This document was classified as: OFFICIAL

Public Document Pack

DARLINGTON
Borough Council

Audit Committee Agenda

10.00 am

Wednesday, 26 January 2022

Council Chamber, Town Hall, Darlington. DL1 5QT

Members of the Public are welcome to attend this Meeting.

1. Introductions/Attendance at Meeting

2. Declarations of Interest

3. To Approve the Minutes of the last meeting of this Audit Committee held on 29 September 2021 (Pages 3 - 8)

4. Accounting Policies to be applied to the 2021/22 Financial Statements –
Report of the Group Director of Operations
(Pages 9 - 32)

5. Final Accounts Timetable for the year ended 31 March 2022 –
Report of the Group Director of Operations
(Pages 33 - 36)

6. Appointment of External Auditors 2023/24 - 2027/28 –
Report of the Group Director of Operations
(Pages 37 - 50)

7. Mid Year Risk Management Update Report 2021/22 –
Report of the Chief Executive
(Pages 51 - 74)

8. Audit Services - Activity Report –
Report of the Audit and Risk Manager
(Pages 75 - 96)

9. Prudential Indicators and Treasury Management Strategy 2022/23 –

Report of the Group Director of Operations
(Pages 97 - 140)

10. SUPPLEMENTARY ITEM(S) (if any) which in the opinion of the Chair of this Committee are of an urgent nature and can be discussed at this meeting

11. Questions

Luke Swinhoe
Assistant Director Law and Governance

Tuesday, 18 January 2022

Town Hall
Darlington.

Membership
Councillors Baldwin, Bartch, Crudass, Lee, McEwan and Paley

If you need this information in a different language or format or you have any other queries on this agenda please contact Allison Hill, Democratic Officer, Operations Group, during normal office hours 8.30 a.m. to 4.45 p.m. Mondays to Thursdays and 8.30 a.m. to 4.15 p.m. Fridays E-Mail : Allison.hill@darlington.gov.uk or telephone 01325 405997

AUDIT COMMITTEE
Wednesday, 29 September 2021

PRESENT – Councillors Lee (Chair), Baldwin, Bartch, Crudass, McEwan and Paley

OFFICERS IN ATTENDANCE – Peter Carrick (Finance Manager Central/Treasury Management), Luke Swinhoe (Assistant Director Law and Governance), Andrew Barber (Audit and Risk Manager, Stockton Borough Council), Ian Miles (Assistant Director Xentrall Shared Services) and Allison Hill (Democratic Officer)

A14 DECLARATIONS OF INTEREST

There were no declarations of interested reported at the meeting.

A15 TO APPROVE THE MINUTES OF THIS COMMITTEE HELD ON 28 JULY 2021

Submitted – The Minutes (previously circulated) of the Audit Committee held on 28 July 2021.

RESOLVED – That the Minutes be approved as a correct record.

A16 ICT STRATEGY - IMPLEMENTATION PROGRESS REPORT

The Assistant Director Xentrall Shared Services submitted a report (previously circulated) to provide a six-monthly report to the Audit Committee on progress in relation to the implementation of the ICT Strategy.

It was reported that the current ICT Strategy focused on three strategic priorities, namely ICT Governance and Service Development; ICT Strategic Architecture; and Council Service Development and Transformation.

This submitted report summarised progress on the main activities within each of these priorities.

RESOLVED – That the report be noted.

A17 INFORMATION GOVERNANCE PROGRAMME PROGRESS REPORT

The Group Director of Operations submitted a report (previously circulated) to provide a six monthly update to the Audit Committee as required by The Systems and Information Governance Group (SIGG) and to outline planned developments of the information governance programme.

It was reported that the ongoing delivery of the information governance programme continued to provide the assurance required to reduce the information risks to an acceptable level and outlined the ongoing works.

It was also reported that the area of highest priority in the information governance programme was provision of advice to ensure the Council's CCTV is compliant with the General Data Protection Regulations/Data Protection Act 2018 and the Protection of Freedoms Act 2012.

Members expressed their concern about the poor attendance/compliance in Children's Services noting the 41.38 per cent compliance figure against the 95 per cent target and requested information be provided to Members to give details on the reasons for poor compliance, what plan/intentions were in place to improve; and when compliance will be achieved.

RESOLVED – That the report be noted.

A18 MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2020/21

The Group Director of Operations submitted a report (previously circulated) to seek Members approval of the revised Treasury Management Strategy, Prudential Indicators and provide Members with a mid-yearly review of the Council's borrowing and investment activities.

It was reported that the mandatory Prudential Code, which governs Council's borrowing, required Council approval of controls, called Prudential Indicators, which related to capital spending and borrowing; and the indicators were set out in three statutory reports namely, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid-year update (which follows Council approval in February 2021 of the 2021/22 Prudential Indicators and Treasury Management Strategy).

The key objectives of the three annual reports were set out in the submitted report, together with the key proposed revisions to the prudential indicators which related to a reduction in the Operational Boundary to £174.081m and the Authorised Limit reduction to £237.156m to allow for any additional cashflow requirement.

With regard to Capital Expenditure, the submitted report highlighted the original elements of the capital programme and the expected financing arrangements of this capital expenditure; and the reduction in Borrowing Need for 2021/22 due to
schemes that have been estimated to have slipped into future years (around £10.8m) and the Housing programme being delayed due to Covid 19 and it was proposed to set an actual borrowing figure of £164.849m to accommodate the additional borrowing need and any debt requirements for cash flow.

Reference was also made to investments to include £30m in property funds which was expected to increase the net return on investments by approximately £0.700m in future years; and the Treasury Management Budget which was forecast to underspend by £0.243m in 2021/22.

Members discussed the projected base rate increase and how this will impact the authority.

RESOLVED – That the submitted report be referred to Cabinet and that it be advised that this Audit Committee approves the revised prudential indicators and limits; and notes the underspend in the revised Treasury Management Budget (Financing Costs).

A19 AUDIT SERVICES - ACTIVITY REPORT

The Audit and Risk Manager submitted a report (previously circulated) to provide Members with a progress report of activity and proposed activity for the next period.

The submitted report outlined progress to date on audit assignment work, consultancy/contingency activity and highlighted the change in approach from traditional audit assignments to individual control testing and reporting and the different approach in terms of reporting on activity to be developed further in the coming months; and the move away from annual audit planning to quarterly planning to enable the service to respond more effectively to the changing risk environment.

Also previously circulated was detailed feedback on the performance of the service and the position in relation to completion of audit work.

RESOLVED – That the activity be noted.

A20 ANTI-FRAUD AND CORRUPTION STRATEGY 2021/22

The Audit and Risk Manager submitted a report (previously circulated) to advise Members of the Anti-Fraud and Corruption Arrangements for the period 2021/22.

It was reported that estimates suggested that in excess of £300m is lost to fraud in local government and it was imperative to ensure the funds Council's have are not being lost to fraudsters.

The Chartered Institute of Public Finance and Accountancy (CIPFA) take the lead on providing advice and guidance to the sector on managing the fraud risk and also co-ordinate annual surveys of fraudulent activity detected across local government; they also published a Code of Practice on Managing the Risk of Fraud and Corruption in October 2014.

It was also reported that the 2021/22 Strategy (appended to the submitted report) had been developed in line with the code of practice with each of the five themes addressed and the format of the strategy had been redefined from previous versions to improve the visual appeal of the strategy and make it more effective.

The submitted report also gave an update on the actions identified in the 2020/21 Strategy.

Members discussed in particular the participation in the National Fraud Initiative (NFI) exercise and the process carried out every two years which involves data matching to look for anomalies (potential fraud).

Members also requested an update on payroll procurement be included in the next Audit Activity report to this Audit Committee.

RESOLVED – That the 2021/22 Anti-Fraud and Corruption Strategy be noted.

A21 ETHICAL GOVERNANCE AND MEMBER STANDARDS - UPDATE REPORT

The Assistant Director Law and Governance submitted a report (previously circulated) updating Members on issues relevant to Member standards and ethical governance.

The submitted report gave members an update of information about issues relevant to member standards since matters were reported to the Committee in April 2021 and also set out a number of datasets of ethical indicators to assist in monitoring the ethical health of the Council.

By reviewing these indicators it is hoped to be able to identify any unusual or significant trends or changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority and it was reported that, by reviewing these indicators, it was anticipated that any unusual or significant trends or changes in the volume of data recorded for the period concerned would alert the Authority to any deterioration in its ethical health and enable any necessary action to be taken at an early stage.

The submitted report also included commentary for some data sets to give analysis and explanation for some of the more notable variations and it was reported that there were no particular issues of concern that had been identified from reviewing the data.

RESOLVED – That the report be noted.

A22 THE LOCAL GOVERNMENT ASSOCIATION MODEL CODE OF CONDUCT

The Assistant Director Law and Governance and Monitoring Officer submitted a report (previously circulated) to give consideration to whether the Council should adopt a revised Code of Conduct based on the Local Government Association Model Councillor Code of Conduct in place of the current Members Code of Conduct

The submitted report set out details of the Local Government Association (LGA) Model Councillor Code of Conduct and provided a comparative analysis about the provisions of the LGA Model Code of Conduct with the Councils own Code of Conduct; and also outlined the reasons in favour of adoption of the LGA Model Code of Conduct and reasons not to adopt. It was proposed to adopt of a revised Code of Conduct for this Council based on the LGA Model Councillor Code of Conduct but with some local modifications.

A Consultation Plan was also outlined in the submitted report for Members should they be minded to adopt the LGA Councillor Code of Conduct.

RESOLVED – That:

(a) the LGA Model Code of Conduct be noted;

(b) the revised Code of Conduct in the form as set out at **Appendix 1**, based on the LGA Model Councillor Code but with some local changes, be agreed in principle appropriate to adopt and should be subject to further consultation; and

(c) the proposed consultation plan be approved; and

(d) and any changes to the Code of Conduct to be submitted to Council for approval and to agree the proposed consultation prior to the matter being considered by Council.

This page is intentionally left blank

AUDIT COMMITTEE
26 JANUARY 2022

ACCOUNTING POLICIES TO BE APPLIED TO THE 2021/22 FINANCIAL STATEMENTS

SUMMARY REPORT

Purpose of the Report

1. To update Members on the accounting policies to be applied in the preparation of the 2021/22 Statement of Accounts (SoA).

Summary

2. This report confirms that the majority of the Accounting Policies used in the preparation of the 2020/21 Statement of Accounts remain appropriate.

Recommendation

3. The Committee reviews the accounting policies and approves their use in the preparation of the 2021/22 financial statements.

Reasons

4. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2021/22 Statement of Accounts.

Elizabeth Davison
Group Director of Operations

Background Papers

Code of Practice on Local Authority Accounting In the UK 2021/22

Peter Carrick: Extension 5401

S17 Crime and Disorder	There is no specific crime and disorder impact.

Health and Well Being	There is no specific heath and well being impact.
Carbon Impact	Some of the initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	This report has no particular implications for the Council Plan.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

5. The Accounts and Audit Regulations 2015 and the Local Government Act 2003 require that the Statement of Accounts is produced in accordance with proper accounting practices.

6. One of the responsibilities of the Audit Committee is:

7. *'To review the annual statement of accounts prior to approval. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council'.*

8. Accounting policies are defined in the CIPFA Code of Practice for Local Authority Accounting in the UK 2021/22 as the 'specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements'.

9. The proposed accounting policies are in line with those used in the preparation of the 2020/21 accounts.

10. Although work is ongoing to establish the effect of IFRS 9 on the Council's accounts there is a statutory override introduced by the Government that enables the Council to take advantage of it in its treatment of its property funds. This statutory override is in place for a minimum of 5 years up to March 2023.

11. The full list of accounting policies the Council proposes to disclose in its Statement of Accounts notes are detailed in **Appendix 1**.

Appendix 1

Statement of Accounting Policies

a) General principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. The principal accounting policies have been applied consistently throughout the year.

These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

b) Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made to revenue for the income that might not be collected. The Council has adopted a de minimis level of £500 for year-end accruals which means that they are not included in the accounting statements.

- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

The only exceptions to these principles where costs are not apportioned between years are:

- housing rents are shown in whole weeks
- quarterly accounts e.g. electricity are reflected on the basis of four payments per year.

This policy is consistently applied each year and does not materially affect the accounts.

c) Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions, including on-call accounts and deposits with Money Market Funds, repayable without penalty on notice of not more than 24 hours held to meet short-term cash commitments. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

d) Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

e) Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off, and

- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund balance (Minimum Revenue Provision), by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

f) Council tax and non-domestic rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the collection fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for council tax and NDR

The council tax and NDR income included in the comprehensive income and expenditure statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's general fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the general fund is taken to the collection fund adjustment account and included as a reconciling item in the movement in reserves statement.

The balance sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the financing and investment income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

g) Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi time or time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the relevant service line or, where applicable, to a corporate service line at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards although it is the Council's policy not to award any such enhancements.

Post-employment benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

- The NHS Pension Scheme, administered by NHS Pensions

- The Local Government Pensions Scheme, administered by Durham County Council.

The schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees of the Council.

However, the arrangements for the teachers’ and the NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet. The Peoples Services line in the comprehensive income and expenditure statement is charged with the employer’s contributions payable to Teachers’ Pensions in the year as is the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Durham County Council pension fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (based on the indicative rate of return on high quality corporate bonds).

- The assets of Durham County Council pension fund attributable to the Council are included in the balance sheet at their fair value:

    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:

    - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the comprehensive income and expenditure statement to the services for which the employees worked;

    - past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement.

    - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising

- the return on plan assets - excluding amounts included in net interest on the net defined liability (asset) charged to the pensions reserve as other comprehensive income and expenditure.

- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the pensions reserve as other comprehensive income and expenditure.

- Contributions paid to the Durham County Council pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) Events after the reporting period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the statement of accounts is adjusted to reflect such events; and

- those that are indicative of conditions that arose after the reporting period - the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

i) Financial instruments

Financial liabilities

Financial liabilities are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the comprehensive income and expenditure statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instrument adjustment account in the Movement in Reserves statement.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost,
- fair value through profit or loss (FVPL), and

- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

The Council has the facility to make loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the comprehensive income and expenditure statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement at a marginally higher effective rate of interest than the rate receivable from the recipients of the loans, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the comprehensive income and expenditure statement to the net gain required against the general fund balance is managed by a transfer to or from the financial instrument adjustment account in the movement in reserves statement.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.

Expected credit loss model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a porfolio of a number of loans to local businesses. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets that are measured at FVOCI are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

Financial assets measured at fair value through profit and loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair Value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

Fair value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council’s financial assets are based on the following techniques:

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs - inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs - unobservable inputs for the asset.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The Council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument by instrument basis based on the assessed benefit to the Council from the chosen classification.

As far as Durham Tees Valley Airport shares are concerned the Council has elected to treat them as an equity instrument which is not held for trading and therefore will be utilising the FVOCI treatment.

j) Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant Income and expenditure (non-ringfenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement in reserves statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

k) Heritage Assets

A heritage asset is defined as an asset with 'historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture'.

Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment except 'where it is not practical to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historic cost.' Valuations may also be made by any method that is appropriate and relevant.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. If any heritage assets are disposed of then the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

l) Interests in companies and other entities

The Code of Practice on Local Authority Accounting 2020/21 requires local authorities to produce group accounts to reflect significant activities provided to council taxpayers by other organisations in which an authority has an interest. The Council has interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interest in companies and other entities are recorded as financial assets at cost, less any provision for losses.

m) Inventories and long-term contracts

Inventories are included in the balance sheet at the lower of cost and net realisable value, with the exception of stores held at Allington Way Depot, which are valued at last price paid. This is a departure from the Code of Practice but the effect of the different treatment is not material. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

n) Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

o) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent upon the use of specific assets.

The Council as lessee

Finance leases

Property, plant and equipment held under finance leases is recognised on the balance sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability; and
- a finance charge (debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the comprehensive income and expenditure statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

The Council as lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received); and

- finance income (credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement).

The gain credited to the comprehensive income and expenditure statement on disposal is not permitted by statute to increase the general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the general fund balance to the capital receipts reserve in the movement in reserves statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the general fund balance to the deferred capital receipts reserve in the movement in reserves statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and expenditure statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

p) Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

q) Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Capital expenditure under £5,000 is classified as de-minimis and is charged to the comprehensive income and expenditure statement. The de-minimis expenditure is financed using existing capital resources or by borrowing, this is posted out of the general fund balance to the capital adjustment account in the movement in reserves statement so there is no impact on the levels of council tax.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but that does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income line of the comprehensive income and expenditure statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost;
- dwellings - current value, determined using the basis of existing use value for social housing (EUV - SH);
- school buildings - current value, but because of their specialised nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets - the current value measurement basis is fair value, estimated at highest and best use from a market participant's perspective.
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of current value because of the specialised nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);

- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);

- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the balance sheet, as advised by a suitably qualified officer;
- infrastructure - straight-line allocation over 30 years.

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Assets valued higher than £1m that are made up from different components and whose cost is significant in relation to the total cost of the item are depreciated on a component by component basis. The components used are host (structure), externals, services and roof. Once separated, depreciation is charged across each components useful life as appropriate.

Revaluations gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the general fund.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the comprehensive income & expenditure statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the surplus or deficit on the provision of services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the comprehensive income and expenditure statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

r) Private finance initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contract on its balance sheet as part of property, plant and equipment (unless the PFI scheme is a school that has subsequently transferred to Academy status and then it will be removed from the Council's balance sheet).

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year - debited to the relevant service in the comprehensive income and expenditure statement,

- finance cost - an interest charge of 4.77% on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement,

- payment towards liability - applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

s) Provisions, contingent liabilities and contingent assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement when the Council has an obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in note 27 to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential although at present the Council doesn't have any contingent assets.

t) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the general fund balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on provision of services in the comprehensive income and expenditure statement. The reserve is then transferred back into the general fund balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

u) Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund balance to the capital adjustment account then reverses out the amounts charged so that there is no impact on the level of council tax.

v) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs (HMRC). VAT receivable is excluded from income.

If the Council was unable to recover exempt input tax it would be included as an expense in the comprehensive income and expenditure statement.

w) Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority.

The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

x) Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in highest or best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability.

y) Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the comprehensive income and expenditure statement or in the notes to the financial statements, depending on how significant the items are to an understanding of the Council's financial performance.

This page is intentionally left blank

AUDIT COMMITTEE
26 JANUARY 2022

FINAL ACCOUNTS TIMETABLE FOR THE YEAR ENDED 31 MARCH 2022

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the Final Accounts Closedown Timetable for 2021/22. This timetable details the target dates for key actions in order to complete the Statement of Accounts (SoA) in line with statutory deadlines.

Summary

2. Under the amended regulations it is the responsibility of the Group Director of Operations to sign and certify the unaudited SoA 2021/22 by no later than 31 July 2022 (was 31 May) and it is also the responsibility of the Audit Committee to approve the audited set of accounts on or before 30 September 2022 (was 31 July).

3. The final accounts timetable serves as a tool for monitoring progress against the target dates to ensure compliance with the statutory deadlines. The enclosed timetable will still aim to comply with the original date of 31 May for the unaudited SoA so that there is less disruption to the normal work schedule of the Council.

Recommendation

4. Members are asked to note the key dates in the Final Accounts Timetable for 2021/22 detailed in Appendix 1.

Reasons

5. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2021/22 Statement of Accounts.

Elizabeth Davison
Group Director of Operations

Background Papers

Code of Practice on Local Authority Accounting in the UK 2021/22

Peter Carrick: Extension 5401

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific heath and well being impact.
Carbon Impact	Some of the initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	This report has no particular implications for the Council Plan.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

6. The Accounts and Audit (Amendment) Regulations 2021 require that the responsible financial officer, by no later than the 31 July, signs and certifies that the SoA presents a true and fair view of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor, Ernst & Young (EY).

7. The Regulations then require that on or before 30 September, approval needs to be given to the SoA by resolution of a committee, which for Darlington is the Audit Committee. This approval will take into account the views of the External Auditor.

8. The Final Accounts timetable **(Appendix 1)** is a tool for the effective management and monitoring of the process of closing the Council’s accounts.

9. The timetable is compiled annually by Finance with input from services to ensure that deadlines are achievable and will lead to completion of a SoA for signing by the Section 151 Officer (the responsible financial officer) by the statutory deadline. New and amended processes are considered for the impact on the achievement of dates, as well as reference to the previous year’s problems and meeting of deadlines.

10. The enclosed timetable will enable Finance to produce an unaudited SoA by the 31 May 2022, which will be ahead of the potential revised statutory dates but will then not distract from the other ‘business as usual’ such as reviewing the Medium Term Financial Plan.

11. The Finance Manager closely monitors the achievement of the dates in the timetable throughout the final accounts period, following up delays and missed deadlines. This helps to ensure that the overall timetable will be achieved and to identify improvements that can be made to the process.

Appendix 1

2021/22 Accounts - General Closure Timetable

Date for Completion	Item

March		
	31	On-line goods receipting of orders relating to 2021/22 to be completed (including order authorisation).
	31	End of facility for on-line processing of purchase invoices in Business World On! relating to 2021/22 to be posted to period 12 of that year.
	31	Capital Charges to revenue accounts
April		
	6	All interface files posted to Council's General Ledger
	6	Petty cash and stock valuation certificates, certified by authorised signatories, sent to Financial Services.
	8	Details of purchase invoices and sundry debtor accounts relating to 2021/22 not paid by 31/03/2022 to be given to Departmental Finance Teams for provision in 2021/22 accounts (invoice values above £500 only).
	13	Bank reconciliation to be completed
	15	Work in progress, Retentions & Income in Advance from Building Services included in accounts for both trading and client accounts. Expenditure provisions and provision for future losses for Trading Accounts in Place based Services.
	15	All expenditure and income relating to 2021/22 identified and included in accounts to enable progress of next stages of process.
	15	Control accounts balanced and all holding accounts cleared.
	15	Internal recharges completed including inter-departmental recharges.
	15	Intra-departmental apportionments and reallocations completed
	29	Comparison of out-turn income and expenditure with approved budgets - including analysis of significant variances and any resulting corrective action including coding corrections.
	29	Departmental Financing of capital expenditure.
	29	**Accounts Closed**
May		
	2	Commence process of consolidation of individual cost-centre and subjective level accounts into statutory format for Statement of Accounts (SoA).
	31	Produce signed unaudited Statement of Accounts.
Sept	30	Audit Committee Meeting – approval of Statement of Accounts
	30	Publication of audited Statement of Accounts

AUDIT COMMITTEE
26 JANUARY 2022

APPOINTMENT OF EXTERNAL AUDITORS 2023/24 – 2027/28

SUMMARY REPORT

Purpose of the Report

1. To allow Members the opportunity to contribute to the appointment of the External auditors for the period 2023/24 to 2027/28

Summary

2. The Council previously opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. The PSAA is now undertaking a procurement for the next accounting period covering the audits for 2023/24 to 2027/28.

3. All local government bodies have the option to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

4. The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

    - collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
    - if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
    - it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
    - supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

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

to PSAA by 11 March 2022.

Recommendation

6. Members are asked to note the above and recommend to full Council that Darlington accepts the PSAA invitation to opt into the national scheme for the appointment of external auditors for the 5 years from 1 April 2023.

Reasons

7. The recommendations are supported to provide the Audit Committee with an opportunity to scrutinise and advise on the appointment of external auditors for a 5 year period from 2023/24 under its governance role.

Elizabeth Davison
Group Director of Operations

Background Papers

Peter Carrick: Extension 5401

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific heath and well being impact.
Carbon Impact	Some of the initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	This report has no particular implications for the Council Plan.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

Main Report

8. Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options:

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

The Appointed Auditor

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

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

11. The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.

12. Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

Appointment by the council itself or jointly

13. The Council may elect to appoint its own external auditor under the Act, which would require the Council to:

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

14. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent

appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

The national auditor appointment scheme

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

16. In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let

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

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

be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

19. The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

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

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

The invitation

22. PSAA is now inviting the Council to opt in for the second appointing period, for 2023/24 to 2027/28 (**Appendix 1**), along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

The next audit procurement

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

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);

- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned;
- PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in the system which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

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

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

Assessment of options and officer recommendation

26. If the Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council external audit.

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

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

29. The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

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

31. The recommended approach is therefore to opt into the national auditor appointment scheme.

The way forward

32. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council. The Council then needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).

33. PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

This page is intentionally left blank

22 September 2021

To: Mr Williams, Chief Executive
Darlington Borough Council

Copied to: Mrs Davison, S151 Officer
Mr Lee, Chair of Audit Committee or equivilent

Dear Mr Williams,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the scheme prospectus and our procurement strategy. Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and

3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to frequently asked questions on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in the scheme prospectus.

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on our website and in the scheme prospectus.

This page is intentionally left blank

AUDIT COMMITTEE
26 JANUARY 2022

MID YEAR RISK MANAGEMENT UPDATE REPORT 2021/22

SUMMARY REPORT

Purpose of the Report

1. To update Members on the approach to and outcomes from the Council's Risk Management processes.

Summary

2. Positive progress continues to be made within the Authority regarding the management of key strategic risks and with the work undertaken by Officers to manage operational risk.

Recommendation

3. It is recommended this Risk Management Report be noted.

Reasons

4. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's approach to Risk Management.

Ian Williams
Chief Executive

Background Papers

(i) Council's Risk Management Strategy
(ii) Corporate and Group Risk Registers
(iii) Annual Risk Management Report to Audit Committee 28 July 2021

Lee Downey 5451

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There is no specific health and well-being impact
Carbon Impact and Climate Change	There are no specific recommendations contained within the attached reports concerning Carbon Reduction.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally
Groups Affected	All groups are affected equally
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	For the purpose of the 'call-in' procedure this does not represent an urgent matter
Council Plan	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements
Efficiency	Insurance premiums reflect the pro-active approach taken to risk management within the Council.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

Background

5. Risk Management is an essential part of effective and efficient management and planning and it strengthens the ability of the Council to achieve its objectives and enhance the value of services provided. It is also an important element in demonstrating continuous improvement as well as being part of the Council's Local Code of Corporate Governance that reflects the requirements of the CIPFA/SOLACE Framework of Corporate Governance.

Information and Analysis

Strategic Risk Outcomes

6. A key element of the Council's planning process is that the areas of potential risk, which could adversely impact on the ability to meet objectives, are identified together with the officer responsible for managing that risk. These risks are plotted on to a standard likelihood and impact matrix with reference to management controls in place and working. The shaded part of the matrix signifies the area above the 'risk appetite line'. Risks in this region require further specific management i.e. are priorities for improvement that have an appropriate improvement action plan. Risk matrices that reflect the updated Council structure agreed by Council on 28 January 2021, are attached at Appendices A-E and show the current Council Corporate and Departmental risks.

7. All risks are continually managed during the year by Corporate and Departmental Management Teams including any emerging risks identified. In addition, Assistant Directors/Heads of Service are required to confirm in their Annual Managers Assurance Statements (MAS) that processes are in place to ensure that controls identified to support the positioning of risks on the risk matrices are in place and working.

8. The information that follows, provided by appropriate departmental staff, details progress made on improvement actions for those risks identified as above the risk appetite line.

   (a) **Corporate Risks (Appendix A)** – one risk has been identified as above the risk appetite line.

   (C18) COVID-19:

   1. **Health and safety of the Council workforce**
   2. **Health and safety of the public of Darlington**
   3. **The impact on the Economy of the Borough and its population**
   4. **Financial impacts on the Council of increased costs and reduced income**

   (i) In terms of mitigating this risk the Council has introduced safe working practices; is working with partners to make the public aware of risks and working to ensure compliance within businesses and other sectors in the Borough; will work with Government departments and the Tees Valley Combined Authority to seek to limit the impacts by utilising interventions to kick start the economy; and will keep its Medium Term Financial Plan

(MTFP) under constant review and take appropriate decisions to safeguard the Council's finances. The Council is also running community testing in a number of settings to help identify asymptomatic people and the roll out of the vaccinations programme by the NHS, supported locally by the Council and volunteers, to reduce the health risks particularly of the most vulnerable in the early stages of the roll out. The Council is also reviewing business continuity plans and preparing for scenarios of reduced workforce levels and the consequences on service provision.

(b) **Operations Group (Appendix C)** – one risk has been identified as above the risk appetite line.

(OG28 Previously EG & NS20) Inability to cope with significant increase in homelessness cases due to new requirements by DLUHC to accommodate everyone irrespective of status in order to limit spread of COVID-19 and also increased levels of homelessness due to increased relationship breakdowns and financial difficulties.

(i) Additional funding has been provided by the Department for Levelling Up, Housing and Communities (DLUCH) for homeless services. More accommodation and support has been commissioned to cope with increased demand and additional staff have been recruited to the Housing Options Team. However, demand for emergency accommodation has remained high with the shortage of appropriate move on accommodation exacerbating the issue.

(c) **People Group (Appendix D)** – three risks have been identified as above the risk appetite line.

(PG1 Previously C & A1) Inability to contain placement costs for children looked after.

(i) A full Transformation and Efficiency programme is being delivered with the key objective of developing sufficient provision within or close to Darlington that meet the needs of looked after children. This includes in-house foster care, residential care and specialist provision for complex needs. Due to the changing complexities and the demand for placements not just locally, but also regionally and nationally, the work will be informed by other localities, and joint working will take place where this can add value.

(PG8b Previously C & A8b) Increased demand for Children's services impacts negatively on budget.

(ii) Work is ongoing within the Transformation Programme to safely reduce the level of risk in children's services. Input to this work has been enhanced with colleagues from Leeds City Council under the DfE sponsored Strengthening Families Programme. The ethos of the work will continue despite the programme formally ceasing.

(PG14b Previously C & A 14b) Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.

(iii) Services are in place to screen contacts and referrals, and to respond should concerns be identified. Pathways for intervention are both internal and multi-agency, and the Council ensures that its own staff understand and apply them robustly. During the Covid-19 restrictions, each child open to children's services has a risk assessment in place to determine level of safeguarding need and appropriate visiting frequency. Children have received face to face contact from Children's teams to ensure appropriate safe living environments and services are put in place to meet their needs.

(PG8a Previously C&A8a) Increased demand for Adult Services impacts negatively on plans for budget efficiencies

(iv) There is increasing demand for adult social care and support specifically domiciliary care, aides, adaptations and support for people with significant learning disabilities. People are living with multiple conditions and disabilities and require intensive support to remain at home and as independent as possible. Covid has also had a significant impact on people's wellbeing and support needs. Adult Social Care will continue with the Transformation programme, and ensure that all assessments are strength based and outcome focussed with the support of the local community. Performance, practice and quality will be continuously monitored and reviewed to ensure we reduce, delay and prevent people from requiring care and support prematurely. Funding streams and grants from the Department of Health & Social Care will support the demand management and provide some temporary cost mitigation.

(PG9c) Market (Domiciliary Care Residential Care providers) failure as a result of increased transmissibility of Omicron variant

(v) The Council has stepped up its level of contact with the Adults Person's Care Sector and is now in daily contact with the provider market i.e. care homes and domiciliary care providers to track the progress and impact of the Omicron variant. The Commissioning & Contracts Team are working closely with Public Health to review the management and guidance of outbreaks in the sector following Public Health England's advice. This will include a case by case dynamic risk assessment of outbreaks. The particular risk with regard to workforce recruitment and retention is being significantly mitigated through a transfer of funds from the Tees Valley CCG to the Council to bring forward the uplift of the national living wage on 1 April back to the 1 December 2021. In addition the Council is distributing two rounds of the workforce recruitment and retention fund to the care sector workforce, which included the Council's in-house services. This is in order to support and sustain the care sector workforce over the winter period. The Council continues to work closely with CDDFT (County Durham and Darlington NHS Foundation Trust), Tees Valley CCG (Clinical Commissioning Group) and the North East Council's to align approaches recognising that independent sector providers often provide services across organisational boundaries.

Furthermore, the supply and access of Lateral Flow Tests is also being closely tracked. Overseeing the preparedness of the system for the spread of the Omicron variant and any variants, is the Local Resilience Forum.

(d) **Services Group (Appendix E)** – one risk has been identified as above the risk appetite line.

(SG18 Previously EG & NS18) Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further COVID-19 lockdowns & further construction inflation, material supply and resource demands.

(i) Within the Construction industry there continues to be issues with rises in material prices and high demand for trades and resource to deliver projects of all sizes. These issues are across all sectors, both private and public. Projects developed prior to these issues materialising may not have built in contingencies into the budget or programme to absorb this. Therefore, this will require Programmes & Projects to be reviewed on an individual basis for affordability and deliverability as costs and programmes are finalised.

Operational Risk Outcomes

9. The Insurance Group continues to meet representatives of the Council's insurers to examine insurance claims. The insurers are able to provide the group with an update in relation to trends and operational risks to enable continuous improvement to the health and safety culture within the organisation.

10. The Council has continued to ensure effective measures are in place to manage the risks associated with COVID-19 and protect the health and safety of staff and members of the public.

11. The corporate risk assessment COVID-19 and safe systems of work have continued to be revised and updated in line with government guidance and with the involvement of Public Health and in consultation with the trade unions. The Council has maintained many of the original 'working safely' mitigating measures including social distancing and the wearing of face coverings in enclosed and crowded spaces. Updates have been communicated to staff directly by managers and are available on the intranet.

12. Regular communications continue to be issued to staff regarding the importance of following the Government guidance and an on-line training module produced 'Getting back to work safely during COVID-19' for all staff to complete, providing further information and guidance on the measures in place to help keep staff safe at work.

13. The Council has received several COVID-19 inspections from the Health and Safety Executive (HSE) in recent months. The questions covered COVID risk assessment and safe systems of work; cleaning and hand sanitation, social distancing, lateral flow testing and self-isolation, which were answered positively, and we did not receive any negative feedback following the visits.

14. Further enhancements have been made to the new Employee Protection Register developed in partnership with Xentrall and Stockton Borough Council, to improve functionality/features that will significantly enhance the usability of the system.

15. The Reliance Protect personal safety devices continue to be used as part of set of measures to reduce the risk to staff lone working. Staff raised four red alerts using the personal devices between June – November 2021. Where staff find themselves in a threatening situation, they can raise a red alert which is picked up by the Alarm Receiving Centre (ARC) and the operator then assesses the situation and actions a police response if necessary. The operator also contacts the first person on the escalation process (manager) to let them know that the situation is happening and that police are attending. All the incidents ended without harm or injury to staff and employees felt supported during the incidents. The situations were well handled by all involved and is a good example of why the devices are used as part of a safe system of work.

16. A multi-agency project group has been established, 'Darlington Open Water Safety Group', to ensure risk presented by areas of open water in Darlington are as low as reasonably practicable. Representatives which include the Council, County Durham and Darlington Fire and Rescue, Durham Constabulary, Teesdale and Weardale Search and Mountain Rescue and Environment Agency have met to develop and implement a water safety strategy in line with the National Water Safety Forum 'Drowning Prevention Strategy 2016- 2026'.

17. It was previously reported that in March 2020 a new Street Works Permit Scheme was implemented in Darlington. The Council has worked with the other north east authorities over the last 18 months to develop the scheme. Studies by the Department for Transport have indicated that works durations are generally less in areas where a permit scheme operates compared with a noticing regime therefore reducing disruption to the public and road users. The first Annual Report on the scheme has now been published and is available on the Council's website.

18. The highway inspection & repair regime was able to operate throughout the 2020/21 financial year in spite of the restrictions imposed due to COVID-19. 98.6% of highway safety inspections were carried out on schedule during the period.

19. In the last risk management report, Members were informed of the new Report It system which went live on the Council's website on 1 June 2021. This allows customers to report highway and street lighting faults via a smartphone, tablet or desktop PC. These reports are then sent to the Council's Highway Asset Management system (Symology Insight) which allocates them to the appropriate team. Highway Inspectors receive these reports on their tablet PCs from where they are able to raise a works order and send a reply to the customer advising on what action is proposed. Between June and October 2021, 671 reports were received via Report It.

20. The work in recent years to convert the Street Lighting stock to LED lanterns continues to show benefits. As well as the reduction in carbon emissions and electricity costs there has been a decrease in the number of faults reported. Work is now underway to convert sign lanterns to LED.

21. Work is now in progress to prioritise and design the maintenance schemes for 2022/23, this includes looking at using alternative materials which will help to reduce our carbon emissions.

22. The proactive tree risk management processes continue to provide positive results enabling the Council to defend the majority of storm and subsidence compensation claims received.

23. Occupational Health is a specialist branch of medicine that focuses on the physical and mental wellbeing of employees in the workplace and considers an employee's ability and fitness to perform a particular job. It has a key role in assisting to manage risks in the workplace that may have the potential to give rise to work-related ill health. The Council's service operates as an in-house model with a directly employed Occupational Health Advisor and an Occupational Health Doctor provided via a contract with Durham County Council, both of which are suitably qualified and experienced. Together their aim is to prevent work-related illness and injury by:

- Encouraging safe working practices and proactive absence management;
- Health surveillance and vaccination programmes in line with HSE recommendations, relevant to the workplace and specific job roles;
- Supporting the management of sickness absence and facilitating early return to work;
- Working with Human Resources, Health and Safety and managers to assist with policies to ensure we are health and safety compliant, including ensuring that reasonable adjustments are considered;
- Providing specific advice to managers on hazards and risks to health with work functions;
- Conducting pre-employment health assessments;
- Supporting health promotion and awareness programmes;
- Providing advice and signposting around non-health related problems; and
- Challenging fit note advice from a GP to ensure a swift return to work that is suitable and safe for the employee and team.

24. During the COVID-19 pandemic, Occupational Health has continued to provide a service to the Council, albeit primarily as a virtual/telephone/paper assessment service. While more face to face assessments have been carried out more recently, the bulk are still virtual.

25. The Council has supported approximately 300 eligible employees to receive a COVID-19 booster vaccination through Darlington Memorial Hospital hub. The Council has around 700 eligible staff (including agency workers). Now that more access points are available to receive a booster vaccination (and the first two vaccinations) compared to when the original COVID-19 vaccination programme commenced, many have sought their own vaccinations and the Council planned to close this support service in early December and direct employees to the mass vaccination centres and their GP services.

26. Up to 14 October 2021, 113 staff had tested positive for COVID-19 since 1 April 2021, this brings the overall figure since the start of the pandemic to 242. According to information on MyHR, no employees are reporting 'long-COVID'. The impact of 'long-COVID' sickness absence, reduced access to NHS appointments,

the availability of surgery including the cost of those medical cases which are now more prolonged as a result of longer waiting times are still unknown.

27. Sickness absence was reported as 3.81 days per FTE for the half year. This equates to an attendance rate of 96.6%, a slight reduction of 0.4% compared to last year (97%)

28. The free flu job initiative has continued in 2021, and is still popular, as is the new booking system, making the process slicker for employees and the Human Resource team. Six clinics will be run for Council employees with a total of 600 vaccinations available. Front line staff have been given early access to booking flu vaccinations.

29. Mental Health First Aiders and Mental Health Mentors have continued to be an asset to the workplace and the Council has continued to promote their availability via Microsoft Teams and telephone for confidential chats where employees are offered a listening ear and signposted to further help where applicable. Our free, confidential Counselling Service continues to be well used, issues covered include general anxiety, concerns for family, bereavement, COVID-19 and stress, both personal and work related either in the workplace or as part of returning to the workplace after a period of not being in work.

30. Wellbeing activities and events will continue to be a key feature of the wellbeing strategy. It is the intention that health promotion and awareness will continue to be a focus for monthly Wellbeing Champion posters. These continue to be popular talking points for team meetings. Occupational Health briefings also continue to promote and raise awareness of health and we continue to target localised health inventions and topical messages to groups/teams.

31. We have now launched our new Workforce Strategy, Values and Workforce Plan and started the embedding process with guidance to managers to deliver team discussions.

32. Work is currently ongoing to create a new module on the Managers Programme called The Remote Manager, this will cover managing staff working at home, but also those staff who are out in the field.

33. High level results of the employee survey have been positive in respect of wellbeing. Considering the scale of change that employees have faced during the last 20 months, it is pleasing to report that 88% of respondents across the Council report that the Council supports their wellbeing. An action plan is now in place to move forward the results of the survey.

Conclusion

36. The Council's pro-active approach to risk management continues to produce positive results for the Authority.

Outcome of Consultation

37. There has been no formal consultation in the preparation of this report.

APPENDIX A

RISK MATRIX

CORPORATE RISK REGISTER

LIKELIHOOD					
	A Very High				
	B High				
	C Significant			18	
	D Low			3, 4, 17, 19, 20	
	E Very Low		1		
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

CORPORATE RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
C1	Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management	Ant Hewitt	None at E/III		
C3	Corporate Premises Risks	Ian Williams	None at D/II		
C4	Business Continuity Plans not in place or tested for key critical services	Dave Winstanley	None at D/II		
C17	As a result of Brexit and Covid-19, cost and availability of material is impacting on projects	Ian Williams	None at D/II		

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
C18	**Risk Reworded** COVID-19: 1. Health and safety of the Council workforce 2. Health and safety of the public of Darlington 3. The impact on the Economy of the Borough and its population 4. Financial impacts on the Council of increased costs and reduced income 5. Impact on the Council's ability to provide services as a result of increased transmissibility of Omicron variant	Ian Williams	None at C/II		See main body of report at paragraph 8 (a) i
C19	**New Risk** Risk of regulatory action and increased costs resulting from the Payment Card Industry Data Security Standard (PCI-DSS) non-Compliance	Elizabeth Davison	New at D/II		
C20 Previously EG & NS 7	**Risk Reworded** Financial implications of maintaining and conserving key corporate assets within the borough	Dave Winstanley	None at D/II		

APPENDIX B

RISK MATRIX

CHIEF EXECUTIVE'S OFFICE & ECONOMIC GROWTH GROUP

LIKELIHOOD	A Very High				
	B High				
	C Significant		**9**		
	D Low			**1, 12,**	
	E Very Low				
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

CHIEF EXECUTIVE'S OFFICE & ECONOMIC GROWTH GROUP RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
CE & EG1 Previously EG & NS 1	Investment in regeneration projects is not delivered	Ian Williams	None at D/II		
CE & EG9 Previously EG & NS 9	Delay to new Local Plan	David Hand	None at C/III		
CE & EG12 Previously EG & NS 12	Planning Performance at risk of Standards Authority intervention	David Coates	None at D/II		

APPENDIX C

RISK MATRIX

OPERATIONS GROUP

LIKELIHOOD	A Very High				
	B High				
	C Significant		**1, 9, 26**	**28**	
	D Low		**2, 5**	**27**	
	E Very Low				
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

OPERATIONS GROUP RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
OG1 Previously RE1	VAT partial exemption breech due to exempt VAT being close to the 5% limit	Brett Nielsen	None at C/III		
OG2 Previously RE2	Fraud in General	Andrew Barber	None at D/III		
OG5 Previously RE5	Increased sickness absence adversely affects service delivery	Brett Nielsen	Removed from D/III	With the exception of increased sickness due to Omicron variant see C18 strong sickness management process are in place to mitigate the risk	
OG9 Previously RE9	Instability within financial markets adversely impacts on finance costs and investments	Brett Nielsen	None at C/III		
OG26 Previously RE26	Joint Venture arrangements impacted by a slowdown in house building	Brett Nielsen	Removed from C/III	Due to buoyant housing market in Darlington	

OG27 Previously EG&NS 13	**Risk Re-worded** Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims	Anthony Sandys	Decreased to D/II	The number of residents claiming Council Tax Support is decreasing and the expected increase in claims as a result of furlough ending has not emerged	
OG28 Previously EG & NS20	Inability to cope with significant increase in homelessness cases due to new requirements by DLUHC to accommodate everyone irrespective of status in order to limit spread of COVID-19 and also increased levels of homelessness due to increased relationship breakdowns and financial difficulties	Anthony Sandys	None at C/II		See main body of report at paragraph 8 (b) i

APPENDIX D

RISK MATRIX

PEOPLE GROUP

LIKELIHOOD					
	A Very High				
	B High			8b	
	C Significant		16	1, 8a, 9c	
	D Low		18, 15	3a, 3b, 5, 9a, 9b, 10, 14a, 20, 21	14b
	E Very Low				
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

PEOPLE GROUP RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
PG1 Previously C&A1	Inability to contain placement costs for children looked after due to lack of sufficient in house placements	Chris Bell	None at C/II		See main body of report at paragraph 8 (c) i
PG3a Previously C&A3a **PG3b Previously C&A3b**	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service **Risk Reworded** Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service	Chris Bell Joss Harbron	None at D/II None at D/II		

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
PG5 Previously C&A5	Failure to identify vulnerable schools and broker appropriate support to address needs	Tony Murphy	None at D/II		
PG8a Previously C&A8a	Increased demand for Adult Services impacts negatively on plans for budget efficiencies	Joss Harbron	Increased to C/II	It is forecast from current usage that there will be a significant increase in demand for domiciliary care and support. This has been highlighted in the Medium Term Financial Plan (MTFP) and will have a significant impact on the budget and efficiencies.	See main body of report at paragraph 8 (c) iv
PG8b Previously C&A8b	Increased demand for Children's Services impacts negatively on budget	Chris Bell	None at B/II		See main body of report at paragraph 8 (c) ii
PG9a Previously C&A9a	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage	Christine Shields	None at D/II		
PG9b Previously C&A9b	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND)	Christine Shields	Decreased to D/II	As a result of significant investment in the provider market utilising COVID funding and government grants. Contingency planning has also been refreshed and continuing dialogue with the care sector provides assurance.	

	experiences provider failure				
New Risk PG9c	Market (Domiciliary Care Residential Care providers) failure as a result of increased transmissibility of Omicron variant	Christine Shields	New at C/II		See main body of report at paragraph 8 (c) v
PG10 Previously C&A10	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge	Joss Harbron	None at D/II		
PG14a Previously C&A14a	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures	Joss Harbron	None at D/II		
PG14b Previously C&A14b	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding	Chris Bell	None at D/I		See main body of report at paragraph 8 (c) iii

	children, thresholds and procedures				
PG15 Previously C&A15	Working with other local commissioners to ensure their understanding of their responsibilities within the Childhood pathway	Penny Spring	Decreased to D/III	As a result of work with Children and Young People Commissioning Group	
PG16 Previously C&A16	Risk of unsuccessful mobilisation of new service - Support, Recovery and Treatment In Darlington through Empowerment (STRIDE)	Penny Spring	None at C/III		
PG18 Previously C&A18	Impact of COVID-19 on team capacity	Penny Spring	None at D/III		
New Risk PG20	Failure to maintain dedicated home to school transport services	Tony Murphy	New at D/II	Current employment volatility has resulted in shortages of driver availability nationally	
New Risk PG21	Risk of schools closing due to Covid-19	Tony Murphy	New at D/II	Risk of closure as pandemic continues. Dedicated public health and education services have supported full opening to date.	

APPENDIX E

RISK MATRIX

SERVICES GROUP

LIKELIHOOD	A Very High				
	B High				
	C Significant			**18**	
	D Low			**17, 19**	
	E Very Low				
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

SERVICES GROUP RISK REGISTER

Risk No.	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
SG17 Previously EG & NS17	Impact of COVID-19 on customers and audiences on confidence to return to leisure and cultural facilities	Ian Thompson	None at D/II		
SG18 Previously EG & NS18	Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further COVID-19 lockdowns & further construction inflation, material supply and resource demands	Ant Hewitt	None to C/II		See main body of report at paragraph 8 (d) i
SG19 Previously EG & NS19	Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn	Ant Hewitt	None at D/II		

AUDIT COMMITTEE
26 JANUARY 2022

AUDIT SERVICES – ACTIVITY REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report of activity and proposed activity for the next period.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/ contingency activity.

Recommendation

3. It is recommended that the activity and results be noted and that the planned work is agreed.

Reasons

4. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

Andrew Barber
Audit & Risk Manager

Background Papers

(i) Internal Audit Charter
(ii) Departmental Audit Reports

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	This report has no particular implications for the Council Plan.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

5. Members will be aware of a change in approach from traditional audit assignments to individual control testing and reporting. This requires a different approach in terms of reporting on activity and this will be developed further in the coming months. Additionally there is a move away from annual audit planning to quarterly planning to enable the service to respond more effectively to the changing risk environment.

6. The report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.

7. Appendix 1 provides members with detailed feedback on the performance of the service and the position in relation to completion of audit work. This is a new version of the report and each section will be discussed in more detail in the following paragraphs.

8. The first section of the report is to provide members with feedback on the management of the risks on the corporate risk register. Testing has not yet been undertaken for all risks but where testing has been undertaken an assurance level is provided, at present risk EG&NS 9 has been identified as an area where further improvement is required however, this has not been reviewed since the last update. The areas not yet tested are included in the normal programme of work based on the audit risk assessment which takes account of the overall risk assessment.

9. The next section breaks down audit results against a set of key governance processes. As with the previous section where no assurance level is given testing is yet to be undertaken. No area is scoring below 70% which is the benchmark for substantial assurance. There is one area close to this benchmark, retesting is due to be undertaken over the next 6 months where it is expected assurance will be improved. No controls in this area were rated as Red.

10. The next section breaks down audit work by functional service area within the council this is a different type of breakdown to the processes previously discussed and provides an overall picture for each service area.

11. The next section continues to look at service area and provides feedback on the work undertaken in the previous quarter and a summary of the work planned to be undertaken. The majority of testing undertaken has been classified as Green.

12. The penultimate section is progress against our balanced scorecard. The key measures in this section are adequate resources and portfolio coverage. In terms of adequate resources we aim to have 15 days capacity spare to deal with any issues that may arise. Portfolio coverage identifies the number of controls that should be tested in the period, we are were on target for the previous quarter.

13. The final section of the report is a full list of controls to be examined in the next period in priority order.

Outcome of Consultation

14. There was no formal consultation undertaken in production of this report.

This page is intentionally left blank

Risk Summary

Where possible audit testing is linked directly to risks on the risk register, below is a summary of current assurance levels based on work completed to date.

ID	Risk	Assurance
C&A 1	Inability to contain placement costs for children looked after due to lack of sufficient in house placements	
C&A 10	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge	
C&A 14a	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures	100%
C&A 14b	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.	
C&A 15	Working with other local commissioners to ensure their understanding of their responsibilities within the Childhood pathway.	100%
C&A 16	Risk of unsuccessful mobilisation of new service - Support, Recovery and Treatment In Darlington through Empowerment (STRIDE).	
C&A 18	Impact of COVID-19 on team capacity.	
C&A 3a	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service	
C&A 3b	Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service	
C&A 5	Failure to identify vulnerable schools and broker appropriate support to address needs	
C&A 8a Adult	Increased demand for Adult Services impacts negatively on plans for budget efficiencies	75%
C&A 8b	Increased demand for Children's Services impacts negatively on budget	100%
C&A 9a	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage	100%
C&A 9b	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure	100%
C1	Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management	
C17	As a result of Brexit and Covid-19, cost and availability of material is impacting on projects	
C18	COVID-19: 1. Health and safety of the Council workforce 2. Health and safety of the public of Darlington 3. The impact on the Economy of the Borough and its population 4. Financial impacts on the Council of increased costs and reduced income	
C3	Corporate Premises Risks	100%
C4	Business Continuity Plans not in place or tested for key critical services	97%
C5	Council unable to meet its obligations under the information governance agenda	92%
EG&NS 1	Investment in regeneration projects is not delivered	100%
EG&NS 12	Planning Performance at risk of Standards Authority intervention	
EG&NS 13	Significant impacts arising from the reduction in available cash/resources to the local economy, Council's GF and HRA and businesses due to the impacts of increased levels of unemployment and Universal Credit payments	
EG&NS 17	Impact of COVID-19 on customers and audiences on confidence to return to leisure and cultural facilities	
EG&NS 18	Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further COVID-19 lockdowns & further construction inflation, material supply and resource demands	100%
EG&NS 19	Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn	100%
EG&NS 20	Inability to cope with significant increase in homelessness cases due to new requirements by MHCLG to accommodation everyone irrespective of status in order to limit spread of COVID-19 and also increased levels of homelessness due to increased relationship breakdowns and financial difficulties	100%
EG&NS 7	Financial implications of Maintaining and conserving key capital assets within the borough	100%
EG&NS 9	Delay to new Local Plan	50%
RE 1	VAT partial exemption breech due to exempt VAT being close to the 5% limit	
RE 2	Fraud in general	
RE 26	Joint Venture Arrangements impacted by a slow down in house building	100%
RE 3	ICT security arrangements inadequate	100%
RE 5	Increased sickness absence adversely affects service delivery	
RE 9	Instability within financial markets adversely impacts on finance costs and investments	100%

This document ...

Theme Summary

Theme	Assurance	Audit Findings (By Impact)					
			VL	L	M	H	VH
1. Accuracy of Decision Making	71%	R	0	0	0	0	0
		A	0	1	5	1	0
		G	1	11	16	10	3
2. Monitoring of Decisions	83%	R	0	0	0	0	0
		A	0	2	0	1	0
		G	0	7	10	0	0
3. Information Governance	84%	R	0	0	1	0	0
		A	0	2	2	0	0
		G	1	9	14	4	2
4. Finance	98%	R	0	0	0	0	0
		A	0	1	1	0	0
		G	1	4	8	6	2
5. HR - Payments	100%	R	0	0	0	0	0
		A	0	0	1	0	0
		G	0	2	0	1	0
6. HR - Health & Safety	100%	R	0	0	0	0	0
		A	0	0	1	1	0
		G	0	1	3	0	0
7. HR - Management	98%	R	0	1	0	0	0
		A	0	0	0	0	0
		G	1	5	1	1	1
8. Recruitment	88%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	2	1	0	0
9. HR - Training/Qualifications/Clearances	87%	R	0	0	10	0	0
		A	0	0	5	0	0
		G	0	6	6	3	0
10. Accuracy of Payments	86%	R	0	0	0	0	0
		A	0	1	0	0	0
		G	3	9	3	0	1
11. Income - Charging	100%	R	0	0	0	0	0
		A	0	2	0	0	0
		G	0	3	0	2	0
12. Income - Payments	93%	R	0	0	0	0	0
		A	0	1	0	0	0
		G	0	4	1	1	0
13. Cash Handling	86%	R	0	0	0	0	0
		A	0	1	0	0	0
		G	0	1	0	0	0
14. Procurement/Sourcing	90%	R	0	0	0	0	0
		A	0	0	2	0	0
		G	0	7	3	2	1
15. Physical Assets/Locations	87%	R	0	0	0	0	0
		A	0	2	2	1	0
		G	0	8	9	2	1
16. Fraud	100%	R	0	0	0	0	0
		A	0	4	0	0	0
		G	0	7	0	0	0
17. Business Continuity	98%	R	0	0	0	0	0
		A	0	1	0	1	0
		G	0	2	6	3	0
18. Procedures	100%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	0	6	4	3	1
19. Performance Management	89%	R	0	0	0	0	0
		A	0	1	1	0	0
		G	0	1	8	4	2
20. ICT Infrastructure	87%	R	0	0	0	0	0
		A	0	0	0	0	0
		G	1	4	4	2	1
21. Handling of Requests/Incident Response	95%	R	0	0	0	0	0
		A	0	0	2	0	0
		G	2	4	2	1	0

This document v

Detailed Analysis by Service

This section of the report presents the current overall results by Service area.

		VL	L	M	H	VH
Finance	R	0	0	0	0	0
	A	0	0	0	0	0
	G	0	0	0	0	0
HR	R	0	0	0	0	0
	A	0	0	0	0	0
	G	0	0	0	0	0
Health & Safety	R	0	0	0	0	0
	A	0	0	0	0	0
	G	0	0	0	0	0
Strategy, Performance & Communications	R	0	0	1	0	0
	A	0	1	0	0	0
	G	3	4	1	0	0
Children's Services	R	0	0	1	0	0
	A	0	1	2	0	0
	G	0	1	13	11	4
Adults	R	0	0	1	0	1
	A	0	1	0	3	0
	G	0	3	9	5	5
Education	R	0	0	1	0	0
	A	0	1	1	0	0
	G	0	9	7	3	1
Public Health	R	0	0	1	1	0
	A	0	0	0	0	0
	G	0	0	0	3	0
Legal	R	0	0	0	0	0
	A	0	0	1	0	0
	G	0	0	0	0	0
Democratic Services & Registrars	R	0	0	0	0	0
	A	0	0	0	0	0
	G	0	0	0	0	0
Information Governance	R	0	0	0	0	0
	A	0	0	0	0	0
	G	0	0	0	0	0
Xentrall	R	0	0	0	0	0
	A	0	1	2	0	0
	G	1	27	21	6	0
Housing & Building Services	R	0	0	0	0	0
	A	0	0	0	0	0
	G	0	0	0	0	0
Community Services	R	0	0	1	0	0
	A	0	6	3	0	0
	G	2	22	12	1	0
Economic Growth	R	0	0	1	0	0
	A	0	1	3	1	0
	G	0	1	5	4	0
Transport & Capital Projects	R	0	0	1	0	0
	A	0	1	3	1	0
	G	0	2	6	3	0

Detailed Analysis of Output and Planning by Service

This section of the report will present detail of work undertaken and work planned by Service area.

	Results				Planned Work		
	October 2021	to	December 2021		January 2022	to	March 2022
	Number	R	A	G	No	Time	Monitoring
Resources	6	0	0	5	24	20.75	1
HR	0	0	0	0	0	0	0
Health & Safety	0	0	0	0	0	0	0
Strategy, Performance & Communications	1	0	0	1	3	1.5	0.7
Children's Services	6	0	2	4	29	36.75	0.6
Adults	14	1	0	10	22	29	0.3
Education	8	0	0	7	13	16.25	0.6
Children, Adults & Public Health	2	0	1	1	5	4.5	0.1
Law & Governance	6	0	1	5	13	14.75	1
Democratic Services & Registrars	0	0	0	0	0	0	0
Information Governance	0	0	0	0	0	0	0
Xentrall	21	0	1	14	18	32.75	3
Housing & Revenue Services	7	0	5	2	8	13	0.5
Community Services	10	0	0	10	38	26	1.5
Economic Growth	2	0	2	0	16	15.5	0.4
Transport & Capital Projects	3	0	1	2	15	8.75	0.5
Totals	86	1	13	61	204	219.5	10.2

Quality, Assurance & Improvement Process

Period	October 2021	to	December 2021

Stewardship (Coverage)			Stakeholders		
Measure	Target	Performance	Measure	Target	Performance
Adequate Resources	15	4.85	Reports Issued	Qtrly	*
Portfolio Coverage	83	86	Fraud Strategy Review	31/03/2021	*
Presentation of Annual Report (Annual)	June	*	Client Satisfaction	TBC	*
Presentation of Activity Report	Qtrly	*	Recommendation Implementation	TBC	*

Process			People		
Measure	Target	Performance	Measure	Target	Performance
Self assessment against standards (Annual)	March	*	Productivity	75%	70.1%
External Assessment (Every 5 Years)	31/03/2023	*	Training (Per Financial Year)	20	*
Staff Meetings Held	7	11	Code of Conduct (Annual)	100%	*
Up to Date Audit Manual	31/03/2021	*	Appraisals (Annual)	100%	*

* - to be reported as part of the annual report.

Full Plan

ID	Control	Frequency
33	Education, Health & Care Plans are completed appropriately and in a timely fashion	3
35	Section 17 payments made in respect of children are appropriately managed.	3
36	Children's placements are monitored appropriately and opportunities for family reunification examined.	3
42	Sufficient school places are available to meet demand.	3
44	Children's Assessment procedures are comprehensive and up to date	3
49	Children's cases are appropriately supervised with regular discussion and appropriate recording.	3
54	Systems are updated with the relevant referral information	3
55	Accurate and timely assessment of children's referrals is undertaken.	3
68	Clear budget process and timetable is in place which could be followed by team members as and when required.	3
78	Focussed financial support to commercial ventures	3
88	An approved Council Plan is in place which sets out the priorities of the council.	3
105	Update and report the strategic corporate risk register.	3
112	Process council tax support claims	3
113	Process housing benefit claims	3
165	Adult Services have a service strategy in place and delivery is being monitored.	3
172	An up to date strategic plan is in place for the Safeguarding Adults Board.	3
174	Adult Social Care cases are allocated appropriately considering caseloads and qualification requirements.	3
176	An appropriate ICT system(s) is in place to manage and safeguard adult social care information held.	3
179	Appropriate service provision has been identified to meet an Adult Social Care users individual needs, which is accurately charged for as required.	3
182	Where the Authority has Deputyship/Appointeeship, appropriate authorisation/legal documentation is in place	3
214	Procurement by Legal Services is in line with contract procedure rules and value for money principles.	3
250	There is a system of performance management in place for adult social care.	3
348	DBS check renewals are undertaken for Adults and Health staff	3
380	The Supporting Families programme is managed effectively.	3
478	An appropriate ICT system(s) is in place to manage and safeguard children's social care/education information held.	3
535	Children have been matched with appropriate adopters	3
577	The correct charges are raised for Housing Rents.	3
661	For Youth Employment Initiative (YEI) grants financial audits have been undertaken.	3
662	Youth Employment Initiative (YEI) outcomes are accurately recorded on the return to HBC	3
22	Adequate and effective after school, day care and residential short breaks provision is available for children with a care plan.	6
23	Appointment of suitable of in-house foster carers.	6
24	Appropriate arrangements are in place to assess the suitability of adopters.	6
26	Attainment in schools is appropriately monitored.	6
28	In-House carers receive appropriate training.	6
32	Education, Health & Care Plans are appropriately monitored	6
45	Staff assessing children's cases have the relevant qualifications and clearances.	6
46	Business continuity arrangements are in place to continue to deal with referrals.	6
48	Hard-copy Children's case files are appropriately managed and safeguarded.	6
64	Clear acquisition, disposal and re-valuation process for land and buildings.	6
76	Ensure accurate monitoring of capital programme and schemes	6
79	Maintain formula and support for funding schools and high needs.	6

81	Operate clear arrangements for billing and collection of council tax and business rates	6
97	Prepare statement of accounts	6
108	Participate in appropriate safeguarding processes and provider serious concern protocol	6
114	Vehicles used in the provision of community transport services are suitable and meet requirements for servicing and road worthiness.	6
119	Client risk assessments are undertaken and appropriate arrangements in place for the provision of Passenger Transport (social care and education) service usage.	6
131	Planning and provision of school meals promotes healthy, nutritious eating in compliance with the School Food Standards.	6
132	Free school meals are provided to eligible pupils.	6
146	Bridge Inspections are undertaken in accordance with an appropriate specified programme.	6
163	Business continuity arrangements are in place in order to continue to receive adult referrals and undertake assessments.	6
168	Referral and Assessment Procedures (Adults) are comprehensive and up to date.	6
169	Appropriate financial monitoring is in place in respect of the Better Care Fund.	6
171	Non-financial targets as set out in the Better Care Fund plan are being met.	6
173	Appropriate reporting mechanisms are in place in respect of safeguarding activities and outcomes.	6
175	Adult Social Care case files are updated accurately and in a timely manner.	6
178	Staff working in settings for adults are suitably qualified and receive appropriate training.	6
181	Appropriate monitoring of residential placements is in place.	6
184	Accurate charges for contributions to care costs are made to service users.	6
190	Professionals employed to undertake DOLS assessments are procured and employed via correct processes.	6
200	The Council maintains an accurate and up to date land charges register.	6
218	Posts requiring a DBS check are identified and requirements are in line with legislation.	6
249	Timely and accurate financial assessments are undertaken for service users wishing to take up a service.	6
251	Adequate health & safety measures/risk assessments are in place/undertaken at individual adults establishments.	6
252	Arrangements are in place to ensure Day Services, Residential and Supported Living service provision continues if there was a loss of staff or premises.	6
255	All care packages are receiving appropriate approval, and include all relevant information.	6
256	Formal signed agreements in place between LA/CCG in accordance with relevant guidance	6
257	Appropriate arrangements are in place to continue managing clients finances in the event of disruption.	6
260	Food & Hygiene premises rating system is updated regularly and published.	6
270	Building control decisions are appropriately authorised and made in line with Building Regulations.	6
272	Breaches of planning control are investigated and enforcement action initiated as necessary.	6
283	Disposals of ICT equipment are undertaken in an appropriate manner in line with an adequate and appropriate official disposal policy.	6
285	Progress towards the ICT strategy goals is monitored and reported on.	6
289	Appropriate disaster recovery plans and procedures are in place to support recovery from a partial or total loss of significant ICT systems/servers.	6
295	Appropriate formal documented ICT project management standards/policies have been established.	6
299	Adequate controls are in place to ensure data in the cloud is adequately protected.	6
302	Anti-virus controls are in place for relevant elements of the ICT infrastructure including servers and individual machines.	6
303	An appropriate infrastructure is in place to facilitate the organisation's firewalls.	6
304	Appropriate periodic IT Health checks (or other equivalent exercises) are undertaken in order to identify and categorise significant security issues/vulnerabilities. Work is then undertaken to remediate these issues/vulnerabilities where appropriate.	6
309	Adequate and appropriate change controls are in place.	6
313	The computer system calculates all payments correctly.	6
329	The authority complies with HMRC CIS scheme.	6

363	The adoption process is adequately documented to ensure a suitable, safe placement is found within an adequate time period in the absence of key personnel.	6
365	Management and oversight of youth offending cases improve outcomes for young people involved in criminal justice system or at risk of becoming involved.	6
367	The Council has a strategy in place to deliver public health services to the community.	6
368	Ensure the delivery of advice, support and refuge accommodation for victims of domestic abuse.	6
371	Information held about children, young people and their families is appropriate/up to date and sharing is in line with GDPR and IARs.	6
378	Pupil premium funding is used effectively.	6
393	Appropriate and timely response to a homelessness Duty to Refer request.	6
396	Accurate and timely returns are provided to support New Homes Bonus.	6
397	Economic Growth Strategy and Economic Growth Plan is monitored and milestones achieved.	6
399	Support is provided to new and existing businesses.	6
405	Effective management of grants received to support jobs and growth.	6
408	Monitor re-offending rates and target resources towards young people at risk of re-offending.	6
464	Effective commissioning and procurement of public health services and programmes.	6
465	Public health research and local needs assessment.	6
466	Delivery of the Health and Wellbeing Strategy.	6
471	Achievement of completion rate targets for mandatory on-line information governance training.	6
484	Suitability of approved in-house foster carers is monitored.	6
499	Continued eligibility for a free school meal is monitored and appeals are handled appropriately.	6
536	Breakdowns in placements are handled effectively.	6
573	Where there is a shortfall in specialist housing facilities managed by the authority to meet demand external provision is effectively sourced.	6
576	Regular bank reconciliations are undertaken and are up to date with minimal amounts in suspense.	6
674	COVID DfE Exam Support	6
675	COVID Schools Workforce Fund	6
676	COVID Testing in Schools & Colleges	6
716	Bridges quality and compliance systems are operating effectively	6
20	A child in care's story is documented	12
21	A robust training and support regime is in place for new teachers.	12
25	Arrangements are in place to manage the breakdown of a placement	12
29	Hard copy information held in Children's Residential Homes is appropriately safeguarded.	12
34	Health & safety of children's placements is monitored	12
38	Plans are in place to manage the loss of a school and provide continuity of education.	12
39	School governors receive an appropriate level of support and training	12
40	School places have been allocated in accordance with admissions policies.	12
53	Procedures for managing referrals (Adult's) and undertaking initial assessments are comprehensive and up to date.	12
56	Agreements for early years provision are in place and being complied with and monitoring visits are being undertaken.	12
59	Allocation of school budgets in line with funding formula.	12
67	School investment plan in place to ensure appropriate number and quality of places available.	12
69	Clear contract procedure rules.	12
72	Treasury Management Strategy and its implementation in relation to investments meets the Prudential Code and Treasury Management Code of Practice.	12
74	Delivery of tender management plan.	12
75	Ensure accurate in-year financial monitoring	12
77	Financial appraisal completed as part of business case/options appraisal	12

86	Undertake forward planning and projections of external factors in respect of income and expenditure and feed into MTFP.	12
89	Development of an appropriate risk assessed H&S audit programme.	12
91	Delivery of an effective Internal Audit Service in compliance with Accounts & Audit Regulations.	12
93	Requests for information are handled in line with requirements of the Freedom of Information Act.	12
96	Prepare annual governance statement	12
104	Update and report RAG tools to assist in risk management in all adults, public health and children's contracts.	12
107	Ensure specifications are clear and include all requirements for safe care	12
109	Crisis and emergency/settlement support	12
115	Appropriate risk assessments are undertaken within the Passenger Transport service and measures are in place to ensure the health and safety of Council employees.	12
116	Council employed drivers and passenger assistants hold the necessary clearances, licences, qualifications and training.	12
117	Contractors & sub-contractors involved in the provision of passenger transport hold the necessary clearances, licences, qualifications and insurance.	12
130	Catering and cleaning staff have been subject to appropriate disclosure checks.	12
134	Arrangements are in place for inspection and maintenance of security and surveillance equipment.	12
135	Civic enforcement decisions are consistent, fair, proportionate and necessary; in line with legislation.	12
138	Community engagement and communication to highlight and reduce environmental crime.	12
139	Ensure the health and safety of enforcement officers.	12
141	Sensitive personal information in relation to Telecare clients is managed in line with GDPR requirements.	12
142	Lifeline (DBC) and OneCall (SBC) staff hold appropriate qualifications and DBS clearances, and receive regular training.	12
147	Highway inspections are undertaken in accordance with an appropriate specified programme.	12
148	Street Lighting inspections and associated electrical testing are undertaken in accordance with an appropriate specified programme and relevant legislation/guidance.	12
150	Car Parking Strategy in place which is up to date and considers resident, disabled and general parking requirements.	12
151	Road closures are undertaken following appropriate consultation and required notifications are undertaken within appropriate timescales.	12
152	The authority is committed to reducing it's carbon footprint and supporting residents and businesses to reduce theirs.	12
153	The highways network resilience to extreme events such as weather has been fully established and plans are in place to manage this.	12
158	Disabled Facilities Grants/Helping Hands recipients meet grant eligibility criteria, payments and contributions are correct.	12
159	HMO properties are licensed.	12
162	The authority has an adequate, appropriate and up-to-date Local Plan in place.	12
177	Adult Social Care staff are aware of Health & Safety requirements and have received appropriate H & S training.	12
183	Where legal charges have been placed on a service user’s property, appropriate deferred payment/legal documentation is in place	12
188	A current Carers Strategy is in place.	12
189	Professionals are appropriately trained and qualified to undertake BIA/DoLS assessments.	12
194	Corporate initiatives are in place to help prevent sickness absence.	12
195	Procurement of contracts in place for provision of employee therapy is undertaken in line with contract procedure rules and appropriate monitoring undertaken.	12
203	Website and Intranet content is relevant and up to date.	12
206	Communication activities are aligned with corporate priorities and are delivered consistently and effectively.	12
216	Land charge related searches are completed effectively and within a reasonable timescale.	12
220	Appropriate checks have been undertaken prior to placing someone on the Employee Protection Register.	12
221	Information security and sharing protocols in relation to occupational health and employee therapy provision is in line with data protection legislation.	12

227	Arts Council funding is used appropriately and conditions complied with.	12
228	Venues for events are appropriate.	12
234	Library stock is adequately recorded, managed and its condition is 'fit for purpose'.	12
235	Adequate emergency response plans are in place for events and venues.	12
236	Arts and museum assets are adequately safeguarded and insured.	12
245	Maintain an accurate and up to date electoral register, which conforms to Electoral Commission requirements.	12
261	Adequate performance information is maintained and is appropriately utilised within the Highways Department.	12
263	Appropriate measures are in place to identify, record and investigate significant flooding incidents.	12
264	The authority has an adequate, appropriate and up to date Highway Infrastructure Asset Management Strategy (HIAMS) in place.	12
265	Street works are licensed, inspected and where applicable, appropriate charges are issued and collected for overruns/fines.	12
271	Residential delegated planning applications are considered and determined in line with the local development plan, national planning framework, gives consideration to the provision of green spaces and is dealt with within the appropriate timescale.	12
274	Section 106 agreements utilised effectively and obligations are complied with.	12
279	High level Active Directory administration privileges/credentials are only assigned to appropriate individuals.	12
284	An appropriate current documented and approved ICT strategy is in place.	12
286	ICT equipment located in computer facilities is adequately and appropriately protected from significant environmental threats.	12
290	Where applicable, appropriate internal disaster recovery arrangements (including backup, replication and snapshot facilities) are in place to cover significant ICT system/servers.	12
292	Use of email facilities by users is adequately controlled.	12
296	Appropriate formal agreements are in place with any external parties involved in the management and operation of the networks.	12
297	Network infrastructure/equipment is appropriately managed and protected.	12
298	Adequate and appropriate arrangements are in place in respect of business continuity and disaster recovery for the network infrastructure (including backup arrangements and arrangements to ensure network resilience).	12
300	Appropriate security/usage policies for users are in place to provide important guidance to users of the ICT facilities.	12
301	Users of ICT facilities are appropriately controlled.	12
306	Adequate and appropriate patching of host and guest operating systems is undertaken.	12
307	Appropriate access controls are in place to secure the virtualised environment.	12
308	An appropriate inventory of all significant ICT equipment is maintained. Including servers, PCs, laptops, tablets, etc.	12
310	HMRC reporting requirements are being complied with.	12
311	Information on payslips meets statutory requirements and is correct.	12
320	Information held in systems relating to HR are accurate and up to date.	12
325	Invoice certification procedures should confirm that: goods and services have been received; prices have been checked; discounts have been taken and the invoice has not been paid before.	12
326	All invoices/requisitions are expenditure coded.	12
330	Invoices give details of what the debts relate to, the goods and services provided and dates of provision, and are coded to the correct service.	12
332	Arrears recovery procedures are clearly defined and implemented in all cases. Reminder and recovery action periods are suitable for the types of debtor involved. Like debtors are treated equally.	12
334	A master record of periodical income records the amount and due dates of all sums which become due under the terms of leases, rents, licences, and wayleaves etc., amendments may be made to the master record by nominated officers only (on standard forms controlled by the Finance department) and certified by authorised officers.	12
338	Pension deductions are taken each month from employee’s pay at the appropriate rate.	12
341	The total contributions collected from both the employee and the employer are paid to the relevant pension fund in full.	12
342	There are clearly defined guidelines and procedures for the recruitment process.	12
346	The authority exercises powers to ensure safe, high quality standards in the private housing sector.	12

349	Safeguarding and child protection policies are in place, schools have an appointed designated safeguarding lead and arrangements are in place for appropriate training of staff.	12
353	Suitability of emergency unsupported placements.	12
355	Up to date and accessible procedures available to support the management of children's case files.	12
356	Address patterns of absence and promote regular attendance at school.	12
358	Pathway plans support care leavers in managing the transition from school to higher education, training or employment.	12
359	Training, support and development is in place for foster carers/special guardians.	12
361	Training, support and development is in place for adoptive parents and families.	12
364	Effective recruitment and retention of foster carers, including ongoing campaigns promoting the role.	12
370	Commercial delegated planning applications are considered and determined in line with the local development plan, national planning framework, gives consideration to the provision of green spaces and is dealt with in accordance of the appropriate timescale.	12
381	Prioritised support and provision to tackle fuel poverty and deliver the Affordable Warmth Strategy.	12
382	Monitor delivery of community partnership objectives and key priorities.	12
383	Strategic plans and framework are in place to tackle poverty.	12
390	Commitment to road safety and reducing road casualties.	12
392	Compliance with Department for Transport (DfT) funding terms and conditions for grant payments received.	12
402	Tackling town centre property vacancies	12
403	Promotion of the borough and town centres as a great place to invest, trade and visit.	12
412	An accurate and complete register of licences issued is maintained.	12
413	Licence applications are subject to appropriate review and approval, evidence of background and eligibility.	12
415	A programme of trading standards inspections and sample tests has been identified using a risk assessment process.	12
416	Trading standards investigations are recorded accurately either as a result of a programmed inspection or in response to a complaint and the results circulated as necessary including general guidance as necessary.	12
423	Appropriate & up to date emergency plans are in place to guide a coordinated response to a major incident	12
428	Provide effective short-term support to individuals following a discharge from hospital or to prevent hospital admission.	12
449	Cemeteries and memorials are well maintained and health and safety risks managed.	12
450	Crematorium inspection and monitoring to reduce the impact of emissions.	12
455	Inspection and maintenance of Council owned play facilities and skate parks.	12
457	There is a register of land owned and a sustainable grounds maintenance/landscaping programme in place.	12
467	A Gypsy Traveller Accommodation Assessment (GTAA) is undertaken to identify pitch requirements.	12
470	Compliance with the Health and Social Care Information Centre (HSCIC) Information Governance Toolkit	12
472	A central record of Information Asset Registers is maintained and checked for completeness.	12
473	There is a corporate arrangement in place for the secure destruction of paper records.	12
474	Appropriate email encryption is in place for sharing sensitive information.	12
477	Information asset registers are in place for each service and are being complied with.	12
479	Up to date and accessible procedures available to support the management of Adult Social Care users files.	12
485	In-house foster carer details are accurately recorded and updated.	12
486	Information relating to adopters is accurately recorded and up to date.	12
487	Adopter suitability appeals are appropriately managed.	12
488	School admissions appeals are appropriately managed.	12
490	There is a process in place for managing appeals and monitoring continued placement on the employee protection register.	12
491	There is a system of performance management in place to establish the effectiveness of HR policies, procedures and initiatives.	12
494	Leisure provision requirements are understood and effectively sourced.	12
503	The programme of trading standards inspections and sample testing is being monitored for completion.	12

510	Monitoring is undertaken to ensure compliance with planning decisions and appeals are handled appropriately.	12
511	Inspections of building work are undertaken to ensure compliance.	12
513	Building control decisions are accurately recorded.	12
523	Where financial assistance has been provided to businesses these are being monitored for compliance.	12
526	Changes in circumstances for council tax support and housing benefit claimants are processed appropriately.	12
527	Records relating to Council Tax Support and Housing Benefits are accurate and up to date.	12
531	Exclusions/Pupils at risk of exclusion are reviewed and action taken to address issues.	12
532	Pathway plans are monitored	12
533	Pathway plans are accurate and up to date on the system	12
534	Any payments agreed as part of the Pathway Plan have been paid correctly.	12
537	Accurate and up to date information is recorded for adoption cases.	12
538	Monitoring of Adult's safeguarding partnership arrangements ensure effective multi agency working.	12
539	Monitoring is undertaken of care packages for continued suitability.	12
548	Payments made for discretionary housing payments are accurate.	12
552	Plans are in place to continue to deliver housing/council tax support during an emergency.	12
557	The community engagement and heritage crime grant funding received is appropriately dealt with.	12
559	COVID related business grants have been appropriately managed with eligibility confirmed.	12
570	Income Recompense Scheme is appropriately reported and claimed.	12
663	Effective sourcing of child placements.	12
677	Schools receiving Catch-up premiums have published strategies to demonstrate effective use of the funding.	12
740	Staff within Transport and Capital projects have completed mandatory information governance training.	12
741	Staff within Public Health have completed mandatory information governance training.	12
742	Staff within Children's Services have completed mandatory information governance training.	12
743	Staff within Adults Service have completed mandatory information governance training.	12
744	Staff within Education services have completed mandatory information governance training.	12
745	Staff within Economic Growth have completed mandatory information governance training.	12
746	Staff within Resources have completed mandatory information governance training.	12
747	Staff within Strategy, performance and communications have completed mandatory information governance training.	12
748	Staff within Housing and Revenue services have completed mandatory information governance training.	12
749	Staff within Law & Governance have completed mandatory information governance training.	12
751	Robust authorisation processes are in place for the payment of creditors.	12
795	Staff within Community Services have completed mandatory information governance training.	12
30	Cash in Children's Services is appropriately safeguarded and reconciled.	24
58	Cash in children's centres is appropriately safeguarded	24
60	Headcount is being undertaken accurately and steps taken to verify figures for early years contracts.	24
62	Payments made to early years providers are accurate	24
63	Annual maintenance plans are in place for all buildings	24
66	Debt Management of commercial properties is effective.	24
70	Clear fraud prevention and detection arrangements	24
73	Delivery of contract management plans	24
83	Operate Stockton Collections arrangements and bad debt arrangements in compliance with relevant legislation.	24
87	Co-ordinate complaints process	24
90	Deliver health & safety training programme and provide advice and guidance materials.	24
92	Implement the counter fraud strategy	24
103	Undertake health & safety investigations	24
118	Transport provision is in line with client eligibility criteria.	24

120	Costs and demand for Passenger Transport services are monitored to ensure the best use of resources is applied.	24
121	Procurement of transport routes, goods and services ensures compliance with value for money principles and contract procedure rules.	24
122	Secure and effective arrangements for the collection, recording and recovery of income in respect of Community (SBC) and Passenger Transport (DBC)	24
123	Payments made to community transport staff are appropriate, accurate and authorised.	24
124	Strategies are in place to monitor and manage the demand for school meals in the short, medium and long term.	24
125	Charges for internal and external catering and cleaning provision are raised accurately and promptly, and income due has been received.	24
126	Assets and equipment owned by the catering and cleaning service are effectively maintained.	24
127	Protect the health and safety of catering and cleaning staff, service users and the public.	24
128	Operational procedures are in place and available to catering and cleaning staff.	24
129	Payments for cleaning supplies are accurate and in accordance with the contract.	24
133	Charges for internal and external security and surveillance services are raised accurately and promptly, and all income due has been received.	24
137	Accurate charging and effective income management in relation to civic enforcement activity.	24
140	Invoices and recharges in relation to Lifeline (DBC) and OneCall (SBC) services are raised promptly and accurately and income due is received.	24
144	Appropriate measures are in place within the vehicle workshop environment to ensure the health and safety of council employees and the public.	24
145	Public Rights of Way Improvement Plan (RoWIP) is in place and progress against this monitored.	24
154	Appropriate controls and systems are in place to administer parking permits/waivers and the Blue Badge scheme.	24
155	The authority has undertaken appropriate consultation and produced an adequate, appropriate and up to date Local Transport Plan.	24
157	The authority has an adequate, appropriate and up to date Homeless Reduction and Prevention Strategy in place.	24
160	The authority has an adequate, appropriate and up to date Empty Homes Strategy in place.	24
166	Staff involved in adult referrals and assessments appropriately qualified and have appropriate clearances.	24
180	Adequate security measures are in place at each Day Service, Residential and Supported Living establishment to protect clients, guests and residents property and other assets.	24
186	The range of physical disability & sensory impairment equipment available is sufficient to meet service user need	24
191	Environmental Health cases are appropriately allocated to officers.	24
192	Environmental Health income is managed appropriately and all income due to the service is collected.	24
193	Payments made to providers of employee benefit schemes are accurate.	24
197	External communication and engagement contracts are procured in line with contract procedure rules, accounting instructions and value for money principles.	24
204	Effective internal communication and engagement with employees is achieved.	24
205	There is an appropriate documented HR, Legal and Communications business continuity plan in place that will enable service delivery in the event of short, medium and long term disruption.	24
207	The Council maintains positive and effective media relations.	24
210	Accurate and up to date records are maintained for all legal services provided.	24
212	Accurate and timely fee recovery for internal and external legal services provided.	24
215	Accurate charging is made in accordance with approved scale of land charges and fees.	24
219	Information stored on the employee protection register is accurate, up to date and used appropriately.	24
222	Appropriate employee benefit schemes are in place.	24
223	Effective procurement/commissioning of training and development providers ensures value for money and compliance with contract procedure rules.	24
224	Managers and staff are aware of their responsibilities in relation to personal development and training.	24
226	Successful delivery of a varied arts and events programme.	24
229	Ticket sales and admission charges for events are recorded and income received in full.	24
230	Procurement of events performers and suppliers is in line with contract procedure rules.	24

231	Payments to events performers and suppliers and performance are effectively managed	24
232	Learning and Skills Tutors are suitably qualified, trained and DBS checked.	24
233	Library income is securely held and effectively managed.	24
237	Payments to external leisure providers are effectively managed.	24
238	Learning and Skills course fees are set appropriately and income taken is held securely and adequately accounted for.	24
239	Staff and premises are available to enable delivery of adult education courses and qualifications by Learning & Skills to be maintained, in the event of unforeseen circumstances.	24
240	The range and quality of Learning & Skills provision meets local and national requirements.	24
242	Members induction and training sufficiently meets requirements.	24
243	Sufficient and trained staff are available to support Elections held.	24
244	Maintain an up to date and accurate register of officers and Members business interests.	24
246	Maintain accurate and up to date gifts and hospitality register.	24
247	Officers and Members and aware of appropriate conduct in relation to gifts and hospitality.	24
248	Council meeting agendas and supporting documentation are available to support decision making.	24
258	Environmental Health inspectors have the appropriate qualifications.	24
259	Records relating to environmental health cases are appropriately recorded and managed.	24
266	Appropriate controls and system are in place to ensure all car parking income is accounted for in the authority's accounts.	24
267	PCN/FPN appeals are correctly and fairly processed.	24
278	Financial assistance provided to businesses is subject to appropriate appraisal and approval.	24
280	Generic/built in Active Directory accounts are appropriately controlled.	24
281	The Active Directory domain structure is appropriate and supports good practice.	24
282	An appropriate staffing structure is in place for ICT.	24
287	An adequate and appropriate software asset and license register/inventory is maintained.	24
288	Sufficient appropriate policing/auditing of software installation/use and licensing compliance is undertaken.	24
293	Remote access to facilities is adequately controlled.	24
305	Significant changes to the virtualised infrastructure are adequately managed. Allocation of resources in the virtualised environment is adequately and appropriately controlled.	24
312	The organisation's establishment is authorised by the managing body.	24
314	All overtime payments are supported by appropriate paperwork and details are promptly and accurately entered onto the system	24
315	All variable payments other than overtime (control covered elsewhere) are supported by appropriate paperwork and details are promptly and accurately entered onto the system.	24
316	All fixed salary payments comply with policies and are supported by appropriate paperwork and details are promptly and accurately entered into the system.	24
317	All deductions other than pension deduction (control covered elsewhere) are supported by appropriate paperwork and details are promptly and accurately entered onto the system.	24
318	Financial information is updated in a timely manner and recorded accurately within Business World On!	24
319	Standard exception reports are produced for subsequent investigation and clearance.	24
321	Staff fit notes and self-certification forms covering the entire period of sickness absence are promptly received, accurately recorded and stored appropriately.	24
324	Creditors procedure manuals are held and all staff are aware of these manuals.	24
328	Secure procedures operate for immediate payments.	24
333	Standing orders/financial regulations require the reasons for all sundry debtor write-offs exceeding £x to be reported to committee. Write-offs below this amount may be authorised by a nominated officer when all recovery procedures have been unsuccessful.	24
335	A record is kept of all accounts which are not dispatched at the time the accounts are raised. This record indicates why this action was taken, and where appropriate, records the agreement of the budget holder.	24
336	Regular reconciliation exercises are performed between the debtors (accounts receivable) balances and the main accounting (general ledger) system records.	24

337	Amendments and credits can only occur with the authorisation of the responsible officer for the cost centre whose account was originally credited in error.	24
339	The employer makes the correct % contribution payment to the relevant pension fund on behalf of each employee within that scheme.	24
340	Early retirement is only granted to an employee in accordance with Council policies and that associated calculations made based on this are accurate.	24
343	The appointment process is fair, robust and managed effectively.	24
344	All new employees have been appropriately vetted before being employed.	24
345	All newly appointed employees are subject to an appropriate induction.	24
347	Specialist housing facilities managed by the authority meet demand, provide good quality accommodation and comply with the needs of vulnerable residents.	24
350	Procedures ensure that staff are aware of the process for making a referral to children's social care.	24
351	Monitoring of Children's safeguarding partnership arrangements ensure effective multi agency working.	24
354	Information published by maintained schools is in compliance with regulations.	24
357	Effective oversight of education provided to children in the home/hospital or other setting outside school.	24
360	Payments to carers are accurate, appropriate and timely.	24
362	Financial support provided to adoptive families is paid accurately and timely.	24
366	Implementation of action plans that promote access to targeted resources, increase access to education, training and employment.	24
374	Effective management of payments and expenses associated with child contact visits.	24
375	Continuity of care workers for children and their families is a priority.	24
377	Effective resource management in schools to provide value for money and maximise outcomes for pupils.	24
379	Corporate privacy notices in place.	24
384	Delivery of Stockton Business Improvement District partnership objectives and key priorities.	24
385	Effective administration and management of community centres.	24
386	Effective administration and management of children's centres.	24
387	Effective community engagement and consultation.	24
389	Delivery of an effective careers advice and guidance service.	24
398	Local economic assessment provides an economic baseline to inform decision making.	24
400	Effective administration and management of business premises and specialist start-up business space.	24
404	Promotion of apprenticeship opportunities.	24
406	Appropriate allocation of town centre market pitches.	24
407	Monitor trends in crime and anti-social behaviour and respond to emerging issues.	24
409	Effective management and delivery of CCTV strategy.	24
411	An appropriate licence fee is established.	24
417	Compliance with licence conditions is monitored and appropriate sanctions taken when necessary.	24
420	Response to requests for the removal of needles and syringes within two hours.	24
430	Effective performance management systems are in place to monitor levels of take up of leisure and culture activities with remedial action taken as necessary.	24
431	Provide a broad selection of accessible leisure and outdoor activities, representing value for money to the public.	24
432	On-site concessions are managed and procured appropriately.	24
434	Safeguarding of assets and equipment used in the delivery of arts and events.	24
435	Kerbside collection routes provide an efficient and complete service.	24
438	Waste and recycling targets are achieved.	24
439	Effective management of trade waste contracts and collection of income.	24
440	Effective procurement of waste and recycling contracts.	24
441	Contingency plans are in place for the collection and disposal of waste.	24
443	Registration of births, deaths, marriages and civil partnerships is in line with statutory timescales.	24

444	Demand for burial space is monitored and plans are in place to meet current and future requirements.	24
445	Statutory records in relation to registrations and burials are accurate and complete.	24
446	Compliance with General Register Officer (GRO) statistical reporting requirements.	24
448	Crematorium operational controls are effective and comply with Cremation Regulations.	24
451	Maintain a schedule of cremator inspection and maintenance.	24
452	Parks and green spaces are identified, mapped and promoted.	24
454	Health and safety standards are maintained within our parks and green spaces.	24
456	Management of allotment sites, waiting lists and rental income.	24
459	Staff utilising grounds maintenance equipment are appropriately trained and qualified.	24
460	Security and crime prevention measures are in place in relation to parks and green spaces.	24
461	Provision of green spaces is a consideration for new housing developments, regeneration schemes etc.	24
462	Provision and upkeep of outdoor public seating and street furniture.	24
463	National Fraud Initiative (NFI) matches in relation to COVID related business grants are promptly reviewed and investigations undertaken as necessary.	24
468	Effective marketing and promotion of the Council brand and services.	24
469	Monitoring and evaluation of social media content.	24
475	Records relating to housing and housing related developments are accurate, up to date and appropriately safeguarded.	24
480	Employee hard copy files are adequately safeguarded.	24
481	Up to date HR policies and procedures.	24
482	Effective working relationships with staff forums and other employee groups such as unions.	24
483	Payments made to external providers of day care, after school and residential short breaks for young people with complex and additional needs are accurate and timely.	24
489	School admissions records are accurate and up-to-date.	24
492	Payments made to external training providers are accurate.	24
495	Income/payments relating to on-site concessions are accurate.	24
496	Charges for security and surveillance have been set appropriately.	24
497	Civic enforcement actions are appropriately and accurately recorded.	24
498	Appeals against civic enforcement actions are managed appropriately.	24
500	Information held about pupils in receipt of a free school meal is accurate and update and managed appropriately.	24
501	Payments for catering supplies are accurate and in accordance with the contract.	24
502	Payments to transport providers are accurate.	24
504	Payments are made to waste contractors accurately.	24
505	Allocation of Markets pitches is monitored and feedback sought.	24
506	Details about market traders are accurate and up to date.	24
509	Systems are in place to report/identify potential planning breaches.	24
512	There is an appropriate system in place to manage building control appeals.	24
515	Fees for building control applications have been set appropriately.	24
516	The correct fee is received for planning applications/requests.	24
517	Fees for planning applications received have been set correctly.	24
518	Payment of disabled facilities/helping hand grants are accurate.	24
519	The outcome of the disabled facility/helping hand grant application has been appropriately recorded.	24
520	Monitoring of disabled facility/helping hand grant work is appropriate.	24
521	The disabled facilities/helping hand grant budget is appropriately monitored.	24
522	Financial assistance to businesses decisions are accurately recorded.	24
525	H&S audit work is recorded appropriately	24
528	Decisions to award discounts for Council Tax or Rate Relief for NNDR are appropriate	24

529	Council Tax/NNDR information is accurate and up to date.	24
530	Discounts/Rate Relief is monitored for continued eligibility and there is an appropriate appeals process in place.	24
540	Monitor and review use of personal budgets.	24
541	The decisions to allow a personal budget is appropriate.	24
542	Financial assessments are reviewed and updated for changes in circumstances.	24
544	Payment of personal budgets is accurate and timely.	24
545	There is an effective appeals process for transport eligibility decisions.	24
546	Community (SBC) & Passenger (DBC) Transport information is up to date and accurate.	24
547	The correct fee is received for licenses.	24
549	Feedback on cases of identified fraud are acted upon appropriately.	24
550	Council Tax support/housing benefit overpayments are managed effectively.	24
553	Adequate procedures exist to deliver Council Tax/Benefits/Business Rate services.	24
554	Decisions to write-off outstanding council tax and NNDR debts are appropriate and have been appropriately approved.	24
555	Decisions to write-off outstanding housing debts is appropriate and all steps taken to recover the amount.	24
556	Sundry debts are only written-off when all steps have been taken to recover the amounts and are appropriately authorised.	24
574	Effective management of external payments and expenses associated with independent DoLS assessors.	24
575	There is an effective financial process in place which ensures that all refunds, exchanges, and account credits are accounted for and appropriately authorised at the Hippodrome.	24
578	Results of the National Fraud (NFI) Exercise, identifying instances where VAT may have been overpaid, are reviewed and outcomes recorded.	24
579	Local Authority Compliance and Enforcement Grant	24
582	All newly appointed employees have completed an appropriate probation.	24
659	The procurement of Catering Supplies is in line with Contract Procedure Rules.	24
660	The procurement of Building Cleaning supplies is in line with Contract Procedure Rules.	24
680	National Fraud Initiative (NFI) matches in relation to Blue Badge permits are promptly reviewed and investigations undertaken as necessary.	24
681	National Fraud Initiative (NFI) matches in relation to Concessionary Travel passes are promptly reviewed and investigations undertaken as necessary.	24
682	National Fraud Initiative (NFI) matches in relation to resident parking permits are promptly reviewed and investigations undertaken as necessary.	24
683	National Fraud Initiative (NFI) matches in relation to trade creditors are promptly reviewed and investigations undertaken as necessary.	24
684	National Fraud Initiative (NFI) matches in relation to Council Tax Reduction Scheme are promptly reviewed and investigations undertaken as necessary.	24
685	National Fraud Initiative (NFI) matches in relation to Housing Benefits Claimants are promptly reviewed and investigations undertaken as necessary.	24
686	National Fraud Initiative (NFI) matches in relation to Housing tenants, waiting lists and RTB are promptly reviewed and investigations undertaken as necessary.	24
687	National Fraud Initiative (NFI) matches in relation to Council Tax Single Person Discount are promptly reviewed and investigations undertaken as necessary.	24
688	National Fraud Initiative (NFI) matches in relation to procurement are promptly reviewed and investigations undertaken as necessary.	24
689	National Fraud Initiative (NFI) matches in relation to payroll are promptly reviewed and investigations undertaken as necessary.	24
738	Ticket sales and admission charges for museums are recorded and income received in full.	24
750	Regular reconciliation exercises are performed between the creditors (accounts payable) balances and the main accounting (general ledger) system records.	24
752	The purpose and scope of CCTV coverage in the admin buildings has been appropriately documented and a Privacy Impact Assessment undertaken.	24
753	The purpose and scope of CCTV coverage at the dept has been appropriately documented and a Privacy Impact Assessment undertaken.	24

754	The purpose and scope of CCTV coverage of playgrounds has been appropriately documented and a Privacy Impact Assessment undertaken.	24
755	The purpose and scope of CCTV coverage used by street scene/refuse has been appropriately documented and a Privacy Impact Assessment undertaken.	24
756	The purpose and scope of body worn CCTV has been appropriately documented and a Privacy Impact Assessment undertaken.	24
757	The purpose and scope of CCTV coverage in the town centres has been appropriately documented and a Privacy Impact Assessment undertaken.	24
758	The purpose and scope of CCTV coverage in the hippodrome has been appropriately documented and a Privacy Impact Assessment undertaken.	24
759	The purpose and scope of CCTV coverage in the Dolphin Centre has been appropriately documented and a Privacy Impact Assessment undertaken.	24
760	The purpose and scope of CCTV coverage at the museum has been appropriately documented and a Privacy Impact Assessment undertaken.	24
80	Operate clear and robust insurance claim management and processing uninsured loss recovery.	48
84	Provide insurance underwriting support to services	48
94	Prepare and submit accurate financial returns by deadlines - RA/RO/Capital	48
110	Early help and support provided by welfare support service	48
196	Payments made to external employee therapy providers are accurate.	48
208	Communication and marketing budgets are effectively monitored and controlled.	48
209	Staffing requirements and associated costs are understood and effectively managed in relation to communication and media related activities.	48
211	Payments made by legal services to external providers or claimants are accurate and timely.	48
253	Finance and assets located at stand alone facilities for adults are adequately managed.	48
276	Landlord Accreditation Scheme membership is subject to an effective review and renewal process.	48
277	The Travellers Site is secure and maintained effectively.	48
291	An appropriate infrastructure is in place to facilitate Internet usage for the organisation.	48
322	Approved absence has been granted in-line with policy and promptly recorded and correctly authorised.	48
419	Prompt removal of graffiti from public land and street furniture.	48
425	Provision of a confidential animal collection and rehoming service.	48
426	Prompt and effective response to reports of stray or abandoned animals.	48
427	Receipt of appropriate fees prior to release of lost animals to their owner.	48
436	Facilities are in place for the public to report litter, fly-tipping or missed kerb side collections.	48
447	Registrars and bereavement services income is received and recorded.	48
493	Payments to external communication and engagement providers are accurate and timely.	48
507	Permits/Waivers and Blue Badges are monitored for continued eligibility and an appeal process is in place.	48
508	Information relating to car parking permits/waivers and Blue Badges is appropriately stored and kept up to date.	48
514	An appropriate fee has been received for building control applications.	48

AUDIT COMMITTEE
26 JANUARY 2022

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY REPORT 2022/23

SUMMARY REPORT

Purpose of the Report

1. This report requests Audit Committee to review and scrutinise the following prior to forwarding to Cabinet and Council for their approval and adoption:

   (a) The Prudential Indicators and Limits for 2022/23 to 2024/25 relating to capital expenditure and Treasury Management activity.

   (b) A policy statement relating to the Minimum Revenue Provision.

   (c) The Treasury Management Strategy 2022/23, which includes the Annual Investment Strategy for 2022/23

2. The report outlines the Council's prudential indicators for 2022/23 – 2024/25 and sets out the expected treasury operations for this period. It fulfils key legislative and guidance requirements:

   (a) The reporting of the **prudential indicators** setting out the expected capital activities and treasury management prudential indicators included as treasury indicators in the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice

   (b) The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year.

   (c) The **treasury management strategy** statement which sets out how the Council's treasury service will support capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators.

   (d) The key indicator is the **authorised limit**, the maximum amount of debt the Council could afford in the short term, but which is not sustainable in the longer term.

   (e) The **investment strategy** which sets out the Council's criteria for choosing the investment counterparties and limiting exposures to the risk of loss.

3. The information contained in the report regarding the Councils expenditure plans, Treasury Management and Prudential Borrowing activities indicate that they are:

(a) Within the statutory framework and consistent with the relevant codes of practice.

(b) Prudent, affordable and sustainable.

(c) An integral part of the Council's Revenue and Capital Medium Term Financial Plans.

Recommendation

4. It is recommended that the Audit Committee examine the following and pass on any comments to Council via Cabinet in order that they approve them:

(a) The Prudential Indicators and limits for 2022/23 to 2024/25 summarised in Tables 1 and 2.

(b) The Minimum Revenue Provision (MRP) statement (paragraphs 33 - 37).

(c) The Treasury Management Strategy 2022/23 to 2024/25 as summarised in paragraphs 41 to 69.

(d) The Annual Investment Strategy 2022/23 contained in paragraphs 70 to 107.

Reasons

5. The recommendations are supported by the following reasons:

(a) In order to comply with the Prudential Code for Capital Finance in Local Authorities and the Department for Levelling Up, Housing & Communities (DLUHC) guidance on investments.

(b) To comply with the requirements of the Local Government Act 2003.

(c) To approve a framework for officers to work within when making investment decisions.

Elizabeth Davison
Group Director of Operations

Background Papers
(i) Annual Draft Statement of Account 2020/21
(ii) Draft MTFP (incl Capital MTFP 2022/23 to 2025/26)
(iii) Draft Capital Strategy
(iv) Link Asset Services Economic Report Dec 2021

Peter Carrick: Extension 5401

S17 Crime and Disorder	This report has no implications for S 17 Crime and Disorder.

Health and Well Being	This report has no implications for the Council's Health and Well being agenda.
Carbon Impact and Climate Change	This report has no implications for the Council's Carbon Emissions.
Diversity	This report has no implications for the Council's Diversity agenda.
Wards Affected	All Wards
Groups Affected	All Groups
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision
Urgent Decision	For the purposes of call in this report is not an urgent decision.
Council Plan	This report has no particular implications for the Council Plan.
Efficiency	The report refers to actions taken to reduce costs and manage risks.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

Background

6. 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."

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

8. 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.

9. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital

projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

10. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

Reporting requirements

Capital Strategy

11. The 2017 CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:
    - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
    - an overview of how the associated risk is managed
    - the implications for future financial sustainability

12. The aim of the capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy is reported separately to Council on an annual basis.

Treasury Management Reporting

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

Prudential and Treasury Indicators and Treasury Strategy (this report)

14. The first, and most important report is forward looking and covers:

    (a) The capital plans (including prudential indicators);
    (b) A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
    (c) The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    (d) An investment strategy, (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report

15. This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether the treasury function is meeting the strategy or whether any policies require revision.

An Annual Treasury Report

16. 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.

17. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Treasury Management Strategy for 2022/23

18. The strategy for 2022/23 covers two main areas:

(a) Capital Issues:
- the capital expenditure plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

(b) Treasury Management Issues:
- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

19. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

20. A summary of the key prudential indicators and limits are contained in Tables 1 and 2 and further details are contained further on in this report.

Table 1 – Capital Expenditure and Borrowing

	2021/22 Revised	**2022/23 Estimated**	**2023/24 Estimated**	**2024/25 Estimated**
Capital Expenditure Tables 3 and 4	£49.560m	£76.970m	£49.471m	£23.853m

Capital financing requirement - Table 5	£225.663m	£243.522m	£254.926m	£261.440m
Ratio of financing costs to net revenue stream – General Fund See paragraph 39 - Table 6	2.50%	2.14%	4.24%	4.21%
Ratio of financing costs to net revenue stream –HRA See paragraph 39 - Table 6	14.86%	14.79%	15.80%	16.14%
Operational boundary for external debt - Table 9	£174.081m	£187.966m	£201.860m	£215.761m
Authorised limit for external debt - Table 10	£236.946m	£255.698m	£267.672m	£274.512m

Table 2 – Treasury Management

	2022/23 Upper Limit	2023/24 Upper Limit	2024/25 Upper Limit
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	40%	40%	40%
Maximum principal sums invested > 364 days	£50m	£50m	£50m
Maturity Structure of fixed interest rate borrowing 2022/23			
		Lower Limit	**Upper Limit**
Under 12 months		0%	40%
12 months to 2 years		0%	50%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Training

21. 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 was undertaken by a number of Members during 2 sessions held in September 2021 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

22. The Council uses Link Group, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service provider. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

23. 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 officers of 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 subject to regular review.

The Capital Prudential Indicators 2022/23– 2024/25

24. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

25. This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 3 Capital Expenditure

	2021/22 Revised £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General Fund	28.098	40.231	24.399	7.899
HRA	11.989	32.980	24.869	20.081
Estimated Capital Expenditure	**40.087**	**73.211**	**49.268**	**27.980**
Loans to Joint Ventures	9.473	3.759	0.203	(4.127)
Total	**49.560**	**76.970**	**49.471**	**23.853**

26. The financing need above excludes other long-term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

27. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 4 Financing of the Capital Programme

	2021/22 Revised £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General Fund	28.098	40.231	24.399	7.899
HRA	11.989	32.980	24.869	20.081
Loans to Joint Ventures	9.473	3.759	0.203	(4.127)
Total Capital	**49.560**	**76.970**	**49.471**	**23.853**
Financed by:				
Capital receipts -General Fund	0.842	3.832	2.524	1.024
Capital receipts - Housing	0.303	0.303	0.303	0.303

Capital grants	23.715	4.575	3.875	3.875
Self financing - GF	0.000	20.000	18.000	3.000
Revenue Contributions (Housing)	10.573	17.618	16.491	16.693
Total excluding borrowing	**35.433**	**46.328**	**41.193**	**24.895**
Borrowing need	**14.127**	**30.642**	**8.278**	**(1.042)**

The Council's Borrowing Need (the Capital Financing Requirement)

28. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

29. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets' life, and so charges the economic consumption of capital assets as they are used.

30. The CFR includes any other long-term liabilities (e.g. PFI schemes & finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £9.232m of such schemes within the CFR.

31. Under a new accounting standard (IFRS 16) the Council will be required to add any finance leases to its balance sheet and therefore increase its CFR accordingly, this standard was due to be introduced from 1 April 2021 but has been deferred to 1 April 2022 when the Council will include any identified elements on its balance sheet and hence increase its CFR.

32. The Committee is asked to approve the CFR projections below:

Table 5 – CFR Projections

	2021/22 Revised £m	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
CFR – General Fund	135.961	141.661	144.561	147.061
CFR – PFI and Finance leases	9.232	8.117	7.011	5.912
CFR - Housing	67.709	77.225	86.631	95.871
CFR - Loans to JV's	12.761	16.520	16.723	12.596
Total CFR	**225.663**	**243.523**	**254.926**	**261.440**
Movement in CFR		**17.860**	**11.403**	**6.514**

MRP Policy Statement

33. 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). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP).

34. DLUHC 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.

35. It is proposed that Darlington Borough Council's MRP policy statement for 2022/23 will be:

(a) For Capital expenditure incurred before 1 April 2008 and expenditure which was granted through credit approvals since that date MRP will be calculated on an annuity basis (2%) over 50 years or the useful life of the asset.

(b) Capital Expenditure from 1 April 2008 for all unsupported borrowing MRP will be based on the estimated life of the assets, repayments will be on an annuity basis (2%)

(c) Repayments relating to the PFI scheme will be based on the life of the asset of 60 years from 1st April 2008 on an annuity basis (2%).

(d) Where MRP has been overcharged in previous years, the recovery of the overcharge will be affected by reducing the MRP charges, due in full or in part for 2022/23 and in future years, which would otherwise have been made. The MRP adjustment for 2022/23 and in future years charge will be done in such a way as to ensure that:-

- the total MRP after applying the adjustment will not be less than zero in any financial year,
- the cumulative amount adjusted for will never exceed the amount over-charged,
- the extent of the adjustment will be reviewed on an annual basis.

36. 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.

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

38. **MRP Overpayments** - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the

budget, this policy must disclose the cumulative overpayment made each year. Up until the 31.3.21 there were no VRP overpayments made.

Affordability Prudential Indicators

39. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

Estimates of the ratio of financing costs to net revenue stream.

40. This indicator identifies the trend in the cost of capital (borrowing and other long- term obligation costs net of investment income) against the net revenue stream.

Table 6 - Ratio of financing costs to net revenue stream

	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	2.50%	2.14%	4.24%	4.21%
HRA	14.86%	14.79%	15.80%	16.14%

41. The estimates of financing costs include current commitments and the proposals in this year's MTFP report.

Treasury Management Strategy

Borrowing

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

Under Borrowing position

43. Over the last ten years the Council had maintained an underborrowed position i.e. the amount of our gross external borrowing has been less than our balance sheet Capital Financing Requirement. This strategy has served the Council well in a period where returns on investment have been low and borrowing costs have been relatively high. This has also meant that we have had less in the form of investments and so reduced counterparty risk. To support the MTFP it was agreed that longer term investments would be pursued as these would give a return over and above the cost of any additional

borrowing that would be taken. Following due diligence the Council has 3 Property Funds with £10 million in each fund and these are expected to bring a net return of around 1.5% over the life of the MTFP. Additional borrowing of £25m was undertaken which resulted in the underborrowed position being reduced.

Current Portfolio Position

44. The overall treasury management portfolio as at 31 March 2021 and for the position as at 31 December 2021 are shown below for both borrowings and investments.

Table 7 – Treasury Portfolio

TREASURY PORTFOLIO				
	Actual 31/03/2021 £m's	Actual 31/03/2021 %	Current 31/12/2021 £m's	Current 31/12/2021 %
Treasury Investments				
banks	8.000	13.5	16.000	23.8
local authorities	10.000	16.8	10.000	14.9
money market funds	11.400	19.2	11.200	16.7
Total managed in house	**29.400**	**49.5**	**37.200**	**55.4**
property funds	29.999	50.5	29.999	44.6
Total managed externally	**29.999**	**50.5**	**29.999**	**44.6**
Total treasury investments	**59.399**	**100.0**	**67.199**	**100.0**
Treasury external borrowing				
local authorities	20.000	12.4	13.000	8.7
PWLB	128.865	79.8	124.115	82.9
LOBO's	12.600	7.8	12.600	8.4
Total external borrowing	**161.465**	**100.0**	**149.715**	**100.0**
Net treasury borrowing	**102.066**		**82.516**	

45. The Council's expected treasury portfolio position at 31 March 2022, with forward projections is summarised below at Table 8. 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.

Table 8 - Gross Borrowing to CFR

	2021/22 Revised £m	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Debt at 31 March	150.088	161.329	176.126	195.253
Loans to Joint Ventures	12.761	16.520	16.723	12.596
Other long-term liabilities (OLTL)	9.232	8.117	7.011	5.912
Gross Actual debt at 31 March	**172.081**	**185.966**	**199.860**	**213.761**

The Capital Financing Requirement from Table 5	**225.663**	**243.522**	**254.926**	**261.440**
Under / (over) borrowing	**53.582**	**57.556**	**55.066**	**47.679**

46. Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that the borrowing is not undertaken for revenue or speculative purposes.

47. The Group Director of Operations reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This takes into account current commitments, existing plans, and proposals within this budget report.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

48. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 9 - Operational Boundary

	2021/22 Revised £m	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
Debt from Table 8 (incl JV's)	162.849	177.849	192.849	207.849
Other long-term liabilities	9.232	8.117	7.011	5.912
Prudential Borrowing for leasable assets	1.000	1.000	1.000	1.000
Prudential Borrowing under Directors Delegated Powers	1.000	1.000	1.000	1.000
Operational Boundary	**174.081**	**187.966**	**201.860**	**215.761**

The Authorised Limit for external debt

49. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this

limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term:

50. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

51. The Council is asked to approve the following Authorised Limit:

Table 10 – Authorised Limit

	2021/22 Revised £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
CFR	225.663	243.522	254.926	261.440
Additional Headroom @ 5%	11.283	12.176	12.746	13.072
Authorised Limit	**236.946**	**255.698**	**267.672**	**274.512**

52. It is proposed that the additional headroom for years 2022/23 to 2024/25 is 5% above the CFR, this would allow for any additional cashflow needs throughout the years.

Prospects for Interest Rates

53. The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Asset Services's central view for future interest rates and the economic background to that view is shown at **Appendix 1.**

Table 11 – Interest rates

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including *certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2022	0.25	1.50	1.70	1.90	1.70
Jun 2022	0.50	1.50	1.80	2.00	1.80
Sep 2022	0.50	1.60	1.80	2.10	1.90
Dec 2022	0.50	1.60	1.90	2.10	1.90
Mar 2023	0.75	1.70	1.90	2.20	2.00
Jun 2023	0.75	1.80	2.00	2.20	2.00
Sep 2023	0.75	1.80	2.00	2.20	2.00
Dec 2023	0.75	1.80	2.00	2.30	2.10
Mar 2024	1.00	1.90	2.10	2.30	2.10
Jun 2024	1.00	1.90	2.10	2.40	2.20
Sep 2024	1.00	1.90	2.10	2.40	2.20
Dec 2024	1.00	2.00	2.20	2.50	2.30
Mar 2025	1.25	2.00	2.30	2.50	2.30

** The certainty rate adjustment is a reduced rate by 0.20% for those councils like Darlington Borough Council who have submitted more detail on future borrowing requirement to the Treasury*

54. Over the last 2 years the coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16 December 2021.

55. As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

56. As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

57. There are potentially significant risks to the above forecasts and they are shown in more detail in **Appendix 2.**

Investment and borrowing rates

58. Investment returns are likely to improve in 2022/23. However while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

59. Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

60. While the Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry (the difference between higher borrowing costs and lower investment returns), so any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing Strategy

61. 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 to be considered.

62. Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Group Director of Operations will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

(a) If it was felt that there was a significant risk of a sharp FALL in borowing rates (eg due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

(b) If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

63. Any decisions would be reported to the appropriate Committee at the next available opportunity.

Treasury Management Limits on Activity

64. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are:

(a) Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

(b) Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

(c) Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Table 12 Interest Rate Exposure

	2022/23	**2023/24**	**2024/25**
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2022/23			
		Lower	**Upper**
Under 12 months		0%	40%
12 months to 2 years		0%	50%
2 years to 5 years		0%	60%

5 years to 10 years	0%	80%
10 years and above	0%	100%

Policy on Borrowing in Advance of Need

65. 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 of need 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 through its investment strategy.

66. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

67. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

68. If there was a possibility the reasons for any rescheduling to take place will include:

(a) the generation of cash savings and / or discounted cash flow savings;

(b) helping to fulfil the treasury strategy;

(c) enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

69. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

70. If rescheduling was done it will be reported to Committee at the earliest meeting following its action.

New Financial Institutions as a source of borrowing

71. 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 sources for the following:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a ‘cost of carry’ or to achieve refinancing certainty over the next few years)

- Municipal Bond Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

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

Annual Investment Strategy

Investment and Creditworthiness Policy

73. The DLUHC and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals soley with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

74. The Council’s investment policy has regard to the following:

    (a) DLUHC’s Guidance on Local Government Investments (“the Guidance”)
    (b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
    (c) CIPFA Treasury Management Guidance Notes 2018

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

76. The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

    a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentrtation risk. The key ratings used to monitorcounterparies are the short term and long-term ratings.

    b) Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as ‘credit default swaps’ and overlay that information on top of the credit ratings.

c) Other information sources used will include the financial press, share prices and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) This Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are 2 lists in **Appendix 2** under the categories of 'specified' and 'non-specified' investments.

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

e) Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in Table 13

f) Transaction limits are set for each type of investment in Table 13

g) This Council wil set a limit for the amount of its investments which are invested for longer than 365 days.

h) Investments will be placed with counterparties from countries with a specified minimum sovereign rating.

i) This Council has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in sterling.

k) As a result of the change in accounting standards for 2022/23 under International Financial Reporting Standard (IFRS) 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018 the Ministry of Housing, Communities and Local Government [MHCLG], conlcuded 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 5 years ending 31 March 2023).

77. However, this Council will also pursue value for money in treasury mangement and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

78. The above criteria are unchanged from last year.

Investment Counterparty Selection Criteria

Creditworthiness policy

79. 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:

   (a) 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. This is set out in the specified and non-specified investment sections below; and

   (b) 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.

80. The Group Director of Operations 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. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified (see appendix 2 for definitions) as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

81. Credit rating information is supplied by the 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 a 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 a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

82. Any investment in Property Funds/ Corporate Bond Funds/ Asset Backed Investment Products will be subject to due diligence for each and every fund considered. The maximum amount invested in any one fund will be £20million with a maximum of £50million total for all funds.

83. The criteria for providing a pool of high-quality investment counterparties (both specified and non-specified investments) is:

   (a) Banks 1 - good credit quality – the Council will only use banks which:

      I. are UK banks; and/or

II. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA-

and have, as a minimum, the following Fitch, Moody's and Standard & Poors credit ratings (where rated):

I. Short Term – F1
II. Long Term – A-

(b) Banks 2 – Part nationalised UK banks – Royal Bank of Scotland ring-fenced operations. These banks can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.

(c) Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

(d) Building societies -The Council will use all societies which meet the ratings for the banks outlined above and have assets in excess of £1,000m.

(e) Money Market Funds (MMFs) CNAV - AAA
(f) Money Market Funds (MMF's) LNVAV - AAA
(g) Money Market Funds (MMF's) VNAV - AAA

(h) Ultra-Short Dated Bond Funds - AAA

(i) UK Government (including gilts, Treasury Bills and the DMADF)

(j) Local authorities, parish councils etc

(k) Supranational institutions

(l) Housing associations

(m) Property Funds, Corporate Bond Funds and Asset Backed Investment Products.

84. A limit of £50m will be applied to the use of non-specified investments.

Use of additional information other than credit ratings

85. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above 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 specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

86. In order to determine time limits for investments the Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard & Poors. The credit ratings of counterparties are supplemented with the following overlays:

(a) credit watches and credit outlooks from credit rating agencies;

(b) Credit Default Swap price spreads to give early warning of likely changes in credit ratings;

(c) sovereign ratings to select counterparties from only the most creditworthy countries.

87. The Council will therefore use the following durational bands when applying time limits to investments

(a) Yellow Maximum 2 years *This only relates to AAA rated government debt or its equivalent
(b) Purple Maximum 2 years
(c) Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
(d) Orange 1 year
(e) Red 6 months
(f) Green 3 months

88. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified Investments)

Table 13 – Time and monetary limits applying to investments

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 high quality	AA-	£5m	Maximum of 2 years Suggested duration using Link Group colour coding (CDS adjusted with manual override)
Banks 1 medium quality	A	£4m	Maximum of 1 year Suggested duration using Link Group colour coding (CDS adjusted with manual override)
Banks 1 lower quality	A-	£3m	Maximum of 1 year Suggested duration using Link Group colour coding (CDS adjusted with manual override)
Banks 2 category – part nationalised	N/A	£5m	Maximum of 1 years
Banks 3 category – Council's banker (not meeting Banks 1)		£3m	1 day
DMADF (Debt Management Office)	AAA	unlimited	6 months
UK Government Treasury Bills	UK sovereign rating	unlimited	Maximum of 1 year
Local authorities	N/A	£5m per Local Authority	Up to 2 years

Money market Funds (CNAV, LVNAV & VNAV) and Ultra Short Dated Bond Funds	AAA	£5m per Fund	liquid
Property Funds, Corporate Bond Funds and other Asset backed Investment products	Non Rated Due Diligence required	£20m per Fund	10 years

89. In addition to sterling deposits either on a fixed term call or notice basis deposits in banks or Building Societies which meet our criteria, may be made via certificates of deposits where appropriate.

90. The proposed criteria for Specified and Non-Specified investments are shown in Appendix 3 for approval.

91. All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

(a) if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

(b) in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

92. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Investment Strategy

In-house funds

93. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping the most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations

94. As seen from the above estimates the bank rate is likely to rise from 0.25% early in 2022.

95. 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:-

(a) 2022/23 0.50%
(b) 2023/24 0.75%
(c) 2024/25 1.00%
(d) 2025/26 1.25%
(e) Later years 2.00%

96. The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus. It may also be affected by what deal the UK agrees as part of Brexit.

Investment treasury indicator and limit

97. Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

98. The Committee is asked to approve the treasury indicator and limit: -

Table 14 – Maximum Principal sums invested

	2022/23	2023/24	2024/25
Principal sums invested greater than 365 days	£50m	£50m	£50m

99. For its cash flow generated balances, the Council will seek to utilise its instant access accounts, 30+ day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Risk Benchmarking

100. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. They relate to Investments that are not Property Funds. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

101. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

0.077% historic risk of default when compared to the whole portfolio.

102. Liquidity – in respect of this area the Council seeks to maintain:

(a) Bank overdraft - £0.100m

(b) Liquid short-term deposits of at least £3.000m available with a week's notice

(c) Weighted Average Life benchmark is expected to be 1 year.

103. Yield - local measures of yield benchmarks are:

(a) Investments – internal returns above the 7-day Sterling Overnight Index Average (SONIA) compounded rate

(b) Investments – Longer term – capital investment rates returned against comparative average rates

104. In addition that the security benchmark for each individual year is:

Table 15 - Security Benchmark

	1 year	2 years
Maximum	0.077%	0.077%

Note: This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

105. The above reported benchmarks for Security Liquidity and Yield all relate to Deposits with Banks and Money Market Funds but would not relate to Property Funds.

106. It is proposed that property funds will be benchmarked for performance against the IPD All Balanced Fund index which is the universe of all property funds, data for this can be provided by our Treasury Management advisors Link Group.

End of year investment report

107. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Outcome of Consultation

108. No consultation was undertaken in the production of this report.

APPENDIX 1

Economic Background provided by Link Group

- COVID-19 vaccines. These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.

- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC meeting 16h December 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- On 10th December we learnt of the disappointing 0.1% m/m rise in GDP in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- On 14th December, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- On 15th December we had the CPI inflation figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- Other elements of inflation are also transitory e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some fiscal support for the economy, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a surprise increase in Bank Rate from 0.10% to 0.25%. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that "the Omicron variant is likely to weigh on near-term activity". But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the 2% target in two years' time, which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a "modest tightening" in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed transitory, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  Raising Bank Rate as "the active instrument in most circumstances".
  Raising Bank Rate to 0.50% before starting on reducing its holdings.
  Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- US. Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, CPI inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

- Shortages of labour have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the Fed's meeting of 15th December would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as

soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

- EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

- November's inflation figures breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

- ECB tapering. The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.

- The ECB will now also need to consider the impact of Omicron on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

- The EU has entered into a period of political uncertainty where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- CHINA. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

- However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- JAPAN. 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

- The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

• WORLD GROWTH. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

• SUPPLY SHORTAGES. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

Appendix 2

Significant Risks to both the Bank Rate and PWLB forecasts

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.

- **The Monetary Policy Committee** acts 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.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. Then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation which would create a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough at the end of September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise these forecasts again over the next few months - in line with what the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10% were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

- A fast vaccination programme had enabled a rapid opening up of the economy during 2021.

- The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
- It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
- And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its 15th December meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends, all other things being equal. The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

There are also possible DOWNSIDE RISKS from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor**.**

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?

- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going <u>above</u> a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- <u>***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***</u>
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Appendix 3

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

1. 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.

2. 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 on 21st March 2002 and will apply its principles to all investment activity. In accordance with the Code, the Assistant Director Resources has produced its Treasury Management Practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual Investment Strategy

3. 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 the following:

   a) The strategy guidelines for choosing and placing investments, particularly non-specified investments.

   b) The principles to be used to determine the maximum periods for which funds can be committed.

   c) Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.

   d) Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

4. The investment policy proposed for the Council is:

Strategy Guidelines

5. The main strategy guidelines are contained in the body of the treasury strategy statement.

All Investments

6. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

   (a) Banks 1 - good credit quality – the Council will only use banks which:

      i. are UK banks; and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
         a. Fitch Short Term equivalent – F1
         b. Fitch Long term equivalent – A-

   (b) Banks 2 Non UK banks based on the following <u>very high quality</u> criteria using a lowest common denominator approach and <u>only</u> where sovereign ratings are AAA.

         a. Fitch Short Term equivalent – F1+
         b. Fitch Long Term equivalent – AA-

   (c) Banks 3 – Part nationalised UK banks – Lloyds Bank Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

   (d) Banks 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

   (e) Building societies The Council will use all societies which:

      i. meet the ratings for banks outlined above and have assets in excess of £1,000m

   (f) Money Market Funds (CNAV, LVNAV & VNAV) AAA

   (g) Ultra Short Dated Bond Funds AAA

   (h) UK Government (including gilts Treasury Bills and the Debt Management Office)

   (i) Local authorities, parish councils etc

   (j) Supranational institutions

   (k) Property Funds ,Corporate Bond Funds and Asset Backed Investment Products

7. A limit of £50M will be applied to the use of Non-Specified investments.

Specified Investments

8. These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

   (a) The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
   (b) Supranational bonds of less than one year's duration.
   (c) A local authority, housing association, parish council or community council.
   (d) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category f. above, this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and/or Fitch rating agencies.
   (e) A body that is considered of a high credit quality (such as a bank or building society). For category a and b this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and/or Fitch rating agencies.

9. Within these bodies, 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 these bodies. These criteria are:

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 category high quality	**AA-**	**£5M**	**Maximum of 2 years Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)**
Banks 1 category medium quality	**A**	**£4M**	**Maximum of 1 year Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)**
Banks 1 category lower quality	**A-**	**£3M**	**Maximum of 1 year Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)**
Banks 2 Non UK (only where sovereign ratings are AAA)	**AA-**	**£3M**	**Maximum of 1 year Suggested duration using Link Asset Services colour coding (CDS adjusted with manual override)**
Banks 3 category – part nationalised	**N/A**	**£5M**	**Maximum of 1 year**
Banks 4 category – Council's banker (not meeting Banks 1,2 and3)		**£3M**	**1 day**
DMADF (Debt Management Office)	**AAA**	**unlimited**	**6 months**
Local authorities	**N/A**	**£5M per Local Authority**	**Up to 1 years**
Money market Funds (CNAV, LVNAV & VNAV) and Ultra Short Dated Bond Funds	**AAA**	**£5M per Fund**	**liquid**

10. The Council will therefore use the following durational bands supplied by Link Asset Service's creditworthiness service when applying time limits to investments

    a. Yellow Maximum 2 years *This only relates to AAA rated government debt or its equivalent
    b. Purple Maximum 2 years
    c. Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
    d. Orange 1 year
    e. Red 6 months
    f. Green 3 months

Non-Specified Investments

11. Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail, The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£3m
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.	£5m
e.	Any **bank or building society** that has a minimum long term credit rating of AA-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
f.	**Local Authorities**	£5m per authority
g.	**Property Funds, Corporate Bond Funds and Other Asset backed Investment products** The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using	£20m per Fund

12. Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these

bodies. Time limits will be applied to banks using the creditworthiness service provided by Link Asset Services. And for part-nationalised banks will be up to 2 years.

13. Time limits for Property Funds, Corporate Bond Funds and Asset Backed Investment Products will be up to 10 Years, Local Authorities up to 2 years.

The Monitoring of Investment Counterparties

14. The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services 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 Assistant Director Resources, and if required new counterparties which meet the criteria will be added to the list.

This page is intentionally left blank