual Audit Letter summarises the key findings from the external audit work carried out by Mazars in 2019/20. It covers the 2019/20 Statement of Accounts and the Value for Money conclusion for the same year.

2.0 Background Information

2.1 Mazars presented details of the findings from the audit of the 2019/20 financial statements in their Audit Completion Report at the 25th November 2020 meeting of the Audit & Accounts Committee, and informed Members that they proposed to give an unqualified opinion on the statements.

2.2 At the same meeting Mazars also proposed to issue an unqualified opinion on the council's arrangements to secure economy, efficiency and effectiveness – the Value for Money (VfM) conclusion.

2.3 Unqualified audit opinions for both of these pieces of work were issued on 7th December 2020.

3.0 Financial Implications (FIN20-21/4469)

3.1 The original fee proposed for the delivery of the audit for the 2019/20 financial year was £37,213.

3.2 As suggested within the report, the final fee is £52,312 due to the additional work pressures around the change in the Council's group boundary, the additional testing on PPE and the pension scheme, together with increases relating to the material valuation uncertainty statement, additional consideration of estimation uncertainty in the going concern status and changes impacting pension liabilities through the McCloud and Goodwin legal cases. This amounts to an increase of £15,099. This will be apportioned over the General Fund and HRA as appropriate.

3.3 The additional fee has been factored into the latest budget monitoring forecast outturn position as presented to Policy and Finance Committee on 21st January 2020.

4.0 RECOMMENDATIONS that:-

4.1 **The Committee consider the External Auditor's Annual Audit Letter for 2019/20.**

Background Papers

External Auditor's Annual Governance Report 2019/20
N&SDC 2019/20 Opinion and Value for Money Conclusion

For further information please contact David Hoose, Partner Mazars on 0115 9644744.

Nick Wilson
Business Manager – Financial Services

Annual Audit Letter

Newark and Sherwood District Council

Year ending 31 March 2020

mazars

Contents

mazars

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Newark and Sherwood District Council (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Assessment	Summary
Audit of the financial statements		Our auditor's report issued on 7 December 2020 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
Other information published alongside the audited financial statements		Our auditor's report included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion		Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.
Reporting to the group auditor		In line with group audit instructions, issued by the NAO on 4^{th} November, we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.
Statutory reporting		Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council. The report also confirmed that we did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2014 Act.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matter paragraph. This drew attention to the financial statement disclosure explaining that COVID-19 had contributed to 'material valuation uncertainty' in the valuation of the Council's property, plant and equipment and in the Council's share of Nottinghamshire Pension Fund's property investment assets included in the estimated net Pension Liability.

2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Accounts Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

		Group	Council
Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£2,329k	£2,250k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£70k	£68k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts:		
	• Termination payments	-	£27k
	• Senior Officer Remuneration	-	£5k
	• Members Allowances	-	£50k
	• External Audit Fee	-	£9k

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Accounts Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements. • Consideration of identified significant transactions outside the normal course of business. • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to highlight.

Our response to significant audit risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Valuation of Property, Plant and Equipment and Assets Held for Sale The Council's accounts contain material balances and disclosures relating to its holding of Property, Plant and Equipment and Assets Held for Sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we determined there is a significant risk in this area.	We performed a range of audit tests, including, but not limited to: • Assessing the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations. • Considering whether the overall revaluation methodology used by the Council's valuer is in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies. • Assessing whether valuation movements are in line with market expectations by reference to alternative sources of valuation data to provide information on regional valuation trends. • Assessing the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice. • Assessing the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer. We also considered the potential impact of the COVID-19 pandemic on the Council's asset valuations and the adequacy of the disclosures in the financial statements, specifically those relating to the material uncertainty applied by your valuer to their valuations.	The Council's valuer declared that the valuation of the Council's property assets were subject to 'material valuation uncertainty' as a result of COVID-19 and this was disclosed in Note 4 of the financial statements and referred to in the 'emphasis of matter' paragraph in our auditor's report. A 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon, only that, because of the extraordinary circumstances arising from COVID-19, less certainty can be attached to the valuation.

Our response to significant audit risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Valuation of the Net Pension Liability The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we determined there to be a significant audit risk in this area.	We performed a range of audit tests, including, but not limited to: • Assessing the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham LLP. • Liaising with the auditor of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. • Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. • Considered the impact of the remedy solution for the McCloud legal judgement on the net pension liability.	'Material valuation uncertainty' was disclosed on the Pension Fund's property investment assets as a result of COVID-19. As the Council's share of those assets in the net Pension Liability in its own balance sheet is material, the Council has disclosed this in Note 4 of the financial statements and we have reflected this in the 'emphasis of matter' paragraph in our Audit Report.

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Transfer of Newark and Sherwood Homes' activities During the year the Council transferred the housing functions provided by Newark and Sherwood Homes (an arms length management organisation) back into direct management by the Council. This transfer and the associated integration of these activities into the Council's operations represented a significant change management agenda. The changes involved impact on the values detailed in the Council's accounts for 2019/20 and we determined there is a significant risk in this area.	We performed a range of audit tests, including, but not limited to: • Considering whether appropriate methodologies have been used by the Council to ensure the relevant transactions and valuations are reflected in the Council's 2019/20 accounts. • Testing related transactions at the Council to provide assurance over the transfer values included in the Council's 2019/20 accounts. • Ensuring that the Council has made appropriate disclosures to reflect the transfer of Newark and Sherwood Homes' activities.	Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to highlight.

Internal Control Recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported.

We have not identified any significant control deficiencies that we are required to report to Members.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.

When we perform our work, we consider whether there are any areas requiring additional audit attention as a “Significant Audit Risk”, which we report to the Audit and Accounts Committee prior to finalising our conclusion. For 2019/20, we did not identify any significant audit risks.

Overall Conclusion

Our auditor’s report stated that that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The National Audit Office, as group auditor, requires us to complete a Whole of Government Accounts Assurance Statement in respect of financial consolidation data produced by the Council. We submitted this information to the NAO on 27 November 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum in March 2020 as £37,213, plus amounts to be confirmed to cover the additional testing on the Group Boundary, Property, Plant & Equipment and Defined Benefit Pensions Schemes.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£37,213	£37,213
Fee Variations*:		
• Additional testing in respect of the changes in the Council's Group Accounts boundary	To be agreed	£3,000
• Additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes	To be agreed	£7,067
• Additional costs associated with 2019/20, including, but not limited to: • Impact of 'Material Valuation Uncertainty' on the Council's land and buildings and its share of Pension Fund property assets. • Updating audit risk assessments, including the value for money conclusion. • Additional considerations of estimation uncertainty in going concern. • Changes impacting pension liabilities through the McCloud and Goodwin legal cases.	-	£5,032
Final audit fee		**£52,312**

**Fee variations subject to confirmation from PSAA.*

Fees for other work

In addition to delivering audit work under the NAO's Code of Audit Practice, we have been engaged by the Council to carry out two pieces of assurance work as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Assurance**:		
• Certification of Housing Benefit Subsidy Claim	£5,600	
• Pooling of Housing Capital Receipts Return	£3,500	

***Work is ongoing*

6. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

- Financial sustainability: how the body plans and managers its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and therefore audit fees.

6. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit and Accounts Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

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AUDIT AND ACCOUNTS COMMITTEE
3 FEBRUARY 2021

REVIEW OF SIGNIFICANT GOVERNANCE ISSUES IN THE ANNUAL GOVERNANCE STATEMENT

1.0 Purpose of Report

1.1 To update members of the Audit & Accounts Committee on the significant governance issues identified in the Annual Governance Statement.

2.0 Background Information

2.1 At the meeting of the Audit & Accounts Committee on 25 November 2020, Members approved the Annual Governance Statement for the Council, with forms part of the Council's Statement of Accounts. To ensure that Members are able to undertake their assurance role, this report updates the Committee on the status of the significant governance issues identified within it.

2.2 An extract from the Annual Governance Statement showing the issues identified is attached at Appendix A.

3.0 Results of the Review

3.1 The issues identified are considered separately below with details of any further work undertaken.

3.2 Re-Integration of the Housing Management Function – The HAG continues to meet ahead of HCC pre agenda to provide feedback and scrutiny to papers for the Homes and Community Committee and comments are included under "Comments from Director" section of the report.

The Tenant Forum has also restarted virtually and is pulling together a programme of scrutiny and performance monitoring which will be brought to a future HCC.

The first phase of the Tenant Engagement and Participation Review is coming to a close – various questions asked through our Viewpoint survey to understand how tenants find our services and how they want to engage.

A self-assessment has been completed against the White Paper and Consumer Standards to identify areas of further work and a tenant will be appointed sponsor for each theme.

The Annual Tenant Report is being finalised (A requirement under Consumer Standards to share details of performance with all tenants annually).

Progress has been made with the integration of the housing function in the Council through the restructure that is currently being worked through (at a manager level initially), that brings together services within the council based on function and synergies. We anticipate this restructure to be completed by end of March 2021.

3.3 Development Company – The Company has now started its first development at Bowbridge Road with work progressing well.

Policy and Finance Committee approved the equity finance and loan funding to the Company at its meeting on 23rd June 2019. The Heads of Terms for the loan agreement was approved at Policy and Finance Committee on 21st January 2021.

An audit was completed by the Council's internal auditors during July 2019. The audit focused on a number of areas relating to Arkwood Developments Ltd including the governance mechanisms that the Council had in place to ensure that it had good oversight and structures to ensure that compliance with good practice concerning councils and their wholly owned companies. The report gained substantial assurance, and the four recommendations that were set out in the report have since been completed.

It is therefore proposed that once the loan agreement has been signed, that this issue is fully mitigated and the on-going monitoring of the company will be discharged though the Council's Shareholder Committee.

4.0 COVID-19

4.1 Additionally to the items at section 3 above, the AGS declared that the key issue at that time was COVID-19.

4.2 Newark and Sherwood District Council stood up their Covid-19 emergency planning teams in early March and this marked the beginning of a challenging year with Newark and Sherwood's staff continuing to deliver for the community through adversity. There are four main Covid-19 response areas for noting;

4.3 Firstly, **supporting residents through the HART team (Humanitarian Assistance Response Team)**, a team set-up on the 16 March 2020 to support local residents in the following areas;

- Delivering essential food, supplies and medical items to support those who are isolated, vulnerable or shielding within the district,
- Linking support to test and trace to ensure isolating individuals can access support and aid,
- Proactively supporting community and voluntary sector groups, such as village halls and community and voluntary sports clubs, to access support and grants,
- Undertaking targeted community action for example creating a communal shower area for family clusters on Park View, a local gypsy and traveller caravan,
- Assisting with exemption badges for vulnerable residents who cannot wear facemasks due to health conditions, and
- Distributing food packages (this was coordinated from the Palace Theatre during the first lockdown when the stage was converted in a food distribution hub).

As of 13 January 2021 HART have undertaken **1,207 actions**;

- 353 Telephone advice/referral to another service
- 312 Medication deliveries
- 180 Food parcel deliveries
- 288 Welfare Checks
- 74 other activities such as delivery of food supply to support community groups

4.4 Secondly, **supporting business with a range of advice and grants**. Thousands of businesses have been awarded grant support through the national schemes and this has been complimented by the Local Authority Discretionary Grant scheme. This grant scheme, run by the Council, was aimed at small and micro businesses who were not eligible for the Small Business Grant or the Retail, Leisure and Hospitality Grant. This fund was awarded to 127 businesses and £1,239,105.67 was paid out. Currently businesses are able to apply for the High Street Diversification Fund Grant. This is the third round of the grant run by Newark and Sherwood District Council and provides funding for local, independent high-street based retail/hospitality businesses to invest in sponsored social media advertising. The first two rounds of the High Street Diversification Fund saw nearly 120 local businesses receive a grant.

4.5 Thirdly, **keeping residents safe through a programme of advice, support and enforcement**. Public Protection have been dealing with higher quantities of noise complaints (as more people have been at home) and Anti-social Behaviour reports as well as taking on the enforcement of Covid-19 guidance. They have been working throughout the pandemic to support and enforce Covid-19 guidance and legislation including supporting businesses to transition to take-away services, providing advice on social distancing and undertaking difficult enforcement actions. The public protection team also led the 'Community Engagement Ambassador' scheme where staff from across the Council volunteered their time to support retail and hospitality reopening to ensure the safety of residents. On the 25 June 2020 Community Ambassadors were deployed over 5 days in the main commercial areas of the district to advise businesses and the public, and refer issues for advice and, if required, enforcement.

4.6 Finally, and perhaps the most impressively, **alongside all the new activities and pressures staff have continued to deliver excellent services to residents**. The responsive repairs team are delivering emergency repairs within their 24-hour target, waste collections have continued throughout the pandemic and the homelessness team have continued to support people into accommodation.

5.0 Financial Implications FIN(20-21/6029)

5.1 There are no direct financial implications arising from this report.

6.0 RECOMMENDATION

6.1 That the Committee notes the results of the review of significant governance issues as identified in the Annual Governance Statement.

Background Papers

Annual Governance Statement for 2019/20

For further information please contact Nick Wilson, Business Manager– Financial Services on Ext: 5317

Nick Wilson
Business Manager – Financial Services

AUDIT AND ACCOUNTS COMMITTEE
3 FEBRUARY 2021

INTERNAL AUDIT PROGRESS REPORT

1.0 Purpose of Report

1.1 The purpose of the internal audit progress report (Annex A) is to provide a summary of Internal Audit work undertaken during 2020/21 against the agreed audit plan and any remaining reports from 2019/20.

2.0 Background Information

2.1 The Audit Plan for 2020/21 was agreed at the Audit and Accounts Committee in February 2020 and throughout the year reports on the progress made and changes to the plan are brought to this Committee.

2.2 The report contains details of actions within reports which have a Limited assurance rating, Managers will be in attendance to provide an update on the implementation of actions and respond to any questions.

2.3 The report also contains details of outstanding recommendations there are none this time which require Committee approval for an extension.

3.0 Proposals

3.1 To receive and comment upon the latest Internal Audit Progress Report which covers the period up to December 2020.

4.0 Equalities Implications

4.1 None

5.0 Community Plan- alignment to objectives

5.1 The Internal Audit Plan underpins the delivery of the Community Plan. Through assurance gained from Internal Audit, Council can be satisfied that internal processes are working in a controlled manner, achieving the aims and objectives set out within the Community Plan.

6.0 Financial Implications (FIN20-21/5170)

6.1 Financial implications that arise within each of the individual audits will be highlighted during the review and brought to Members attention within the recommendations and management actions.

7.0 RECOMMENDATION(S)

7.1 **That the Audit and Accounts Committee consider and comment upon the latest internal audit progress report and approve the extensions to the implementation dates.**

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nick Wilson
Business Manager Financial Services

Internal Audit

Progress Report

Newark and Sherwood District Council January 2021

Assurance LINCOLNSHIRE

For all your assurance needs

NEWARK & SHERWOOD DISTRICT COUNCIL

Contents

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The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not bought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period 1st July 2020 to 8 January 2021
- Advise on progress of the 2020/21 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

We are currently working on 10 audits at the moment with 5 of these at draft report stage and the remaining 5 in progress. We have issued the following reports this period:-

- Budgetary Control - High
- Robin hood Hotel - Substantial
- Buttermarket - Substantial

We have also issued the Newark and Sherwood Homes key controls report which was given Limited Assurance. This review was completed prior to the Company being dissolved. However the aspects covered are those which have transferred over to the Council and therefore the points raised remain valid. It has been agreed that this report will now be treated as a Council report in terms of the manner in which it is agreed, reported and followed up.

Further details of our progress can be found within the body of the report and in Appendix 4.

Overall there are agreed 18 actions remaining to be implemented (6 High and 12 Medium). There are 4 actions which are overdue. Appendix 2 shows all of the overdue actions excluding those for the Limited reports. All outstanding actions relating to Limited reports are shown in Appendix 3.

Managers will provide the Committee with an update on the implementation of the recommendations within Appendix 3 (Limited Reports):-

Community Centres - Andy Hardy – Health Improvement and Community Relations Manager/Suzanne Shead – Director Housing, Health and Wellbeing

1
HIGH ASSURANCE

2
SUBSTANTIAL ASSURANCE

1
LIMITED ASSURANCE

0
LOW ASSURANCE

0
OTHER

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in **Appendix 1.**

Introduction

Key Messages Continued

In consultation with Senior Management we have made a number of changes to the Audit plan to reflect the current risk environment. This has resulted in some audits being removed and being replaced with audits covering Covid, Cyber Security and Committee Governance. Further details are given in the remainder of the report and Appendix 5.

Whilst our performance is currently below target this is a developing process as the impact of Covid and changes in working practices settle in. It is also normal practice for delivery of audits to increase in the latter half of the year but this has been amplified this year due to Covid delays in the first half of the year.

We have increased resource across the team which should ensure that the remaining audits will be delivered in accordance with the plan. This is being monitored and any specific issues will be raised with the relevant Directors and through our regular liaison meetings.

High Assurance

Budgetary Control	The processes for Budgetary Control Management are well controlled and there is evidence that budgets are set in line with the councils community plan. There are regular budget monitoring reports produced and these are discussed at operational and strategic level. Our testing confirmed that : • The Councils Financial Regulations, Budget Book and Medium Term Financial Plan are all up to date and published on the Councils website. • Budget setting for the current financial year was agreed at Committee, with copies of the agenda, reports presented and minutes of the meetings published on the Councils website. • Budgets were loaded correctly from the Budget Book onto the General Ledger system. • There are regular Policy & Finance Committee meetings throughout the year and there is evidence that budget outturn reports are presented and discussed. • There are budget monitoring meetings held monthly at operational level and quarterly at strategic level. • There is evidence that Committee discussed and approved the allocation of the grant awarded for Covid-19 pressures into priorities of spend. There was one area where we felt the process could be strengthened and this related to the budget monitoring reports. The reports could be strengthened by including a variance column showing the changes from the previous months year end forecast and the current months year end forecast. This will highlight the changes informing discussion and enabling informed decisions on whether any action is required.

Substantial Assurance

Robin Hood Hotel

We have given a 'Substantial' level of assurance on the effectiveness of the governance arrangements and delivery of the construction project to date. Our assurance is supported by the following:-

- The investment in the RHH is fully aligned to the Council's Community Plan objectives and the decisions to develop the hotel via a joint venture vehicle had been carefully considered and appropriately approved.
- The Client Officer regularly liaises with the Directors of the Company to scrutinise the delivery plans and performance.
- The project costs are stringently monitored and kept under control. The current and projected expenditure for the development are within the approved maximum capital cap.
- A firm offer has been accepted for a forward sale of the entire RHH building.

We identified some areas requiring improvements to strengthen the arrangement as follows:-

- Undertaking regular progress reviews on the letting of the three retail units to ensure they are successfully let out as the long term sustainability of the Head lease is dependent on these units.
- Ensuring maintenance of a corporate register of business interests within the Council to enable key staff with delegated authority across the Council to declare any relevant interests where appropriate especially when engaged in activities such as the RHH
- Ensuring the key risks for all major projects/investments are not only discussed at the Committee meetings but also monitored via the organisational corporate risk register to improve their visibility and enable structured risk monitoring via the assurance framework.

Buttermarket

Overall the project is being well managed and is being delivered within the approved financial resource. We did not identify any matters of concern suggesting that there is a risk of materially overspending the allocated capital expenditure.

The occupancy rate at the time of the initial audit review was lower than expected and this is mainly due to delays in the redevelopment arising from Covid -19. Tenants for the ground floor had been secured before the pandemic however due to Covid-19 lockdown, there were unavoidable delays to carry out enabling works. We have received post audit management assurance that as at November 2020, the occupancy rate has now improved to 74% and all ground floor units have now been occupied.

It is too early at this stage to conclude the extent to which the project is achieving the Council’s objectives as this will require more time for the arrangement to settle down before a meaningful assessment can be made. However, its development fits with the Council's objectives and the direction of travel is positive. Due to the ongoing effects of Covid-19, a review is currently being undertaken to reassess and decide on the future use of the first floor.

We have identified some improvements around improving the letting activity and the project management and operational risk management processes.

Limited Assurance

NSH – Key controls

We identified that there were some areas which require improvements to strengthen the controls, these include:-

Planned maintenance
There are some areas which need improvement to ensure the safety of tenants through compliance with guidance - these include:-

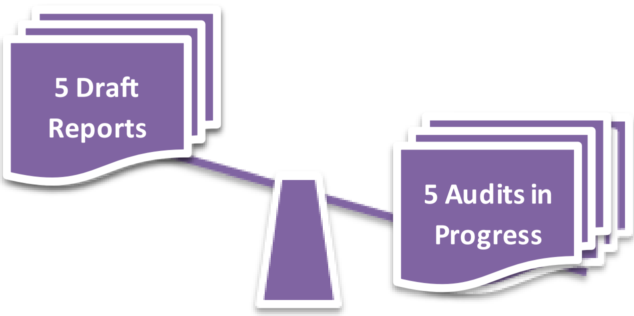
- Fast tracking the inspection and testing work of the electrical installation to ensure the required inspection checks and tests are brought back in line with the 5 year inspection cycle required by the industry practice
- Strengthening the reconciliation processes for all identified areas of compliance maintenance and ensuring sufficient evidence is retained

Health and Safety (H&S) and Risk Management
To ensure that risk assessments remain relevant and mitigating actions are in place we have recommended:-

- Reviewing the H&S risk assessments frequently within reasonable timescales
- Ensuring the risk assessment ownership is assigned to the appropriate service teams with the H&S support team providing a central advisory role
- The provision of the refresher training to staff on the use of the AssessNet to manage the risk assessments for the identified hazards
- Reviewing the risk registers to ensure the identified risks are reviewed regularly to ensure that they are fit for purpose and appropriately mitigated.

Stores
There are a significant number of weaknesses within the management of the stores function. We identified several areas which require improvement to ensure compliance with Financial Regulations and ensuring that the stock valuation within the accounts is accurate. These include:-

- Undertaking stock takes at least every month ensuring all stock items are included within the stock take over time and investigating and reporting to management any discrepancies. Also ensuring stock items are valued correctly.
- Strengthening the controls and processes for the authorisation of purchases to replenish the stock ensuring sufficient separation of duties and management oversight of the stores activity.
- Resolving the ICT system to ensure the bar-coding system is promptly brought back into use.



Audits reports at draft

We have 5 audits at draft report stage:

- Newark Castle
- Apprenticeships
- Deliver an HRA affordable Housing Growth 5 year programme
- Council Tax
- Strategic Risks

.

Work in Progress

We have the following audits in progress:-

- Follow-ups 2020/21 – In progress, 3 interim Memos issued.
- General Ledger/Financial Reporting – Testing
- Information Governance – Terms of Reference
- Ensuring Homes are safe and Decent – Planning
- ICT Capability and Capacity - Testing

Other Significant work

Combined assurance work was reduced this year due to staff capacity within the Council. Meetings were held with individual Directors to ascertain any areas of concern and the map was updated for Internal Audit Assurance.

The work on the grants for the flood incidents in November 2019 and February 2020 is also ongoing. We are looking at compliance with the conditions of the grant and ensuring that the due diligence checks are carried out prior to making the payments.

Changes to the Audit Plan

We met with the Senior Leadership Team in December to review the work remaining in the plan and priorities based on the current environment.

Whilst we set a plan at the start of the year this is a flexible plan which is reviewed periodically throughout the year. This ensures that it covers those areas which are a priority to the Council and there is adequate coverage to inform the Head of Internal Audit's opinion.

A number of audits were removed from the plan and replaced with audits which are more relevant including those related to Covid, Cyber Security and Governance. These are detailed in full in Appendix 5.

Benchmarking

Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

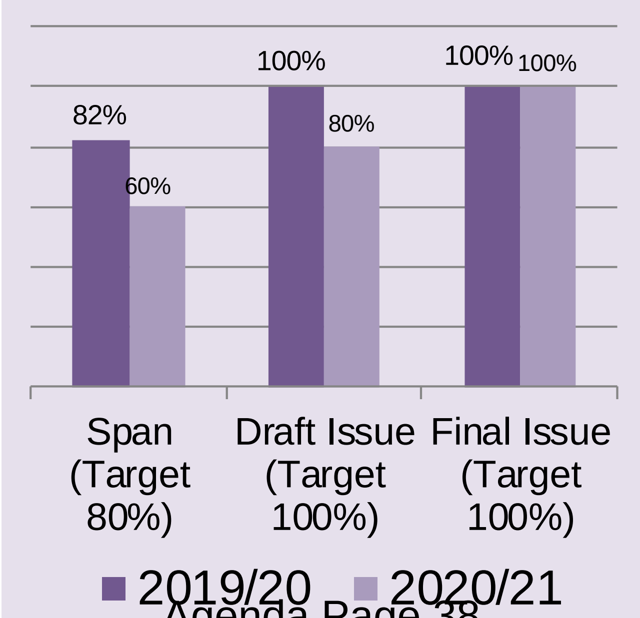
Performance on Key Indicators

100%

Rated our service Good to Excellent

41% Plan Completed

KPI’s slightly below target



Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

CIPFA - Facing up to COVID-19 in the public sector

The COVID-19 pandemic presented an unprecedented challenge to public bodies. This created a challenge for public sector heads of internal audit who had to balance supporting their organisation and the wider public interest with their need to provide assurance to the leadership team and Committees as well as maintaining their professional standards.

This publication includes examples of how some internal audit teams have responded to the challenges providing some lessons to share and helping the leadership team and Committee understand the role and potential of internal audit.

Summary of the Key learning points for Maintaining effective engagement with clients, the leadership team and the audit committee

- Be proactive in putting forward suggestions in how internal audit can help.
- Make it your business to find out how the governance of your organisation's response to the crisis is being managed.
- Consider how advisory work may contribute to the head of internal audit's annual opinion.
- Consider opportunities to place reliance on other sources of assurance within the first and second lines.
- Consider how the organisation has maintained wider governance arrangements that impact on the work of internal audit.
- Prompt audit reporting and good planning and focused scoping of work.
- Consider the use of shorter report templates with focused outcomes to enable a quicker response.
- Keep the audit committee informed of your work at regular intervals.
- Discuss with your audit committee chair what information they would most value to support them in their role.

The full report can be found through this link:-
[Facing Up to COVID-19 in the Public Sector | CIPFA]

Summary of Key Questions for Audit Committee members to ask

1. Has the internal audit service redeployed any staff during 2020/21 to support COVID-19 related activity?
2. What impact have these had on the overall operation of the internal audit service?
3. Have key organisational risks been subject to internal audit review during 2020/21?
4. Has internal audit been able to follow up recommendations, any areas of concern?
5. Is there sufficient audit resource to deliver an internal audit opinion at the end of the year?
6. Will the head of internal audit be able to take assurance from any second line functions?
7. Which audit areas have been deferred or cancelled and the potential impact?
8. Has the head of internal audit been able to keep up to date with changes in the organisation's COVID-19 governance processes?
9. Is senior leadership providing the audit committee with regular information around key risks and governance developments arising from COVID-19?
10. Does the internal audit team need to undertake a skills assessment to ensure the skills mix is appropriate in a changing environment?

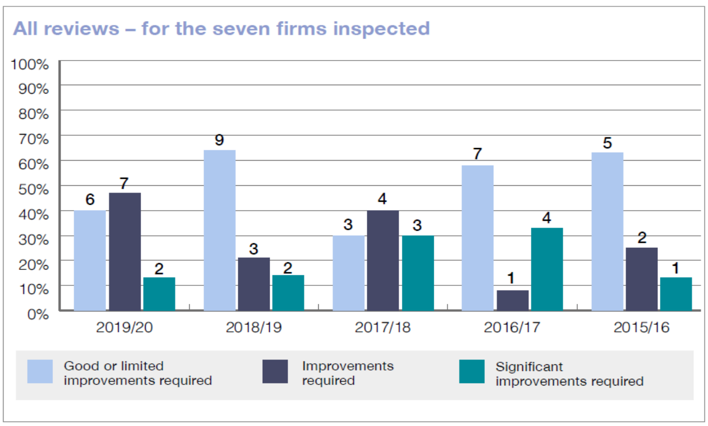
Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

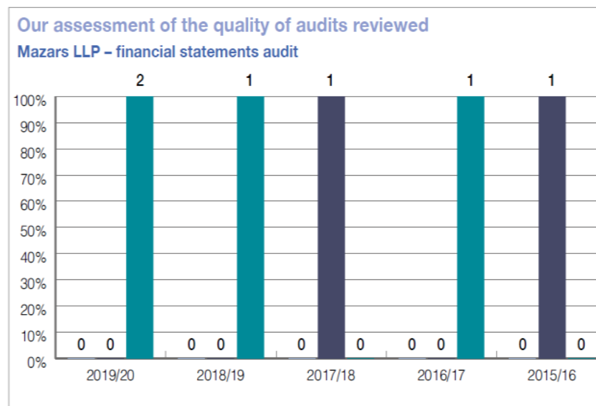
Financial Reporting Council - Major Local Audits -Audit Quality Inspection

The Financial Reporting Council is responsible for monitoring the quality of Major Local Audits. The reports sets out it's findings arising from the 2019/20 inspection of 7 audit firms completing major local audits in England.

The overall assessment results were :-



The result for Mazars was:-



Both audits selected for Mazars required significant improvement and was shown as being unacceptable, following a trend of poor inspection results. It gave the key areas of quality to focus on as audit of property valuations, group audit oversight and ensuring sufficiency of testing on income and receivables and expenditure.

Each accountancy firm provided a detailed response. Mazars response was:
Our commitment to audit quality is at the core of our values and we are dedicated to the continuous improvement of our audit work and the service we provide to our audit clients. Whilst we are pleased with the results of the AQR's reviews of our work on Value for Money conclusions (which show only limited improvements identified for a number of years), we are disappointed with its findings on our work on the audit of the financial statements at 2 of our local audit clients. The firm will robustly respond to the findings and has plans in place to improve the quality of our local audit work.

We have prepared a Local Audit Quality Plan, which is a sector-specific element of our firm-wide Audit Quality Plan. These draw together information on risks to audit quality from a range of sources including quality monitoring findings, changes to auditing and financial reporting standards, and feedback from auditors. The Local Audit Quality Plan has also taken account of the AQR's findings and emerging audit quality risks arising from the update of Practice Note 10 and the National Audit Office's Code of Audit Practice. This plan will be maintained by the firm's Audit Quality Team and subject to oversight from our Audit Board.

The full report can be found at https://www.frc.org.uk/getattachment/da3446de-8d37-4970-828d-e816d7c0826c/FRC-LA-Public-Report-30-10-20.pdf

Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

Internal Audit Standards Advisory Board – Conformance with the PSIAS during the coronavirus pandemic

This guidance has been produced to support internal audit within the public sector in it's compliance with the Public Sector Internal Audit Standards. It recognises the difficulties being experienced during the pandemic and the effects this could have on conformance with the PSIAS.

The guidance sets out some examples of how Internal Audit can protect organisational value and the challenges it might face in applying the standards. It sets out 7 key steps which the Head of Internal Audit should take.

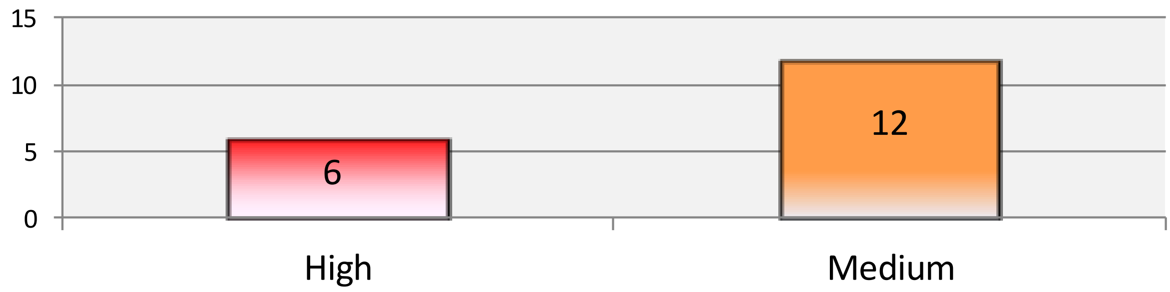
A full copy of the document can be provided on request.

Appendix 1 Assurance Definitions

High	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

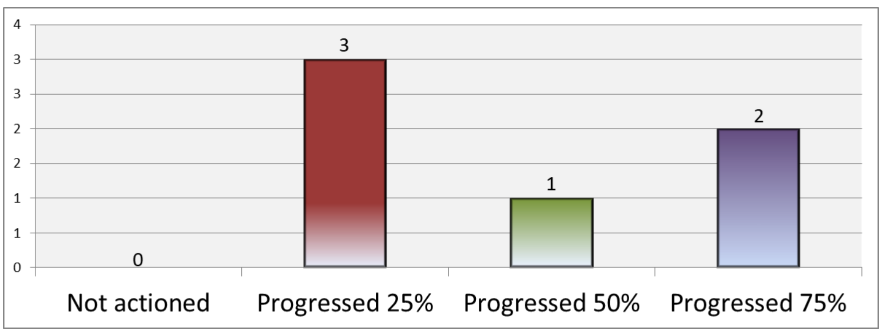
Outstanding Audit Actions for all audits at 14 December 2020

All Actions remaining to be implemented



High Priority Actions remaining to be implemented

Overall



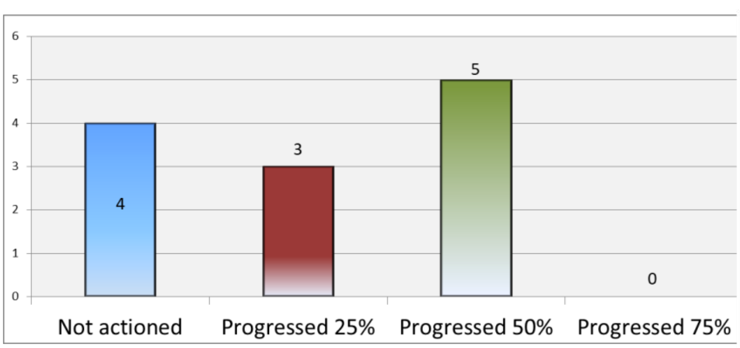
Overdue

0 Overdue

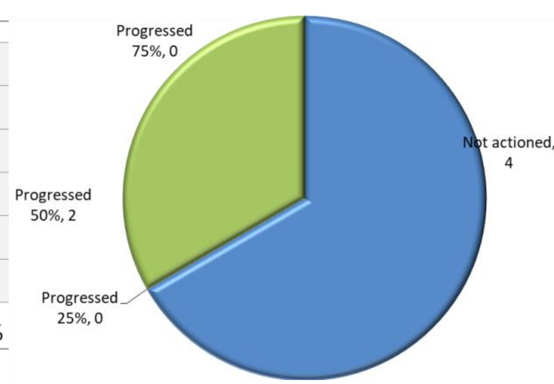
5 Extensions agreed

Medium Priority Actions remaining to be implemented

Overall



Overdue



9 Extensions agreed

Overdue Audit Actions at 14 December 2020

Audit	Priority	Agreed Action	Original Due Date	Owner	Current Due Date	Response
NSDC Companies	Medium	6.1 The Council is not intending to set up any more companies in the near future therefore we do not feel that it is necessary to compile comprehensive guidance . Following on from the training session in finding 3 we will draw up brief guidance/ checklist covering the role of the client officer and also consider including the monitoring roles of others within the Council e.g. building maintenance responsibilities, Health and Safety etc.	31/03/20	Sue Bearman	30/06/20 20	Mar 2020 - Not yet actioned - extend the timeline for this to 31 June 2020 to produce brief guidance/checklist - KW authorised extension. No further responses received.
NSDC 2018/19-05 - Emergency Planning	Medium	6.1 Ensure that interim reviews are done in order to maintain awareness of the flood plan and it's dated areas	31/05/20	Mike Manley	30/11/20	Most recent:- ·Oct 2020 - The EA has completed the local flood response plan , local copies have been changed to reflect this , a further review of the LRF generic flood guidance document has been delayed until an unknown date owing to the Covid work pressures on the EA. The local guidance will remain current until further notice.

Overdue Audit Actions continued

Audit	Priority	Agreed Action	Original Due Date	Owner	Current Due Date	Response
NSDC 2018/19-05 - Emergency Planning	Medium	6.2 Refresh the flood plan in line with guidance produced by the Multi-Agency	31/05/20	Mike Manley	30/11/20	Most recent:- ·Oct 2020 - The EA has completed the local flood response plan , local copies have been changed to reflect this , a further review of the LRF generic flood guidance document has been delayed until an unknown date owing to the Covid work pressures on the EA. The local guidance will remain current until further notice

The remaining action is included within Appendix 3 so has not been duplicated here.

Appendix 3 Details of Outstanding Actions for Limited Reports

The following report has been included in previous progress reports and these are the actions remaining to be implemented

Audit	Priority	Agreed Action	Original Due Date	Owner	Current Due Date	Response
Community Centres 2019/20	Medium	To create a service plan for the Community Centres. Outlining targets and what they want to achieve within the community. To produce a low level report annually, providing an overview of what has been achieved over the year. Can be used to provide information for councillors should this be requested.	28/03/20	Andy Hardy	28/03/20	Oct 2020 - a wider report is required about the current position and future plans for our 4 community centres with recommendations for SLT and L&E approval which will also ensure delivery of this audit action to report annually on these matters. Dec 2020 - A report can be presented to Committee, should be Homes and Communities. It is proposed that this be submitted each year to the June meeting as an annual overview. Of the 4 centres/village halls, all are leased and managed independently so each is responsible for its own annual plan and objective setting which can be shared with members as necessary. Of the 4 sites in council ownership, 2 are currently subject to asset transfer and this process has been paused/stalled due to Covid.

Appendix 4 2020/21Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating/ Position
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.	Nov-20			
Budgetary Control /Management	To provide assurance that the budgets are set in accordance with the financial strategy and Council priorities with accurate reporting and monitoring.	Aug-20	Aug-20	Dec-20	High
General Ledger/Financial reporting	To review the general ledger to provide assurance that transactions within it are accurate and agree with the feeder systems. Access to the ledger is appropriately restricted.	Jul-20	Aug-20		Testing
NNDR	NNDR is billed correctly, collected promptly and all discounts are appropriately awarded.	Jun-20	Jun-20	Aug-20	Substantial
Council Tax	Council Tax is billed and collected in accordance with the agreed charge for the property and location and all discounts are appropriately awarded.	Jan-21	Dec-20		Report being drafted
Information Governance	There are effective processes in place for the management of information throughout the Council.	Aug-20	Aug-20		Terms of Reference (Put on hold due to staff changes in the Council)

Appendix 4 2020/21 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating/ Position
Newark Castle	Review of the key processes in place for income, security, maintenance and management of the Castle.	Aug-20	Aug-20		Draft Report
Deliver a HRA affordable housing growth 5 year programme	To provide assurance that the Council has a plan in place for the delivery of affordable housing which is realistic, adequately resourced and will meet the requirements laid down.	Sep-20	Nov-20		Drafting Report
Ensuring homes are safe and decent	To provide assurance that the Council is meeting its obligations to it's tenants in the provision of safe and decent homes.	Sep-20			Planning – put on hold due to capacity in NSDC
Enforcement	To provide assurance that there are effective processes in place for development enforcement action which are complied with.	May-20	May-20	Aug-20	Substantial
Debt	There are effective and joined up arrangements for the management of debts owed to the Council. Such processes are documented, consistent and shared prior to allowing further credit wherever possible.	Feb-21			

Appendix 4 2020/21 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating/ Position
Apprenticeships	To ensure that there is compliance against the scheme requirements, maximisation of take-up and consideration is given to the retention and integration of apprentices into the workforce once they have completed their apprenticeship.	Aug-20	Oct-20		Draft Report
Robin Hood Hotel	There are appropriate governance arrangements in place for the Robin Hood Hotel company with oversight maintained of the construction project.	Jun-20	Aug-20	Jan-21	Substantial
ICT Capability and Capacity	Skills audit and training needs assessment .	Oct-20	Dec-20		Testing
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.	Quarterly through the year	Jun-20		In progress – 3 quarterly reviews completed
Combined Assurance	Updating the assurance map with Audit work and speaking to Directors to ascertain any issues.	Oct-20	Oct-20	Dec-20	Complete
Gilstrap	Independent Examination of the Gilstrap accounts in accordance with S145 of the Charities Act 2011.	Aug-20	Oct-20	Dec-20	Complete
Mansfield Crematorium	Completion of the audit of the Mansfield Crematorium Accounts	Apr-20	Apr-20	Apr-20	Complete
Newark Cattlemarket	Completion of the rent calculation for 2018/19	Jun-20	Jun-20	Jun-20	Complete

Appendix 4 2020/21 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating/ Position
Strategic Risks	Strategic risks are identified, managed and linked to the corporate priorities of the Council. There is a process in place which ensure that they remain current and action plans ensure that risk mitigation actions are implemented as planned.	Feb-20 Postponed by client to 2020/21	Jul-20		Report being drafted
Homelessness	To provide assurance that the homelessness service is meeting it's objectives and priorities and complies with legislation.	Jan-20 Postponed by client to Jan 2021			
Corporate Governance					In Progress
Key Controls (2019/20)	Delivery of Key Control, testing to enable the Head of Audit to form an opinion on the Council's financial control environment.	Nov-19	Oct-19	Aug-20	Substantial
Buttermarket	To provide assurance that there is effective management of the Buttermarket to ensure that it meets the objectives of the Council.	Sep-19	Oct-19	Jan-21	Substantial
Performance	To follow-up the recommendations made within the previous report which received Limited assurance rating.	Sep-19	Mar-20	Aug-20	Substantial

Appendix 4 2020/21 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating/ Position
2019/20 Follow-ups	Follow-up of the implementation of recommendations made on a sample basis.	Various – throughout the year	Various	Aug-20	Substantial
Cyber Security follow-up	Review of the actions and implementation thereof.	Feb-21			
Covid related impact	Review of the impact of Covid on the Council's processes and system providing assurance that the alternative arrangements provide effective control and whether they will have an impact on future provision. Possible areas:- New ways of working Working from Home Governance Environmental Health	Feb-21			
Covid related grants	Provide assurance over the processes in place for the payment of grants.	Feb-21			
Governance	To review the current Committee governance arrangements from a staff perspective collating views on it's efficiency and effectiveness.	Feb-21			

Appendix 5 2020/21 Audit Plan to date - Changes

Changes to Internal Audit Plan – 2020/21

Audit	Rational	Change
2019/20 Public Protection	Postponed from 2019/20 due to capacity within the service as Covid was emerging. Capacity remains an issues as service is heavily involved in the Pandemic.	Remove from the plan
Strategic Asset Management	New structure and manager in place. Whilst this is important it may be better if it is postponing it to 2021/22 will allow time for them to settle in and review processes.	Moved into the 2021/22 plan.
Contract Management	Whilst this is an important area there have been some changes to processes and staff which require time to bed in.	Moved into the 2021/22 plan.
ICT Physical and Environmental Security	Due to Covid access to the site is restricted and therefore it is not possible to carry out this audit.	Moved into the 2021/22 plan.
Covid Business Grants	To gain assurance on the processes in place for administering the Business Grants.	Added to plan
Cyber Security Follow-up	Cyber security is very important and it received a limited assurance opinion last year.	Added to plan
Covid related impact	Covid has affected many operations, changing how they are delivered and operational processes. To look at some of these and ensure that the controls remain robust.	Added to plan
Governance	Request to collate views of staff on the current Committee governance arrangements.	Added to plan

Appendix 6	Audits with limited or low assurance

Newark and Sherwood Homes – Key Controls

Scope

We carried out key control testing on the following systems:-

- Planned Maintenance—Systems and processes ensure that the properties are appropriately maintained taking into consideration legislative requirements.
- Health and Safety— A strategy and processes are in place to ensure that risk assessments are carried out and incidents reported.
- Risk Management—A risk register in place which is complete and up-to-date.
- Stores-Stock levels are accurately recorded and controlled.
- Insurance—Insurance remains in place for key items including Directors indemnity.

The audit was a high level review of the key controls in each area. We had not included the financial systems as we understood that these were being reviewed by Financial Services at the time of the audit in readiness for the transfer over and the processes would be subject to change.

Executive Summary

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Key controls relating to planned maintenance are ineffective	Medium	2	0
Key controls relating to operational Health and Safety are ineffective	Low	0	2
Key controls relating to the management of the Company's risks (strategic and operational) are ineffective	Medium	0	1
Key controls relating to the management of the Company's stores are ineffective	High	2	3
Key controls relating to management of the Company's insurance arrangements are ineffective	Low	0	0
TOTAL		4	6

We identified that there were some areas which require improvements to strengthen the controls, these include:-

Planned maintenance

There are some areas which need improvement to ensure the safety of tenants through compliance with guidance - these include:-

- Fast tracking the inspection and testing work of the electrical installation to ensure the required inspection checks and tests are brought back in line with the 5 year inspection cycle required by the industry practice
- Strengthening the reconciliation processes for all identified areas of compliance maintenance and ensuring sufficient evidence is retained

Health and Safety (H&S) and Risk Management

To ensure that risk assessments remain relevant and mitigating actions are in place we have recommended:-

- Reviewing the H&S risk assessments frequently within reasonable timescales
- Ensuring the risk assessment ownership is assigned to the appropriate service teams with the H&S support team providing a central advisory role
- The provision of the refresher training to staff on the use of the AssessNet to manage the risk assessments for the identified hazards

Newark and Sherwood Homes – Key Controls

Executive Summary - Continued

- Reviewing the risk registers to ensure the identified risks are reviewed regularly to ensure that they are fit for purpose and appropriately mitigated.

Stores

There are a significant number of weaknesses within the management of the stores function. We identified several areas which require improvement to ensure compliance with Financial Regulations and ensuring that the stock valuation within the accounts is accurate. These include:-

- Undertaking stock takes at least every month ensuring all stock items are included over time within the stock take and investigating and reporting to management any discrepancies. Also ensuring stock items are valued correctly.
- Strengthening the controls and processes for the authorisation of purchases to replenish the stock ensuring sufficient separation of duties and management oversight of the stores activity.
- Resolving the ICT system to ensure the bar-coding system is promptly brought back into use.

Areas of Good Practice

The insurance arrangement is well managed and appropriate insurance covers have been purchased to fully protect the establishment's against potential claims. This has been fully integrated into the Council's Zurich insurance arrangements with effect from 01/02/2020 and an additional arrangement has been put in place to purchase the Directors and Officers liability cover annually for at least a period of 6 years.

There are also some good systems in the management of the Health and Safety activity, risk management and ongoing improvements are made in planned maintenance especially around the gas servicing activity from which lessons have been learnt and are being used to drive improvements in other areas of compliance maintenance.

Managing Risks

Good risk management, including maintaining risk registers, helps you to identify, understand and reduce the chance of risks having a negative impact on achievement of your objectives.
During our audit work we did not identify any significant or high risks that we feel should be considered for inclusion on the Company's risk registers. However, going forward whilst compiling the risk register for the new Housing service we suggest that the issues raised within this report are communicated to the Council for consideration on whether a suitable risk needs to be included on the risk register to prevent these issues arising again e.g. compliance with statutory maintenance duties.

Newark and Sherwood Homes – Key Controls

Executive Summary - Continued

Management Response

Newark and Sherwood Homes' comments
The stores function has been subject to significant management changes in the last 12 months and this has resulted in a lack of resource both in management and operational functions.
As of February 2020 the stores function has been temporarily placed under the responsibility of the Responsive Repairs Manager.

The issues with Keystone and Capita have been the subject of internal review for some time now and this is continuing following the transfer of the housing service back into the Council.

The Company's H&S responsibilities have now all been transferred to the Council.

We agree with the findings and the recommendations included in this audit report and it should be noted that some of the recommendations have been actioned.

The current COVID-19 crisis and the subsequent pausing of some non-essential functions means some implementation dates have been extended but these will be actioned as soon as it is safe to do so.

Council's Senior Leadership Team's comments
Noted previous discussion between Director Housing, Health and Wellbeing (HHWB) and Director Resources, things have moved on so as long as the recommendations have been followed up and actions are in place to mitigate the risks identified through the audit, will be captured on a future follow up audit; needed to come to Senior Leadership Team (SLT) as part of the process.

Noted expectation on the part of politicians when housing management came back in house, we wanted to develop the service, wider committee colleagues need to understand the amount of compliance related activity, which is not what it should have been, took a lot of our focus and time, and still does.

Director HHWB confirmed the ongoing recruitment, which will support with the compliance aspects. Work still to be done on IT (different systems, telephony, interfaces) with colleagues working together to progress.

SLT noted that the audit report contains limited assurance therefore needs to go to Audit and Accounts Committee that will provide awareness for the Committee that there were issues and those issues have been dealt with now in-house.

Opportunity to put a stake in the ground to establish where we were, where we are at now and what the plans are for the future.

SLT agreed to progress as discussed.

AUDIT AND ACCOUNTS COMMITTEE
3 FEBRUARY 2021

ANNUAL INTERNAL AUDIT PLAN

REPORT PRESENTED BY: BUSINESS MANAGER FINANCIAL SERVICES

1.0 Purpose of Report

1.1 The Internal Audit Plan (Appendix A) sets out the proposed work of Internal Audit for 2021/22.

2.0 Background Information

2.1 The Internal Audit plan has been developed to demonstrate how assurance can be given on:

- Financial Governance
- Governance and Risk
- Critical Activities
- Projects
- ICT

2.2 Assurance Lincolnshire have developed a combined assurance model for the Council which is a record of assurances against critical activities and risks. It provides an overview of assurance provided across the whole Council – not just those from Internal Audit – making it possible to identify where assurances are present, their source, and where there are potential assurance 'gaps'. A high level update of the model was completed this year.

2.3 The internal audit plan has been developed with reference to the draft combined assurance model as well as previous audit work, audit risk assessment, discussions with senior management, strategic and emerging risks.

2.4 Appendix A sets out in detail Assurance Lincolnshire's approach and what is intended to be reviewed in 2021/22. The plan set out is a 'flexible plan' which is subject to change as the year progresses to reflect the current risk environment. Any changes to the plan during the year will be agreed with the Business Manager Financial Services and subsequently notified to the Audit and Accounts Committee.

3.0 Proposals

3.1 The Audit and Accounts Committee review and comment on the Internal Audit plan.

4.0 Equalities Implications

4.1 None

5.0 Community Plan- alignment to objectives

5.1 The Internal Audit Plan underpins the delivery of the Community Plan. Through assurance gained from Internal Audit, Council can be satisfied that internal processes are working in a controlled manner, achieving the aims and objectives set out within the Community Plan.

6.0 Financial Implications (FIN20-21/9805)

6.1 As suggested within the Internal Audit Plan, the proposed total cost of the internal audit service for the 2021/22 financial year is £95,285. This is the total cost and includes charges that relate to bodies that are recharged for this service such as the Gilstrap Charity and Mansfield Crematorium. There is also a charge to the HRA in relation to audits that are predominantly HRA related.

6.2 Within the proposed budget report that was tabled at Policy and Finance Committee 21st January 2021, this included the budget as proposed within this report.

7.0 RECOMMENDATION(S)

7.1 **That the Audit and Accounts Committee approve the Internal Audit Plan.**

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nick Wilson
Business Manager Financial Services

Internal Audit

2021/22 Plan

Newark and Sherwood District Council

January 2021

Assurance LINCOLNSHIRE For all your assurance needs

NEWARK & SHERWOOD DISTRICT COUNCIL

Contents

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The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st April 2021. The plan details the activities to be audited and the indicative scope for each audit. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

Our audit plan delivers assurance within agreed resources. This remains the same as last year – 323 days. Our fees remain and reflect the rates included within the current agreement.

The plan is amended throughout the year to reflect changing assurance needs.

In Appendices A to E we provide for you information details of:

- Auditable Activities
- How the draft plan achieves the requirements of the Audit and Accounts Committee and Head of Internal Audit
- Our Working Protocols and Performance
- Our Quality Assurance Framework

Developing the plan

The internal audit plan has been developed using various sources including our external intelligence, local knowledge and the meetings held with Directors and the Senior Leadership Team as a whole. **Figure 1** shows the key sources of information that has helped inform the plan.

We have prioritised our audit work taking account of the impact an activity will have on the Council if it fails. The criteria for determining priority are:

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.

- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.

- **Level of Assurance –** we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.

- **Time** – when it will happen (this will determine when the best time to do the Audit is).

Figure 1 – Key sources of information

Updating the Plan

Through the year we will liaise with the Council and collect business intelligence that identifies emerging audits which could be included in the plan according to priority.

The primary source of business intelligence will be the regular liaison meetings between our team and the nominated liaison contact, other sources of intelligence will include:-

- Committee reports
- Pentana Performance and Risk
- Key stakeholders

Delivery and Focus

Delivering the Plan

The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year.

The aim is to deliver the audits included in the plan in accordance with the schedule which will be devised once the plan is agreed. The schedule will be drawn up following liaison with the various auditees and Directors. Resources will then be allocated accordingly to the audits at the specified times. It is therefore important that any changes required to the audits or the schedule are notified to Internal Audit as soon as possible to avoid abortive time being spent on audits and for us to reallocate resources.

The Council's Internal Audit Plan is **323 Days.** The core team who will be delivering your Internal Audit plan are:

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We will also be using other Senior Auditors from our Team to support the completion of the plan.

Audit Focus for 2021/22

In the following table we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

The impact of Covid on the public sector has been unprecedented, we will be carrying out some assurance work in this area during the last quarter of 2020/21 and depending on the outcome of that work further work may be required during 2021/22. Our plans remain flexible to take account of these changing and emerging risks.

Appendix A outlines the various audits to be undertaken within each area. Appendix B contains those areas which we have not been able to include in the plan but management may wish to consider whether they should be included.

Area	Reason for inclusion
Financial Governance	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.
Governance & Risk	Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems.
Critical Activities	Our discussions with Directors identified some critical activities where a potential audit would provide independent

Area	Reason for inclusion
	assurance over the effectiveness of risk management, control and governance processes. There is a particular focus on those relating to the services transferred back in-house and their integration back into the Council as well as those affected by the current climate.
Project Assurance	There are a number of critical projects identified by the Council. Projects have been flagged as a key area for 2021/22. There has been a significant change in the way projects are managed within the Council and therefore a review of the process has been requested by management rather than specific projects.
ICT	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of ICT has a significant impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively. We are currently carrying out a detailed review of all ICT areas throughout our client base and will be drawing up a separate ICT Audit plan to ensure that our audit resources are used effectively at each client.
Follow Up	We will carry out follow up audits throughout the year to provide assurance that a sample of identified control improvements have been effectively implemented and the risks mitigated. Working with management we also track the implementation

Area	Reason for inclusion
	of agreed management actions for all audit reports issued.
Combined Assurance	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in January 2022.
Consultancy Assurance	At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.

Annual Internal Audit Opinion

We are satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to provide their annual internal audit opinion.

Appendix A – Internal Audit Plan 2021/22

Our proposed planned audits are listed below.

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Financial Governance						
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.	N/A	N/A			
Housing Benefits	To provide assurance that Housing benefit is paid accurately and promptly to eligible applicants and changes in circumstances are actioned correctly.	A	G			
Value for Money	To provide assurance that the Council takes all reasonable steps to achieve Value for Money in the delivery of its services.					
Governance and Risk						
Strategic Risk – Financial Resilience	To provide assurance that the risk has been appropriately rated and reviewed and that the mitigating actions listed are currently in place and working effectively.	R		✓		
Company Governance (Arkwood and Active4Today)	Review of the governance arrangements in place ensuring that there is sufficient oversight and risk management processes in place.	R		✓	✓	
Community Lottery	Review of the governance arrangements in place for the running of the community lottery to ensure that they are sound protecting the Council and participants.					✓
Critical Activities						
Digital Strategy	There is a strategy in place which covers the appropriate areas and is supported with an action plan and investment strategy.					✓
Newark Civil War Museum and Palace Theatre	To provide independent assurance around the VFM work and delivery capacity assessment being undertaken by Finance staff.	R	A		✓	✓
Grounds Maintenance and Cleansing Services	To provide assurance over the revised arrangements in place ensuring that issues previously identified have been addressed.	R	G		✓	✓

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Stragegic Risk Register	Corporate Priority	Management Request
Strategic Asset Management	To provide assurance over the arrangements in place for the operational management of the Council's land and buildings and the maintenance /improvement thereof.	R	A		✓	✓
Climate Change Emergency	Following the declaration of a climate emergency the Council has plans in place for action to be taken by itself and within the District.	R	A		✓	
Customer Services	To provide assurance on the effectiveness, impact and success of the revised arrangements following the integration of Newark and Sherwood Homes staff into one customer services team.	R	A			✓
Contract management - General	There are effective arrangements in place which ensure that all contracts are recorded, allocated to contract managers and there are processes in place which ensure that they are managed effectively. The risks around contracts including supply chain failure, Modern slavery, data sharing etc. are identified and actions taken to mitigate the risks.	A	A	✓		✓
Health and Safety	To provide assurance that the arrangements in place for Health and Safety are effective and meet legislative requirements. To follow-up the actions made within the previous report.	R	A		✓	✓
Landlord Compliance	To ensure that those areas of compliance not previously reviewed are in place and ensure that all relevant legislation is adhered to. Follow-up on those areas of compliance (gas, electricity etc) previously reviewed to ensure that the actions agreed have been implemented.	R	A		✓	✓
Care line	To provide assurance that there are effective arrangements in place for the management and delivery of the Careline service and that all items of equipment are logged and accounted for.	A	A		✓	✓
Workforce Planning	To ensure that there are arrangements in place to ensure that there are sufficient skilled staff in place to enable effective service provision.	R	A	✓		

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Project Assurance						
Project Strategy	To provide assurance over the newly formed Corporate Property and Strategy Business Unit's capacity to deliver key projects ensuring clear triage between Asset and Estates, Corporate Property and Strategy Delivery and Economic Development.	R	G			✓
ICT						
Physical and Environmental Security	Looking at the security of Castle House, satellite locations (Brunel drive cited as a concern), the Beacon and locations where any off-site back-ups are stored.	G	A			
Further audit to be confirmed on completion of the ICT Audit Plan.						
Follow-up						
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.					✓
Combined Assurance						
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.			✓		✓
Other/Consultancy						
Gilstrap	Independent Examination of the Gilstrap accounts in accordance with S145 of the Charities Act 2011.					✓
Mansfield Crematorium	Completion of the audit of the Mansfield Crematorium Accounts					✓
Social Housing White Paper	To provide an independent review of the requirements of the Social Housing White Paper and the current and planned processes in place to identify any gaps.					✓
Policies and procedures	To provide an independent review of the integration of the key policies and procedures from Newark and Sherwood Homes into those of the Council.					✓
Days		285				

Non-Audit	
Advice and liaison	
Annual Report	
Audit Committee	
Review IA Strategy and Planning	
Days	**38**

Grand Total	Total
Internal Audit Days	**323**
Fee	**£95,285**

Appendix B –Areas not included in the current plan

Auditable Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Critical Activities						
Town Fund	Consultancy piece of advisory work on the proposed governance design.					✓
Waste Collection		R	G		✓	
Planning Decisions	To provide assurance that the planning decision making process is compliant with legislation and local procedures and decisions are issued correctly and promptly.		A			✓
Corporate Planning	Plan in place which is embedded and to which the activities and the performance of services and staff are linked.	R	A			
Block Inspections	Block inspections – need to evidence the inspections and identified and remedial measures put in place.	R	G		✓	✓
Economic Development	Review of the strategy in place and the considerations of the changing environment.	R	A		✓	
Commercialisation - Waste	Processes in place linked to community plan and comply with policies and processes.	R			✓	
Performance	Review of the revised performance indicators and the link with the Community Plan and management.	R	G			

These are the areas which are not on the plan but are important.

Appendix C – Head of Internal Audit's Opinion

Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:

- Achieve strategic objectives
- Ensure effective and efficient operational systems and programmes.
- Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
- Ensure the reliability and integrity of financial and operational information.
- Ensure economic, efficient and effective use of council resources.
- Ensure compliance with established policies, procedures, laws, regulations and contracts.

Our Internal Audit Strategy

It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council. Whilst we have a plan in place this is flexible and may be changed during the year enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. The plan is therefore more dynamic and responsive – essential for an effective Internal Audit service.

Our internal audit activity and plan has been driven by the Council's key objectives within the corporate plan, your key risks and critical service areas identified as part of the Combined Assurance Map.

We aim to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.

By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. We are then able to use our audit planning tool to target resources. This will to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.

We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 2.**

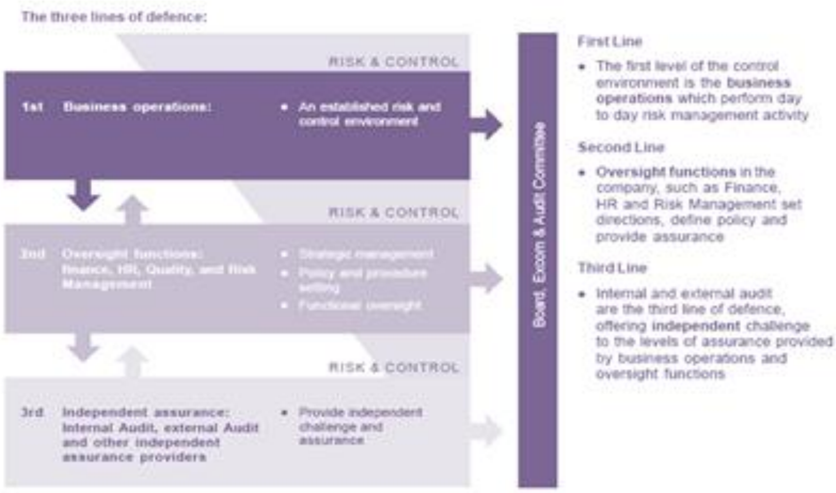


Figure 2 – The three lines of defence

Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. In particular we liaise with External Audit to ensure the Council gets the most out of its combined audit resource – keeping audit fees low.

Appendix D – Working Protocols

Our approach to delivering of internal audit work is based on a clear protocol detailed in the Audit Charter. How this works in practice is set out at the bottom.

Our performance is monitored by the Section 151 Officer and the Audit Committee - measured against 3 key areas:

- Delivery of planned work.
- Timeliness (contemporary reporting).
- Quality and Impact of work (communicating results / added value).

Strong communication is fundamental to quality delivery and maintaining trusting relationships. We keep management informed in accordance with agreed protocols including:

- Agreeing potential audit work for the forthcoming year
- Providing quarterly updates to evaluate progress and discuss activities and priorities for the next quarter.
- For individual audit engagements we hold planning meetings in person (our preference) by phone or email to discuss and agree the terms of reference and scope of our work.
- We keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.
- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.

Weeks prior to fieldwork	-4	Notify key stakeholders of audit at least 4 weeks prior to fieldwork
	-0-4	Meet with Director or Business Manager (Audit Sponsor) to agree draft terms of reference (TOR) and obtain approval
Fieldwork		Initial meeting with auditees and audit sponsor
		Keep in regular contact with audit sponsor throughout the fieldwork
		Fieldwork completed
Weeks after fieldwork	+2	Draft report ready for internal review within 10 working days of fieldwork completing
	+3	Internal review
	+4	Draft issued within 5 working days of review
	+7	Closure meeting and Management response within 15 days of receipt of draft report
	+9	CMT review of draft
	+10	Final report issued within 5 days of management response

Appendix E – Our Quality Assurance Framework

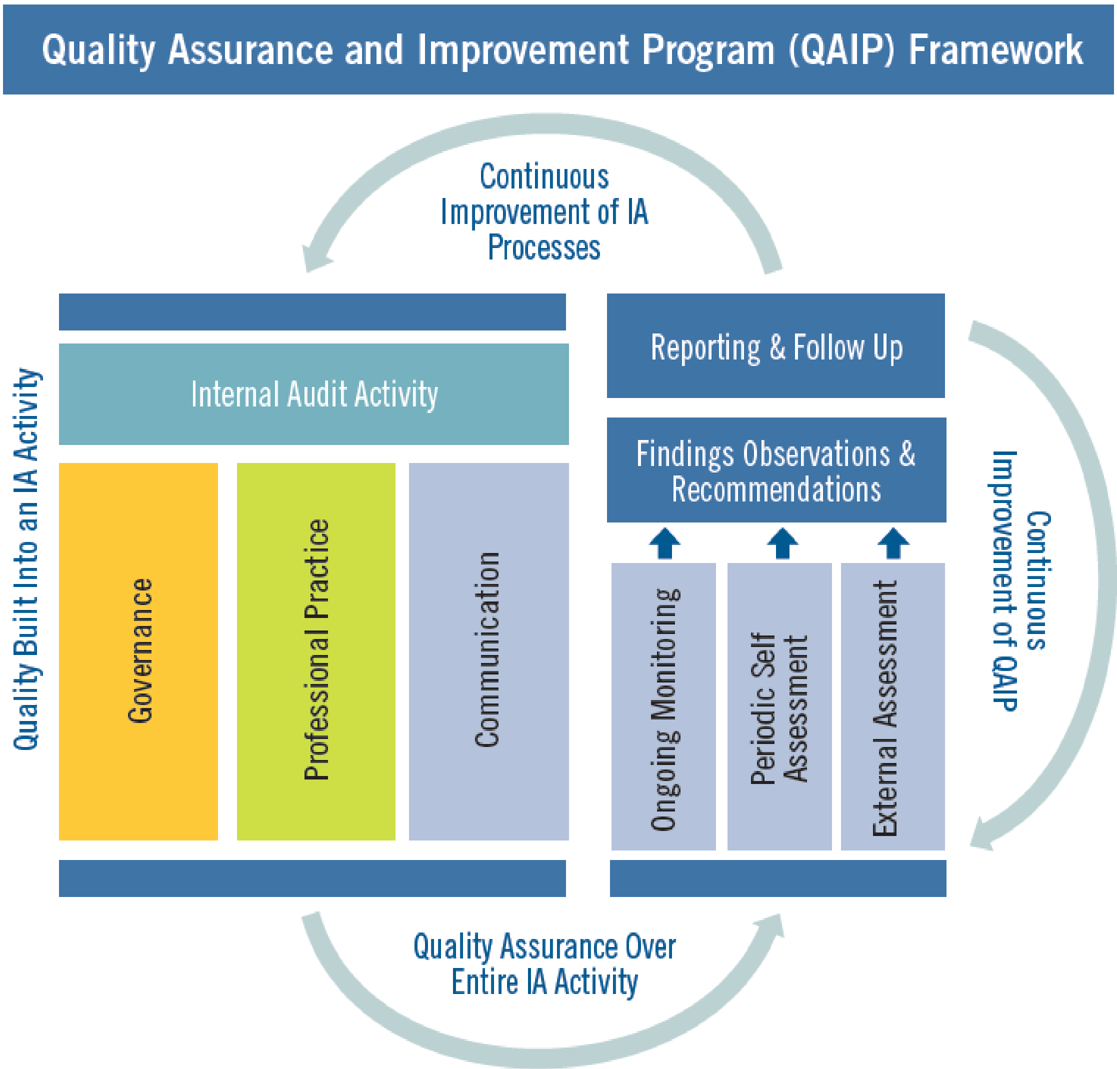
Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework and our training and development programme.

Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity – **The diagram below** shows how we structure our internal assessments to ensure appropriate coverage.

We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Audit & Accounts Committee and was reviewed in 2019 following the planned revision of the CIPFA Local Government Application Note.



AUDIT AND ACCOUNTS COMMITTEE
3 FEBRUARY 2021

TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Purpose of Report

1.1 This report seeks approval for the Treasury Management Strategy, which incorporates the Borrowing Strategy, Investment Strategy, and Treasury Prudential Indicators, updated in accordance with latest guidance.

2.0 Background Information

2.1 Treasury Management is defined as "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 Statutory Requirements:

- The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes to set Treasury Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

- The Act therefore requires the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.3 CIPFA Requirements:

The primary requirements of the Code are as follows:

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy, a Mid-year Review Report and an Annual Report covering activities during the previous year;

2.4 This report seeks approval for the updated Treasury Management Strategy 2021/22 (Appendix A), which encompasses the Treasury Prudential Indicators, the Borrowing Strategy, and the Annual Investment Strategy, in accordance with latest guidance as follows:

3.0 **Summary of Investment Limits and Indicators**

3.1 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). No investment limits have been amended for the financial year 2021/22. Also, it is proposed to use the same prudential indicators for the investing activity, further details are in the Appendix.

4.0 **Summary of Borrowing Limits and Indicators**

4.1 The Council's borrowing limits are directly affected by the Council's approved capital programme and any capital expenditure financed by borrowing will therefore increase the Capital Financing Requirement (CFR). In respect of the tables within the documents, these reflect the proposed capital programme that will be presented to Policy and Finance on 22nd February 2021 to be approved at Council on 9th March 2021. Where changes occur, these will be reflected in the documents as appropriate. The CFR is the level of expected borrowing and when compared to the actual external debt the variance represents the over or under borrowing position.

4.2 The Council is currently in an under borrowed position which means that previous capital expenditure financed by borrowing hasn't yet required actual external debt due to the timing of cash backed reserves that haven't yet been utilised. However, this is always a temporary position as ultimately when the cash backed reserves are used there will be a requirement for actual external borrowing.

4.3 The table below shows the Councils increasing CFR due to capital expenditure financed by borrowing less the actual external debt, with no new borrowing assumptions, less the cash backed reserves and working capital (debtors less creditors), further details are in **Appendix A.**

	31.3.22 Forecast £'000	**31.3.23 Forecast £'000**	**31.3.24 Forecast £'000**
Loans CFR	**160,726**	**181,790**	**181,741**
Less: External borrowing	-88,501	-81,969	-76,435
Internal (over) borrowing	**72,225**	**99,821**	**105,306**
Less: Usable reserves	-32,696	-27,679	-26,989
Less: Working capital	-10,500	-10,500	-10,500
Investments (or New borrowing)	**-29,029**	**-61,642**	**-67,817**

The table indicates that over the next forecasted three year period there will potentially be a minimum requirement to borrow an additional £68m.

4.4 Within the borrowing strategy the following limits are proposed for the operational boundary and authorised limit over the three year period, further details in **Appendix A.**

	2021/22 £'000	**2022/23 £'000**	**2023/24 £'000**
Operational Boundary	**166,350**	**187,414**	**187,365**
Authorised Limit	**173,550**	**194,614**	**194,565**

5.0 Proposals

5.1 That the Treasury Management Strategy 2021/22 as attached at an Appendix A to this report is approved.

6.0 Financial Implications (FIN20-21/717)

6.1 All financial implication are covered within the body this this report and the appendix to this report.

7.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 9th March 2021 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

7.1 The Treasury Management Strategy 2021/22, incorporating the Borrowing Strategy and the Annual Investment Strategy **(Appendix A).**

7.2 The Treasury Prudential Indicators and Limits, contained within **Appendix A**.

7.3 The Authorised Limit Treasury Prudential Indicator contained within **Appendix A**.

Reason for Recommendation(s)
Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2011 Edition and the 2017 revised Edition
CIPFA Prudential Code Local Government Act 2003
CIPFA Standard of Professional Practice on Treasury Management

For further information please contact Andrew Snape on Ext 5523.

Sanjiv Kohli
Director – Resources and S151 Officer

APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

Introduction

The Council is required to operate a balanced budget, which broadly means ensuring that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially, before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

This strategy covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Treasury Management Reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - This first, and most important report is forward looking and covers:
   - the capital forecast summary;

- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how treasury investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the treasury position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports and strategies are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been undertaken by members on 25th November 2020 and 20th January 2021 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Capital Summary and Liability Benchmark

On 31st December 2020, the Council held £98m of borrowing and £64m of investments. Forecast changes in these sums are shown in the balance sheet analysis table below.

Capital summary and forecast

	31.3.20 Actual £'000	31.3.21 Forecast £'000	31.3.22 Forecast £'000	31.3.23 Forecast £'000	31.3.24 Forecast £'000
General Fund CFR	26,262	31,445	42,772	58,759	59,185
HRA CFR	106,638	109,183	118,178	123,255	122,780
Total CFR	**132,900**	**140,628**	**160,950**	**182,014**	**181,965**
Less: Other debt liabilities	-224	-224	-224	-224	-224
Loans CFR	**132,676**	**140,404**	**160,726**	**181,790**	**181,741**
Less: External borrowing	-91,356	-94,830	-88,501	-81,969	-76,435
Internal (over) borrowing	**41,320**	**45,574**	**72,225**	**99,821**	**105,306**
Less: Usable reserves	-57,902	-49,820	-32,696	-27,679	-26,989
Less: Working capital	-9,193	-10,500	-10,500	-10,500	-10,500
Investments (or New borrowing)	**25,775**	**14,746**	**-29,029**	**-61,642**	**-67,817**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council has an increasing CFR due to the proposed capital programme, and diminishing investments and will therefore be required to borrow up to a minimum of an additional £68m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the Council expects to comply with this recommendation during 2021/22.

Liability benchmark: A liability benchmark has been calculated showing the lowest level of borrowing required. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10m, as per MiFID II, at each year-end to maintain sufficient liquidity but minimise credit risk.

	31.3.20 Actual £'000	31.3.21 Forecast £'000	31.3.22 Forecast £'000	31.3.23 Forecast £'000	31.3.24 Forecast £'000
Loans CFR	132,676	140,404	160,726	181,790	181,741
Less: Usable reserves	-57,902	-49,820	-32,696	-27,679	-26,989
Less: Working capital	-9,193	-10,500	-10,500	-10,500	-10,500
Plus: Minimum investments	10,000	10,000	10,000	10,000	10,000
Liability Benchmark	**75,581**	**90,084**	**127,530**	**153,611**	**154,252**

<u>**Borrowing Strategy**</u>

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions.

Objectives: The Council's 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 the Council's long-term plans change is a secondary objective.

Current Borrowing portfolio position

The Council's treasury portfolio position at 31 March 2020, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	31.3.20 Actual £'000	**31.3.21 Forecast £'000**	**31.3.22 Forecast £'000**	**31.3.23 Forecast £'000**	**31.3.24 Forecast £'000**
External Debt					
Debt at 1 April	90,080	91,580	95,054	88,725	82,193
Expected change in Debt	1,276	3,250	-6,553	-6,756	-5,758
Other long-term liabilities	224	224	224	224	224
Actual gross debt at 31 March	**91,580**	**95,054**	**88,725**	**82,193**	**76,659**
The Capital Financing Requirement	**132,900**	**140,628**	**160,950**	**182,014**	**181,965**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Treasury Indicators: limits to borrowing activity

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise of finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2020/21 Revised £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	145,628	165,950	187,014	186,965
Other long-term liabilities	400	400	400	400
Total Debt	**146,028**	**166,350**	**187,414**	**187,365**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2020/21 Limit £'000	2021/22 Limit £'000	2022/23 Limit £'000	2023/24 Limit £'000
Borrowing	152,628	172,950	194,014	193,965
Other long-term liabilities	600	600	600	600
Total Debt	**153,228**	**173,550**	**194,614**	**194,565**

Separately, the Council has previously been limited to a maximum HRA CFR through the HRA self-financing regime and the Government set HRA Debt cap, however on 30 October 2018 the Government removed the HRA Debt cap. The Council deems it prudent to have a limit on the borrowing for the HRA, therefore it has chosen to use the Interest Cover Ratio (ICR) as its borrowing boundary for the HRA. The ICR represents the cover that the HRA has against its interest cost liabilities in any year. The ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest payments. The typical lending covenants used with the ratio varies between 1.10 and 1.50, the lower rate represents less cover and higher rate represents more cover, the Council will use the most prudent approach and therefore use 1.50 within the ratio to provide the most comfort of interest costs cover. The ICR has been modelled into the current HRA 30 year business plan and the maximum additional debt capacity set is £20.444m in order to maintain affordability in each financial year:

HRA Debt Limit	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
HRA CFR	109,183	118,178	123,255	122,780
Additional ICR Debt Capacity	20,444	20,444	20,444	20,444
HRA Authorised Limit	**129,627**	**138,622**	**143,699**	**143,224**

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed and variable rate borrowing will be:

	Upper	Lower
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Strategy: The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Director of Resources/Deputy Chief Executive will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The benefits of internal or short-term borrowing 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. Link will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2020/21, 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.

In addition, the Council may borrow (normally for up to one month) short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following additional sources.

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

- Public Works Loan Board (PWLB) and any successor body
- UK Municipal Bonds Agency plc 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
- UK public and private sector pension funds
- capital market bond investors

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

LOBOs: The Council holds £3.5m 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. £3.5m of these LOBOs have options during 2021/22, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £0m.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. Rescheduling of current borrowing in our debt portfolio is unlikely to occur. If rescheduling was done, it will be reported to Council, at the earliest meeting following its action.

Policy on borrowing in advance of need: The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Policy on internal borrowing interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other.

Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (capital financing requirement) will result in an internal borrowing situation. The internal borrowing on the HRA will charged at the 25 year fixed maturity interest rate for PWLB for the 31st March for the relevant financial year with the credit going to the General Fund balance.

Investment Strategy

Management of Risk

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Council's investment balance has ranged between £53 and £75 million. Levels available for investment are affected by capital expenditure and use of reserves, both will continue to be monitored throughout the financial year.

Objectives: As the CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim 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.

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

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £10m that is potentially available for longer-term investment. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds.

Business models: As a result of the change in accounting standards for 2019/20 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

Creditworthiness Policy; The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the below criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows:

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£8m 5 years	£10m 20 years	£20m 50 years	£5m 20 years	£5m 20 years
AA+	£6m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£6m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years

AA-	£6m 3 years	£10m 4 years		£5m 4 years	£5m 10 years
A+	£6m 2 years	£10m 3 years		£5m 3 years	£5m 5 years
A	£6m 13 months	£10m 2 years		£5m 2 years	£5m 5 years
A-	£5m 6 months	£10m 13 months		£5m 13 months	£5m 5 years
None		n/a			£5m 5 years
Pooled funds and real estate investment trusts		£15m per fund or trust			

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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.

Banks 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.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. 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 to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing

Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify 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 Council's investment objectives will be monitored regularly.

Real estate investment trusts: 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.

Operational bank accounts: The Council will incur operational exposures through its current accounts, with Lloyds Bank. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £750,000 net in the bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Country and sector limits: Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA (excluding UK) from Fitch (or equivalent). This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

Investment limits: In order to limit the amount of reserves that will be potentially 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 £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£15m in total
Local Authorities	£15m each
Money market funds	£12m each
Real estate investment trusts	£10m in total

Liquidity management: This diversification will represent a substantial change in strategy over the coming year, in line with the Council's approved Investment Strategy. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Policy on internal investment interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Interest receivable for HRA balance sheet resources available for investment will result in a notional cash balance. This balance will be measured at the end of the financial year and interest transferred from the General Fund to the HRA at the average investment rate for a DMO investment for the financial year due to the General Fund carrying all the credit risk per investment.

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

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%

Treasury Indicators: limits to investing activity

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

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a banding period, without additional borrowing.

Liquidity risk indicator	**Target**	**Limit**
Total cash available within;		
3 months	30%	100%
3 – 12 months	40%	80%
Over 12 months	30%	50%

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£200,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£200,000

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

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

Price risk indicator	**2021/22**	**2022/23**	**2023/24**
Limit on principal invested beyond year end	£15m	£15m	£15m

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Resources has produced its treasury management practices (TMPs). This part, TMP 1, covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments.
- The principles to be used to determine the maximum periods for which funds can be committed.

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in institutions.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Resources, and if required new counterparties which meet the criteria will be added to the list.

<u>Treasury Management Scheme of Delegation</u>

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;

(ii) Audit and Accounts Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body;
- receiving and reviewing regular monitoring reports and acting on recommendations; and
- approving the selection of external service providers and agreeing terms of appointment.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money; and
- ensuring that due diligence has been carried out on all treasury is in accordance with the risk appetite of the authority.

<u>Economic Background and Interest Rate Forecast</u>

UK. The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

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

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expected there to be excess demand in the economy by Q4 2022.
- CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

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

One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.

COVID-19 vaccines. We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

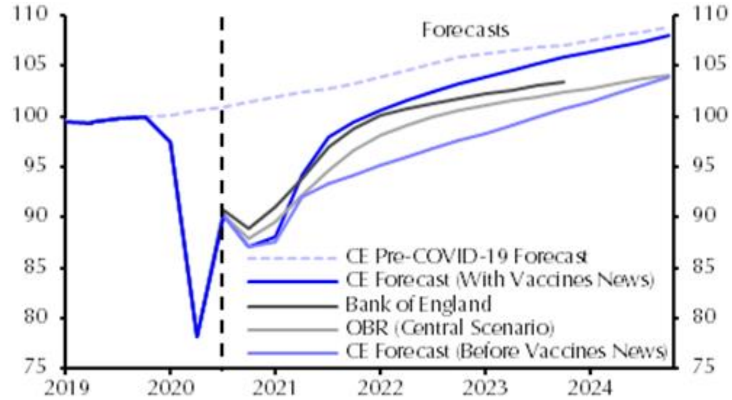
These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

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

Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

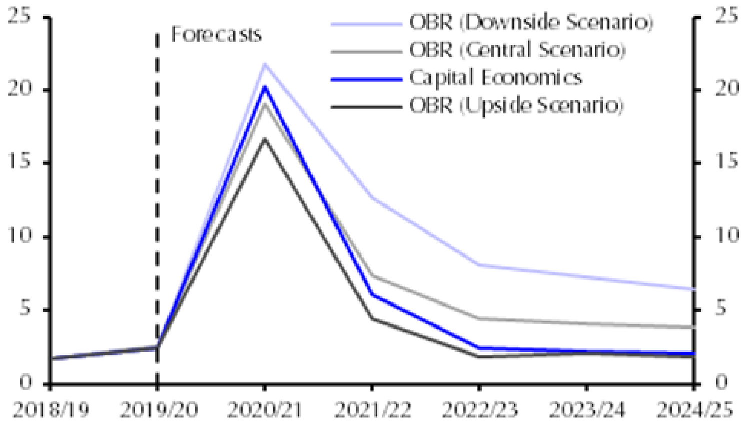
December 2020 / January 2021. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



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

Brexit. While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

Monetary Policy Committee meeting of 17 December. All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

Fiscal policy. In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -

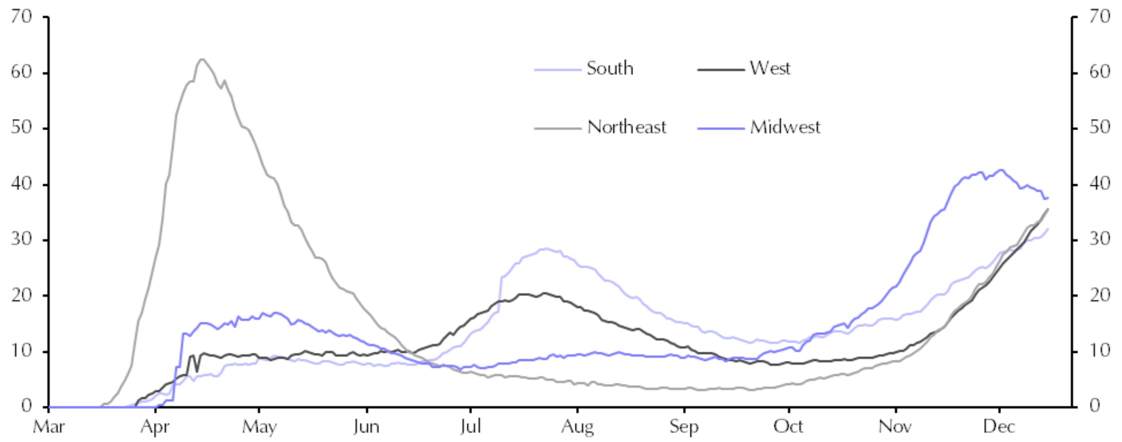
- An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
- The furlough scheme was lengthened from the end of March to the end of April.
- The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US. The result of **the November elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

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

COVID-19 hospitalisations per 100,000 population



The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

The Fed’s meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

EU. In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

World growth. World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

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

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link below were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

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

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.

The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation

Interest Rate Forecasts 2021 – 2024

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

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

AUDIT AND ACCOUNTS COMMITTEE
3 FEBRUARY 2021

CAPITAL STRATEGY 2021/22

1.0 Purpose of Report

1.1 To seek Committee approval to the Capital Strategy 2021/22, this incorporates the Minimum Revenue Provision Policy and Capital Prudential Indicators, updated in accordance with latest guidance.

2.0 Background Information

2.1 The Capital Strategy outlines the principles and framework that shape the Council's capital decisions. The principal aim is to deliver a programme of capital investment that contributes to the achievement of the Council's priorities and objectives as set out in the Corporate Plan.

2.2 The Strategy defines at the highest level how the capital programme is to be formulated; it identifies the issues and options that influence capital spending, and sets out how the resources and capital programme will be managed.

2.3 Statutory Requirements:

- The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Capital Prudential Indicators each financial year to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.4 CIPFA Requirements:

- The Prudential Indicators set out the expected capital activities during the financial year (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).

- Delegation by the Council of the role of scrutiny of Capital Strategy and Policies to a specific named body. For this Council the delegated body is the Audit and Accounts Committee.

3.0 Summary of Capital Expenditure and Financing

3.1 The table below summaries the total forecasted capital expenditure and financing over the next three years, further breakdown is contained within the Strategy;

	2021/22 budget	2022/23 budget	2023/24 budget
Total Capital Expenditure	**57,129**	**43,314**	**12,873**
Capital Grants	5,594	7,115	860

Other Contributions	5,396	3,954	0
Capital Receipts	2,389	3,510	661
Revenue/ Major Repairs Reserve	13,485	6,436	4,928
Borrowing	30,265	22,299	6,424
Total Capital Financing	**57,129**	**43,314**	**12,873**

4.0 Proposals

4.1 That the Capital Strategy 2021/22, including the Minimum Revenue Provision (MRP) Policy, as attached at Appendix A to this report is approved.

5.0 Financial Implications (FIN20-21/2431)

5.1 All financial implication are covered within the body this this report and the appendix to this report.

6.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 9th March 2021 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

6.1 The Capital Strategy 2021/22 Appendix A.

6.2 The Capital Prudential Indicators and Limits for 2021/22, contained within Appendix A.

6.3 The Minimum Revenue Provision (MRP) Policy Statement as contained within Appendix C, which sets out the Council's policy on MRP.

6.4 The Flexible Use of Capital Receipts Strategy, contained with Appendix D.

Reason for Recommendation(s)
Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

CIPFA Prudential Code Local Government Act 2003
CIPFA Treasury Management Code of Practice

For further information please contact Andrew Snape on Ext 5523.

Sanjiv Kohli
Deputy Chief Executive/Director – Resources and S151 Officer

Appendix A

Capital Strategy Report 2021/22

Introduction

This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance stakeholders' understanding of these sometimes technical areas.

As well as detailing the approved capital programme, the document also sets out the Councils ambitions over the medium to longer term.

The basic elements of the Strategy therefore include:

- A direct relationship to the Community Plan;
- An investment programme expressed over the medium to long term;
- A framework that prioritises the use of capital resources;
- A consideration of the need to pursue external financing (grants, contributions, borrowing etc), which reconcile external funding opportunities with the Council's priorities and organisational objectives, so that it is the achievement of the latter that directs effort to secure the former; and
- A direct relationship with the Treasury Management Policy and Strategy, and the limitations on activity through the treasury management Prudential Indicators.

This document is intended for the use by all stakeholders to show how the Council makes decisions on capital investment:

- for the Policy and Finance Committee and Council – to decide on capital investment policy within the overall context of investment need/opportunity and affordability;
- for Councillors – to provide an understanding of the need for capital investment and help them scrutinise policy and management;
- for Officers – to provide an understanding of the Council's capital investment priorities, to assist them in bidding for capital resources, and to confirm their role in the capital project management and monitoring arrangements;
- for taxpayers – to demonstrate how the Council seeks to prudently manage capital resources and look after its assets; and
- for partners – to share with them our Vision and help to co-ordinate and seek further opportunities for joint ventures.

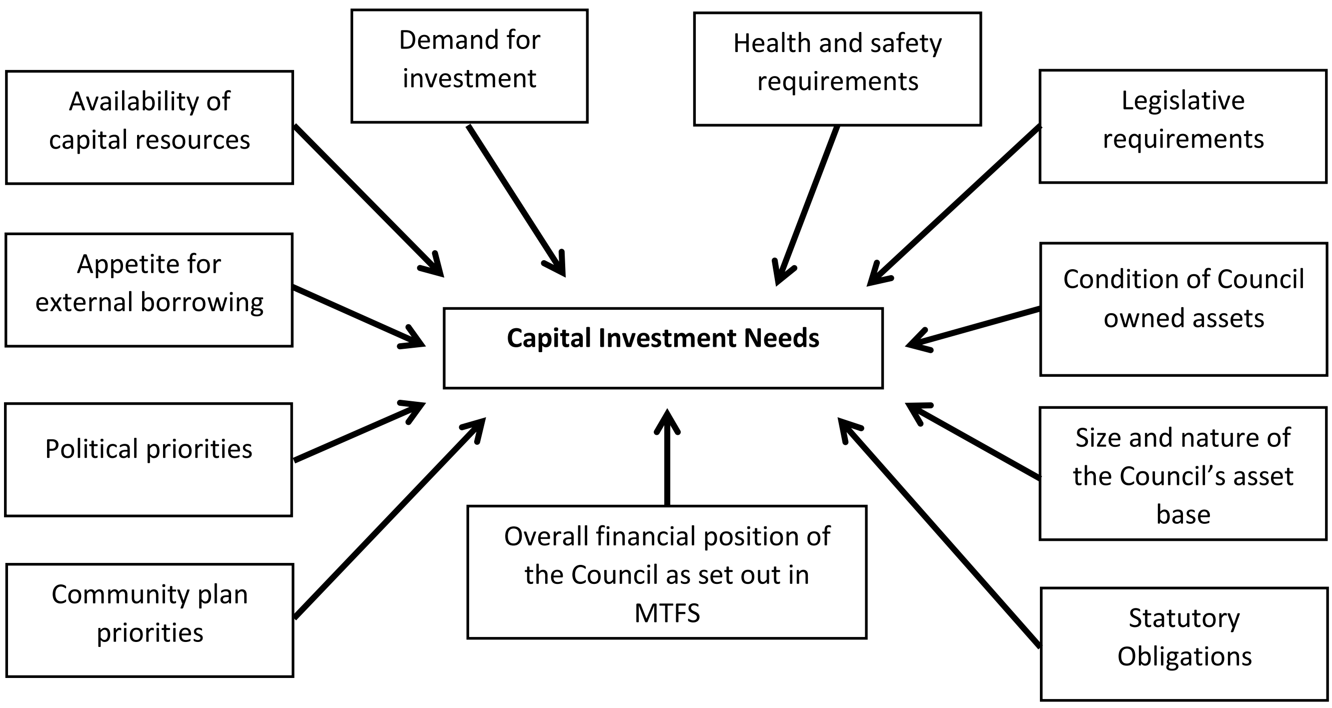
CAPITAL INVESTMENT PRIORITIES

The aim of the Council is to make a sustainable improvement to the long-term quality of life of our residents. The Community Plan 2020-2023 sets out the vision for Newark and Sherwood. This Vision is intended to be external facing and clearly indicates the Council's ambition for the district and the people within.

Underpinning the Council's contribution to the Community Plan vision are seven Corporate Objectives. These are:

- *Create vibrant and self-sufficient local communities where residents look out for each other and actively contribute to their local area;*
- *Deliver inclusive and sustainable economic growth;*
- *Create more and better quality homes through our roles as landlord, developer and planning authority;*
- *Continue to maintain the high standard of cleanliness and appearance of the local environment;*
- *Enhance and protect the district's natural environment;*
- *Reduce crime and anti-social behaviour and increase feelings of safety in our communities;*
- *Improve the health and wellbeing of local residents.*

Capital investment should be directly linked to the objectives as outlined in the Community Plan. There are however a number of other factors that affect the need for capital investment both internal and external. The diagram below identifies a number of these:



Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £15,000 are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: Accounting Policy 1.17 under note 1 of the Councils Statement of Accounts.

In 2021/22, the Council is planning capital expenditure of £57.1m as summarised below:

Prudential Indicator: Estimates of Capital Expenditure in £'000

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
General Fund services	8,471	11,790	20,683	27,144	2,413
Council housing (HRA)	13,717	21,524	25,036	16,170	10,460
Capital Loan (GF)	708	2,592	11,410	0	0
TOTAL	**22,896**	**35,906**	**57,129**	**43,314**	**12,873**

The General Fund Capital Programme with a proposed budget for 2021/22 of £32.1m. Of this amount, expenditure on the Council's General Fund assets totals £19.9m, and £0.8m will provide Disabled Facilities Grants to a number of private dwellings during the year. Also during 2021/22 the Council also plans to incur £11.4m of capital expenditure on capital loans to the Councils housing development company for regeneration purposes.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and has a proposed budget for 2021/22 of £25.0m, which supports the maintenance of the Councils circa 5,400 council houses.

Governance: During early July a 'Capital Bid Request Form' is sent to all business managers and directors. All bids are required to be authorised by the relevant director and then collated by the Capital Finance team. Each bid is required to include all financing costs (which can be nil if the project is fully externally financed) in order to assess the viability of each scheme against the available resources.

The Senior Leadership Team appraises all bids based on a comparison of service priorities against financing costs. Criteria can be found at **Appendix E**. Based on this assessment a final Capital Programme report is prepared for submission to Policy and Finance Committee in February before final approval by Council in March.

- Full details of the 'Capital Bid Request Form' and the prioritisation criteria can be found at **Appendix E**.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Capital financing in £'000

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
External sources					
Capital Grants	2,994	3,384	5,594	7,115	860
Other Contributions	230	1,604	5,396	3,954	0
Own resources					
Capital Receipts	5,915	4,977	2,389	3,510	661
Revenue/ Major Repairs Reserve	9,938	13,642	13,485	6,436	4,928
Debt					
Borrowing	3,819	12,299	30,265	22,299	6,424
Leasing	0	0	0	0	0
TOTAL	**22,896**	**35,906**	**57,129**	**43,314**	**12,873**

Debt is only a temporary source of finance, since loans and leases must be repaid this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). This is a charge to the General Fund Balance and is mandated by legislation to ensure that a prudent charge for the repayment of debt be made by the revenue account. A MRP Statement which sets out how this charge should be calculated each year must be produced which is appended at **Appendix C**.

As the HRA account is self-financing there is no requirement for a MRP charge as the actual debt repayments are made as the loans mature. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The forecast General Fund MRP charge and the HRA actual debt loan repayments are below:

Replacement of debt finance in £'000

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
General Fund - MRP	519	545	614	704	939
General Fund – RHH Ltd	0	0	3,300	0	0
HRA - Debt Repayment	2,024	4,026	3,029	6,531	5,534

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and loan debt repayments and capital receipts used to replace debt. The CFR is expected to increase by £21.2m during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
General Fund services	25,554	28,855	31,362	47,349	47,775
Council housing (HRA)	106,638	109,183	118,178	123,255	122,780
Capital investments	708	2,590	11,410	11,410	11,410
TOTAL CFR	**132,900**	**140,628**	**160,950**	**182,014**	**181,965**

Asset management: The overriding objective of asset management within the council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The council's property portfolio consists of operational property and property held for specific community or regeneration purposes. The council has specific reasons for owning and retaining property:

- Operational purposes e.g. assets that support core business and service delivery e.g. office buildings.
- Parks, playgrounds and open spaces.
- Regeneration, enabling strategic place shaping and economic growth.

Asset management is an important part of the council's business management arrangements and is crucial to the delivery of efficient and effective services, the ongoing management and maintenance of capital assets will be considered as part of the strategy. The asset management planning includes an objective to optimise the council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

Asset disposal: The Council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions in order to maximise the sale proceeds, known as capital receipts, which can then be spent on new assets or repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts.

- The Council's Flexible Use of Capital Receipts Policy is available at **Appendix D**.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council at 31st December 2020 had £98m borrowing at an average interest rate of 3.4% and £64m treasury investments at an average rate of 0.7%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5% to 2.0%).

The table below shows the Council's actual debt position against the forecasted capital financing requirement, where no additional borrowing has been included based on the proposed capital program.

Prudential Indicator: Gross Debt and the Capital Financing Requirement in £'000

Debt	**31.3.2020 actual**	**31.3.2021 forecast**	**31.3.2022 budget**	**31.3.2023 budget**	**31.3.2024 budget**
External Debt					
Debt at 1 April	90,080	91,580	95,054	88,725	82,193
Expected change in Debt	1,276	3,250	-6,553	-6,756	-5,758
Other long-term liabilities (OLTL)	224	224	224	224	224
Actual gross debt at 31 March	**91,580**	**95,054**	**88,725**	**82,193**	**76,659**
The Capital Financing Requirement	**132,900**	**140,628**	**160,950**	**182,014**	**181,965**
Under / (over) borrowing	**41,320**	**45,574**	**72,225**	**99,821**	**105,306**

Statutory guidance is that debt should remain below the capital financing requirement, except in exceptional circumstances that may incur for a short-term. As can be seen from the table above, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Prudential Indicators: Authorised limit and operational boundary for external debt in £'000

	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
Authorised limit – total external debt	153,228	173,550	194,614	194,565
Operational boundary – total external debt	146,028	166,350	187,414	187,365

- Further details on borrowing are in pages 4 to 7 of the treasury management strategy.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for purely financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent over the short - term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Treasury management investments in £'000

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Short-term investments	49,819	40,435	26,736	22,722	22,170
Longer-term investments	7,500	10,109	6,684	5,681	5,543
TOTAL	**57,319**	**50,544**	**33,420**	**28,403**	**27,713**

- Further details on treasury investments are in pages 8 to 13 of the treasury management strategy.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources/Deputy Chief Executive and treasury staff, who must act in line with the treasury management strategy approved by Full Council. Half yearly reports on treasury management activity are presented to the Audit and Accounts committee and then to Full Council. The Audit and Accounts committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

Governance: Decisions on service investments are made by the relevant Business Manager in consultation with the Director of Resources/Deputy Chief Executive and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are contained within the investment strategy.

<u>Commercial Activities</u>

With central government financial support for local public services declining, the Council has the ability to invest in commercial property if it meets both wider Council objectives and provides a financial return that can be used to support Council services.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return. The council may fund the purchase of the property by borrowing money. The rental income paid by the tenant should exceed the cost of repaying the borrowed money each year. The annual surplus then supports the council's budget position, and enables the council to continue to provide services for local people. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. In order that commercial investments remain proportionate to the size of the council, these are subject to an overall maximum investment limit of £15m. However, the Council does not hold any investment properties on its balance sheet and has no plans to invest in these types of assets.

Governance: Decisions on commercial investments are made by the Deputy Chief Executive/Director of Resources, S151 Officer in line with the criteria and limits approved by Council in the investment strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on commercial investments and limits on their use are contained within the investment strategy.

<u>Liabilities</u>

In addition to debt of £98m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £71.5m 2019/20). It has also set aside a Collection Fund provision of £1.7m to cover risks of Non Domestic Rates Appeals.

Governance: Decisions on incurring new discretionary liabilities are taken by Business Managers in consultation with the Director of Resources/Deputy Chief Executive. The risk of liabilities crystallising and requiring payment is monitored by the corporate finance team. New liabilities are reported to full Council for approval/notification as appropriate.

- Further details on liabilities and guarantees are on pages 89 to 95 of the 2019/20 statement of accounts.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Prudential Indicator: Proportion of financing costs to net revenue stream in £'000

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
General Fund					
MRP Charge	519	545	614	704	939
Interest Payable	49	56	79	453	829
Less: Investment Income	-1,035	-791	-1,044	-1,081	-1,093
Total GF Financing costs	**-467**	**-190**	**-351**	**76**	**675**
Proportion of net revenue stream	-2.48%	-1.15%	-2.80%	0.59%	5.12%
Housing Revenue Account					
Interest Payable	4,038	3,783	3,775	3,814	3,665
Depreciation	4,452	5,649	5,421	5,854	6,178
MRR contributions including debt repayments	4,113	4,200	3,836	3,315	2,634
Less: Investment Income	-9	-5	-5	-5	-5
Total HRA Financing costs	**12,594**	**13,627**	**13,027**	**12,978**	**12,472**
Proportion of net revenue stream	54.82%	55.84%	51.99%	51.02%	48.83%

- Further details on the revenue implications of capital expenditure are contained within the 2021/22 revenue budget.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for potentially up to 50 years into the future. The Director of Resources/Deputy Chief Executive is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources/Deputy Chief Executive is a qualified accountant with 18 years' experience, the Business Manager – Asset Management is a qualified Chartered Surveyor and also has 8 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury) and actively encourages staff to attend relevant training courses and seminars.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Group as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

- The Council's policy on the use of temporary agency workers and consultants is available on the Councils Intranet.

APPENDIX B

MANAGING THE CAPITAL PROGRAMME

A key role in the monitoring of the capital programme is undertaken by the Capital Monitoring Group, which meets on a quarterly basis. This Group is attended by responsible officers and the relevant accountant and is chaired by the Business Manager for Financial Services. It is a supportive environment in which problem areas are identified and corrective actions agreed and implemented at an early stage to avoid slippage. Each scheme has a nominated project manager who is responsible for the successful completion of the scheme both to time and on budget.

The Council maintains comprehensive and robust procedures for managing and monitoring its Capital Programme. Ongoing monitoring arrangements for the delivery of the approved programme consist of:

- Project Managers are identified for each scheme who are responsible for monitoring progress, spend and income and producing action plans to respond to variations in pace or cost of delivery;
- The Deputy Chief Executive/Director of Resources and S151 Officer co-ordinates high level monthly reporting and detailed quarterly reporting to the Management Senior Leadership Team and Policy and Finance Committee;
- The quarterly capital monitoring where project managers report on performance outputs on each of their capital projects in progress. Variations and unexpected items are discussed and appropriate action taken; and
- Business Managers are responsible for ensuring that their Project Manager's monitoring reports are quality assured and challenged, and that corporate implications arising from capital monitoring are brought to the attention of the Senior Leadership Team and Policy and Finance Committee for approval of variations where necessary.

PROCUREMENT

The purchase of capital assets should be conducted in accordance with the Contract Procedure Rules, ensuring value for money, legality and sustainability at all times. Contract standing orders and rules governing the disposal or write off of assets are contained in the Constitution which is consistently reviewed.

VALUE FOR MONEY

The Council recognises that effective procurement lies at the heart of delivering value for money and is essential if the Council is to obtain real improvements to quality and service costs. The Council seeks to achieve value for money by applying rigorous procurement standards in the selection of suppliers and contractors to ensure efficiency, economy and effectiveness is received throughout the life of a contract. The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of our capital strategy. Specifically we will seek to strengthen the outcome indicators as part of post project reviews.

APPENDIX C

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2020/21

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments where it is deemed appropriate (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to Councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2016 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in the former MHCLG regulations (option 1);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year. However as the Council deems it more prudent MRP will be charged on a 2% straight line basis, net of ‘Adjustment A’. This ensures that the debt will be repaid within 50 years.

From 1 April 2016 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset’s useful life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

APPENDIX D

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

Introduction and Background

Following the Spending Review 2015, the Ministry of Housing, Communities and Local Government (MHCLG) recently issued guidance on the flexible use of capital receipts which came into effect from 1 April 2016 to 31 March 2022. The guidance, underpinned by a direction from the Secretary of State for Communities and Local Government, will enable local authorities to capitalise costs incurred on transforming or improving service delivery designed to generate ongoing revenue savings. The guidance also states that each local authority should prepare a Flexible use of Capital Receipts Strategy.

In summary, the key elements of the MHCLG guidance on the flexible use of capital receipts are:

Types of qualifying expenditure

1. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

2. Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure.

Financing of the qualifying expenditure

i. Up to 100% of capital receipts from property, plant and equipment disposals received from 2021/22 (excluding Right to Buy receipts) can be used to finance qualifying expenditure. Existing capital receipts in hand prior to 2021/22 are not permitted to be used.
ii. Local authorities may not borrow to finance qualifying expenditure.
iii. The guidance will apply for 2021/22.

APPENDIX E

NEWARK & SHERWOOD DISTRICT COUNCIL
CAPITAL PROJECT APPRAISAL FORM

COMMITTEE	
DIRECTORATE	
BUSINESS UNIT	
PROJECT OFFICER	
PROJECT TITLE	

1. DESCRIPTION OF PROJECT

2. DEMONSTRATION OF NEED e.g is the work a statutory obligation? Please include supporting information

3. DETAIL HOW THE PROJECT LINKS TO THE COMMUNITY PLAN

4. DESCRIBE THE IMPACT OF THIS PROJECT ON OTHER BUSINESS UNITS (including officers in other business units involvement in the project)

5. PROJECT DEPENDENCIES

6. RESOURCE REQUIREMENTS

6a. LAND/BUILDING CURRENTLY IN COUNCIL OWNERSHIP/LAND ACQUISITION REQUIRED (State whether General Fund or HRA)

6b. ESTIMATED CAPTIAL COSTS INCLUDING PROFILE OF SPEND OVER FINANCIAL YEARS

*Consideration to be given to inflation and contingency

2021/22 £	2022/24 £	2023/24 £	2024/25 £	2025/26 £

6c. FUNDING AVAILABLE

2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	Source

6d. REVENUE IMPLICATIONS (this should include costs associated with implementation, ongoing revenue costs and ongoing savings and should be agreed with relevant accountant).

6e. VAT IMPLICATIONS (do we need to consider option to tax?)

7. OTHER INFORMATION

7a. HEALTH & SAFETY ISSUES

7b. **EQUALITIES IMPLICATIONS**

7c. **CRIME & DISORDER ISSUES**

7d. **PLANNING IMPLICATIONS**

7e. **LISTED BUILDING IMPLICATIONS**

7f. **PROJECT RISKS/UNCERTAINTIES**

7g. **HAVE ALTERNATIVE PROCUREMENT STRATEGIES SUCH AS JOINT PROCUREMENTS BEEN EXPLORED?**

FORM COMPLETED BY:	
DATE:	
SIGNATURE OF SPONSORING DIRECTOR:	

PRIORITISATION CRITERIA

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
1	**Key Priorities** Scheme must link to at least one of the Council's priorities and be an objective contained within a Service Plan.	If a scheme does not clearly relate to these areas it will not be considered further.	Each scheme to be marked as to how well it fits with the Community Plan	**35%**
2	**Evidence of Need** Service Strategy National Strategy or Guidelines Statutory Obligation	In some cases local demands are in excess of national guidelines and strategies and this tries to acknowledge that the two must be balanced. This will cover Health and Safety related schemes.	The following factors will receive equal weighting :- • Statutory Obligation • National Strategy • Validity of consultation in relation to project. e.g. How specific to this project? Who was consulted, was this comprehensive? • Quality of evidence of need for project .e.g. size of sample base, date of evidence, format of evidence	**10%**
3	**Partnership** Eligibility under existing criteria can be demonstrated.	Show that work has been done to ensure that the obtaining of external finance is realistic. The degree to which the partnership will add value to the project.	The proportion of finance which will be met by third party. The likelihood of receiving support. Assessment of the value the partner will add to the project.	**15%**

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
4	**Outputs and Outcomes** These have been clearly identified and can be justified from supporting evidence. Specific comments should be made as to how the scheme represents value for money when compared to other options	This will enable the council to improve the way it reports its work and clearly show what is being achieved. The comments should refer to any performance indicators which the proposal is addressing specifying what the improvement target is.	Assessment then made on what the scheme will achieve.	**15%** Assessment of all factors or group of factors
5	**Financial** Capital costs have been based on internal or external professional advice Revenue implications have been properly developed	Capital costs include both works and land purchase and cover all associated costs. Try and avoid “guesstimates” which result in schemes requiring increased finance or having to be reduced to meet finance available.	Capital will be based on the quality of work which has been put into estimate. e.g. costed feasibility studies. Revenue will be based on whether the effect is positive, neutral or negative on the revenue budget. Positive effect scores 10 Neutral effect scores 3 Negative effect scores 0	**5%** **10%**
6	**Risk Assessment** Identify the level of risk in a project not being able to proceed. For example planning appeals, listed building consent. Over subscription of partnership funds	Try and ensure that not all schemes selected are high risk with the danger that there will be delays in delivery or no-delivery.	The following will all need to be considered:- Technical Issues Financial Uncertainty Partnership uncertainty Planning Issues Legal issues Timescale	**10%**

AUDIT AND ACCOUNTS COMMITTEE
3 FEBRUARY 2021

INVESTMENT STRATEGY

1.0 Purpose of Report

1.1 This investment strategy is for 2021/22, meeting the requirements of statutory guidance issued by MHCLG Investment Guidance in January 2018.

2.0 Background Information

2.1 The definition of an investment covers all of the financial assets of the Council as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

A loan is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.

2.2 Statutory Requirements:

- The MHCLG Investment Guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

- For each financial year, a local authority should prepare at least one Investment Strategy ("the Strategy"). The Strategy should contain the disclosures and reporting requirements specified in this guidance. The Strategy should be approved by the full council.

3.0 Summary of Limits

3.1 The below table summarises the proposed limits within the Investment Strategy 2021/22 for the non-treasury investments, each category has further details within the Appendix;

Category of borrower	31.3.2020 actual			2021/22
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Service Investments: Loans	0.876	0.127	0.749	17.000
Service Investments: Shares	4.000	-0.167	3.833	5.000
Commercial Investments: Property	0	0	0	0

4.0 Proposals

4.1 That the Investment Strategy 2021/22 as attached at Appendix A to this report is approved.

5.0 Financial Implications (FIN20-21/3987)

5.1 All financial implication are covered within the body this this report and the appendix to this report.

6.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 9th March 2021 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

6.1 The Investment Strategy 2021/22, contained within Appendix A.

6.2 The Investment Prudential Indicators and Limits, contained within Appendix A.

Reason for Recommendation(s)

Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

MHCLG Investment Guidance 3rd Edition

For further information please contact Andrew Snape on Ext 5523.

Sanjiv Kohli
Director – Resources and S151 Officer

APPENDIX A

Investment Strategy Report 2021/22

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to, or buying shares in, other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories. This investment strategy has been created in line with the Councils Treasury Management Strategy Statement and the Councils Capital Strategy. The initial strategy may be replaced with a revised strategy at any time during the year in cases where any treasury management issues (including investment issues) need to be brought to the attention of Full Council.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £19m and £49m during the 2021/22 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council can lend money to its subsidiaries, local businesses, local charities and any other bodies to support local public services and stimulate local economic growth. Over the years the Councils main service investment loan has been via the Growth Investment Fund. These investments during 2019-20 generated £31,249 of investment income for the Council after taking account of direct costs, representing a rate of return of 5.14%.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Loans for service purposes

Category of borrower	31.3.2020 actual			2021/22
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries	0.712	0	0.712	15.500
Local businesses	0.127	0.127	0	0.500
Local charities	0	0	0	0.500
Other Bodies	0.037	0	0.037	0.500
TOTAL	**0.876**	**0.127**	**0.749**	**17.000**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2020/21 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Director of Resources/Deputy Chief Executive or Business Manager for Financial Services. All loans will be subject to contract agreed by the Legal Business Unit and the credit risk will be determined by reference to the "expected credit loss" model for loans and receivables as set out in International Reporting Standard (IFRS) 9 Financial Instruments. All loans must be approved by full Council and will be monitored by the Director of Resources/Deputy Chief Executive, or Business Manager for Financial Services.

<u>Service Investments: Shares</u>

Contribution: The Council can invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth. Currently the Council does not intend to invest in any shares with suppliers or local businesses; however the Council has invested £4m of equity funding into Arkwood Development Limited for which it has received 100% of the share capital issued, making it wholly owned by the Council. The Council has also invested £500 of equity to acquire 50% of shares of the Joint Venture Company, Robin Hood Hotel Ltd (RHH).

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recoverable. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Shares held for service purposes

Category of company	31.3.2020 actual			2021/22
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiaries	4.000	-0.167	3.833	5.000
Suppliers	0	0	0	0
Local businesses	0	0	0	0
TOTAL	**4.000**	**-0.167**	**3.833**	**5.000**

Shares are classed as capital expenditure and purchases will therefore be approved as part of the capital programme.

Risk assessment: The Council would assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiary will be active in; including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The Council will use external advisors as thought appropriate by Director of Resources/Deputy Chief Executive, or Business Services Manager for Finance.

Liquidity: Although this type of investment is fundamentally illiquid, in order to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

<u>Commercial Investments: Property</u>

Contribution: The Council can invest in local, regional and UK commercial and residential property with the intention of making a profit that will be spent on local public services. Currently none of the Council properties meet the investment property definition as defined in International Accounting Standard 40: Investment Property.

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by ensuring they are prudent and has fully considered the risk implications, with regard to both the individual property and that the cumulative exposure of the council is proportionate and prudent. The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place, before entering into any commercial property investment and the business case will balance the benefits and risks. All investments of this type will be agreed by the Policy and Finance committee.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. The investment strategy for the Council for 2021-22 is proposed to remain broadly unchanged as it is considered overall to be well structured to limit any undue risks to the security of assets and preservation of liquidity whilst also allowing the council and delegated officers to access suitable investment opportunities.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands at the point of entry, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not provide such commitments and guarantees and this strategy does not include them for 2021/22.

Borrowing in Advance of Need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £174 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Capacity, Skills and Culture

Elected members and statutory officers: The Council recognises that those elected Members and statutory officers involved in the investments decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual assessments in the context of the strategic objectives and risk profile of the Council; and

- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

The Council establishes project teams from all the professional disciplines from across the Council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

The investment decisions are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management, which includes investment decisions, receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members of the Audit and Accounts Committee received training from the Council's treasury advisers, Link Group, on 25th November 2020 and 20th January 2021. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

Commercial deals: The Council will ensure that the Audit and Accounts Committee, Policy and Finance Committee and officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

Corporate governance: Any investment decisions will be scrutinised by Senior Leadership Team before final approval by Members.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Total investment exposure	**31.03.2020 Actual £m**	**31.03.2021 Forecast £m**	**31.03.2022 Forecast £m**
Treasury management investments	38.459	40.248	20.900
Service investments: Loans	0.876	3.464	11.574
Service investments: Shares	4.000	4.000	4.000
Commercial investments: Property	0	0	0
TOTAL INVESTMENTS	**43.335**	**47.712**	**36.474**
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**43.335**	**47.712**	**36.474**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing	**31.03.2020 Actual £m**	**31.03.2021 Forecast £m**	**31.03.2022 Forecast £m**
Treasury management investments	0	0	0
Service investments: Loans	0.712	3.300	11.410
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	**0.712**	**3.300**	**11.410**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	**2019/20 Actual**	**2020/21 Forecast**	**2021/22 Forecast**
Treasury management investments	1.20%	0.90%	1.09%
Service investments: Loans	5.14%	5.14%	5.54%
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
ALL INVESTMENTS	**3.17%**	**3.02%**	**3.31%**

AUDIT AND ACCOUNTS COMMITTEE
3 FEBRUARY 2021

REVIEW RELATING TO THE APPOINTMENT OF AN INDEPENDENT MEMBER

1.0 Purpose of Report

1.1 To enable Members of the committee to consider the appointment of an Independent Member to the Audit and Accounts Committee as per the CIPFA Best Practice Guidance.

2.0 Background Information

2.1 At the meeting on 27th November 2019 the results of the self-assessment exercise highlighted an action in relation to the consideration of including at least one independent member to the Audit and Accounts Committee.

2.2 The action plan detailed that a report would be tabled to this Committee which facilitated the consideration of an independent member.

2.3 At the meeting on the 5th February 2020 a report was tabled regarding the appointment of an independent member, which after debate by the Committee the minutes show that all agreed not to have an Independent Member.

2.4 Post this, a review, conducted by Sir Tony Redmond, on the arrangements in place to support the transparency and quality of local authority financial reporting and external audit was commissioned. A recommendation from this report was that the consideration to the appointment of at least one independent member, suitably qualified, by local authority audit committees was conducted. A report was presented by the Business Manager – Financial Services on the report and the recommendations produced by Sir Tony Redmond on 25th November 2020. A vote was taken to review the decision taken on 5th February 2020, and a report was to be tabled at the next Audit and Accounts Committee in order to review the appointment of an independent member onto the committee.

Review of Independent member

2.5 The guidance to support those acting as audit committee members in local authorities recognises CIPFA's publication "Audit Committees: Practical Guidance for Local Authorities and Police (2018)" as representing "proper audit committee practices".

2.6 This guidance defines the way in which audit committees should be established and undertake its functions, including the functional reporting requirements to the governance group charged with providing independent assurance on the adequacy of the control environment, comprising risk management, control and governance.

2.7 Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. CIPFA considers that Audit Committees must also actively explore the appointment of at least one independent member to the Committee. This is in line with good practice to demonstrate good governance principles and independence from the executive and other political allegiances.

2.8 Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- To bring additional knowledge and expertise to the committee;
- To reinforce the political neutrality and independence of the committee; and
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

2.9 Under the Council's constitution, the first item in the remit for the Audit and Accounts Committee's is:- "*to approve the Authority's statement of accounts, income and expenditure and balance sheet or record of receipts and payments".*

2.10 Under S102(3) of the Local Government Act 1972, Co-opted members are not permitted to be members on Committees which are responsible for "*regulating and controlling the finance of the local authority".*

2.11 CIPFA do acknowledge these limitations recommending that Local Authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. This states that "*A person who – (a) is a member of a committee appointed under a power to which this section applies by a relevant authority and is not a member of that authority; shall for all purposes be treated as a non-voting member of that committee".*

2.12 Their view is that where an audit committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members of the committee (including an co-opted members) should be able to vote on those recommendations. However, where a council has delegated decisions to the committee, for example the adoption of the financial statements, then independent members will not be able to vote on those matters for decision.

2.13 CIPFA do though acknowledge where authorities make use of independent members there are practical things to borne in mind:

- Over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee;
- Lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
- Effort is required from both independent members and officers to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

2.14 While operating as a member of the audit committee, the independent member is required to follow the Council's Standing Orders and the Code of Conduct for elected members. They should also register any interests should be maintained. As stated at paragraph 2.12 above, where there are recommendations for decision, the independent member would not have the right to vote on those decisions.

2.15 The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

2.16 CIPFA also acknowledge that there are currently no statutory requirements that determine that local authorities must appoint independent co-opted members, albeit such appointments are a requirement within police authorities, English combined authorities and for local authorities in Wales. This was a recommendation made by Sir Tony Redmond within the Redmond review, and subsequently this could become a requirement (as with police authorities, English combined authorities and local authorities in Wales) in the future.

2.17 The NAO has recommended that government work with local authorities and stakeholders to assess the implications of, and possible responses to the effectiveness of audit committees and how to increase the use of independent members.

2.18 Analysis across Nottinghamshire shows that only one of the other District Authorities currently have independent members co-opted onto their audit committees. This is Mansfield District Council and currently they remunerate them £530 per annum.

2.19 A role profile is attached at **appendix A** which would be used in order to advertise and recruit for the independent member. It is proposed that an annual remuneration of £500 plus reasonable travel expenses (where this is within the District) be offered for the position.

2.20 Should the Committee recommend to Full Council that an independent member is co-opted onto this committee, a panel comprising of the Chair of this Committee, the Business Manager – Financial Service together with another member of this Committee would convene in order to recruit to the position.

3.0 CONCLUSIONS:

3.1 At present there are no statutory requirements on the authority to appoint an independent member to the audit committee. The NAO has recommended that further work be done by government with local authorities and other stakeholders to examine how the use of independent members on audit committees can be increased. This has also been supplemented by the recommendation by Sir Tony Redmond within his review.

3.2 Guidance from CIPFA notes both positive and cautionary reasons for such appointments and decisions of this nature need to take account of each local authority's own circumstances.

4.0 FINANCIAL IMPLICATIONS (FIN20-21/7020)

4.1 The proposed remuneration of £500 together with an allowance for reasonable expenses would need to be added to the base budget for 2021/22 and future years. Should the recommendation to Council be that an independent member is co-opted onto this committee, this addition would be made to the budget setting report to be tabled at Council on 9th March 2020.

5.0 RECOMMENDATIONS:

That the Committee:

(a) Review and discuss the proposal to co-opt an independent member onto the committee.
(b) Where appropriate approve the Independent member role profile.
(c) Where appropriate recommend the following to Council:
- That an Independent member is co-opted on to the Audit and Accounts Committee on a non-voting basis.
- The role profile is approved.
- That the appointment of the Independent member is delegated to the Audit and Accounts Committee
- That the process for selecting and recommending an appropriate candidate is delegated to the Business Manager – Financial Services in consultation with the Chair of the Audit and Accounts Committee.

Background Papers

CIPFA Audit Committees Practical Guidance for Local Authorities and Police
NAO Report – Local Authority Governance

For further information please contact Nick Wilson, Business Manager – Financial Services on Ext 5317

Nick Wilson
Business Manager – Financial Services

APPENDIX A

Appointment of an Independent Audit and Accounts Committee Member (Independent Person)

Newark and Sherwood District Council has a strong track record of good corporate governance and robust financial management, but remains keen to implement continuous improvement in these areas. To support this ongoing process, we are now seeking to recruit a proficient Independent Person to serve on the Council's Audit and Accounts Committee.

About the Audit and Accounts Committee

The Audit and Accounts Committee is a key component of Newark and Sherwood District Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

Its role is:

- To provide independent assurance to Councillors of the adequacy of the risk management framework and the internal control environment;
- To provide independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes;
- To oversee internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The full list of functions of the Audit and Accounts Committee can be found in the Council's constitution

ROLE DESCRIPTION

Responsible to: The Authority

Liaison with: Monitoring Officer, Members of the Authority, officers, the Chair of the Authority, the Chair of the Audit and Account Committee and key stakeholders within the community.

Duties to include:

1) Assisting the Committee with scrutinising the authority's statement of accounts for its approval
2) Reviewing the Council's corporate governance arrangements
3) Receiving reports/presentations from the Council's internal audit manager, considering the main issues identified and monitoring management action in response
4) Receiving and considering the external auditor's opinion and reports and monitoring management action in response to any issues raised
5) Considering the effectiveness and adequacy of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
6) Considering the adequacy of the action being taken on risk related issues identified by auditors and inspectors
7) Ensuring effective scrutiny of the Council's Treasury Management Strategy and Policies

SELECTION CRITERIA - SKILLS AND COMPETENCIES

Experience

- Experience of working in a medium/large organisation at a senior level or other experience which would give similar benefits.
- Financial Management experience (accountancy, audit or management of a large budget) would be advantageous.

Skills

- An ability to understand complex issues and the importance of accountability and probity in public life
- An ability to analyse and question written and verbal reports on audit and risk management activities
- An understanding of the need for independence of audit from daily management responsibilities
- An ability to demonstrate integrity and discretion
- Effective interpersonal skills
- Be able to maintain strictest confidentiality of sensitive information

Knowledge

All members of the Audit and Accounts Committee should have, or should acquire as soon as possible after appointment:

- An understanding of the objectives and key activities of the Council and current major initiatives and significant issues for the Council
- An understanding of the Council's structures and responsibilities, including key relationships with partners, businesses and organisations
- An understanding of the organisation's culture
- An understanding of any relevant legislation or other rules governing the organisation
- An understanding of corporate governance arrangements in place across the Council
- An understanding of the government environment generally
- An understanding of risk management
- Ensure effective scrutiny of the Council's Treasury Management Strategy and Policies

Eligibility for Appointment

You must:

- Have local connections and live within the District or carry out the main part of your work in the District
- Agree to abide by the provisions of the Council's Standing Orders and the Members Code of Conduct while serving on the Committee

You must not:

- Be a Councillor or Officer of the Council or have been so in the preceding five years prior to appointment

- Be related to, or a close friend of, any Councillor or Officer of Newark and Sherwood District Council
- Have been convicted of any offence; the Council has the right to undertake a DBS check for any independent committee members
- Be an undischarged bankrupt
- Have significant business dealings with the Council
- Have a formal connection with any political group
- Have a proven history of vexatious and/or frivolous complaints against Newark and Sherwood District Council
- Be holder of a significant office in an organisation being grant aided/supported by Newark and Sherwood District Council

You should demonstrate in your application how you meet the above criteria as this will assist the short-listing process.

Means of assessment will be by application form and panel interview.

Commitment

You will be expected to attend at least 3 of 4 meetings per year. Meetings usually take place in February, April, July and November. They are usually held at Castle House, Great North Road, Newark, NG24 1BY and start at 10am. They last approximately 2 hours. Time will also be needed prior to each meeting for preparation.

Remuneration

An allowance of £500 per annum would be applied to the post. An allowance for reasonable travel expenses (where this is within the District) would also be reimbursed.

AUDIT & ACCOUNTS COMMITTEE
3 FEBRUARY 2021 **WORK PLAN**

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
21 April 2021	Statement of Accounting Policies 2020/21	Andrew Snape	Gain assurance that the Council has appropriate accounting policies in place that reflect the way items are treated in the annual Statement of Accounts
	IAS19 Pension Assumptions 2020/21	Andrew Snape	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Property, Plant and Equipment Valuation Assumptions 2020/21	Andrew Snape	Gain assurance that the assumptions used by the Council's valuers to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Counter-Fraud Activity Report	Nick Wilson	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place
	External Audit Plan for 2020/21 Accounts	TBC (Mazars)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts, Value for Money arrangements and Grant claims
	Fraud Risk Assessment	Nick Wilson	Gain assurance that the Council understands its fraud risks and that actions are put in place to address them
	Partnership Register	Natalie Cook	In order to gain assurance that the Council is managing the partnerships that it is involved within effectively
	Responses to questions raised at previous meeting	Nick Wilson	
	Audit Committee Work Programme	Nick Wilson	
28 July 2021	Treasury Management Outturn Report 2020/21	Andrew Snape	Gain assurance that treasury management activities were in line with the Treasury

			Management Strategy for the past financial year
	External Audit - Audit Completion Report 2020/21	TBC (Mazars)	To gain assurance that the Council's Statement of Accounts are a true and fair representation of the Council's financial performance for the previous financial year and financial standing as at the Balance Sheet date, and that the Council has effective arrangements for achieving Value for Money
	Statement of Accounts 2020/21 & Annual Governance Statement	Nick Wilson	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified, and that arrangements in place support the achievement of the Council's objectives
	Annual Internal Audit Report 2020/21	Lucy Pledge/Emma Bee (Assurance Lincolnshire)	Gain assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified and that governance arrangements support the achievement of the Council's objectives
	Internal Audit Progress Report 2021/22	Lucy Pledge/Emma Bee (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Biannual Review of the Effectiveness of the Internal Audit Function	Nick Wilson	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
	Responses to questions raised at previous meeting	Nick Wilson	
	Audit Committee Work Programme	Nick Wilson	