Public Document Pack

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

26 January 2022

Chairman:	Councillor Keith Vickers	**Venue:**	Room F01e, Conference Room Church Square House
Time:	10.00 am (Member Development Session) (NOT PUBLIC) 11:30 am (Public Meeting)	**E-Mail Address:** matthew.nundy@northlincs.gov.uk	

AGENDA

Member Development Session (NOT PUBLIC) (10:00 am)

1. Treasury Management Training - To receive a presentation from Mr Robert Baxter, Director - LINK Group

Public Meeting (11:30 am)

2. Substitutions (if any)

3. Declarations of Disclosable Pecuniary Interests and Personal or Personal and Prejudicial Interests (if any).

4. To take the minutes of the meeting held on 3 November 2021 as a correct record and authorise the chairman to sign. (Pages 1 - 8)

5. Treasury Management Strategy and Practices 2022-23 (Pages 9 - 58)

6. External Audit Progress Report - January 2022 - Report of Mazars (Pages 59 - 74)

7. Accounting Policies 2021-22 (Pages 75 - 96)

8. Interim Internal Audit Report - 2021-22 (Pages 97 - 110)

9. Any other items which the chairman decides are urgent by reasons of special circumstances which must be specified.

Note: Reports are by the Director: Governance and Communities unless otherwise stated.

This page is intentionally left blank

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

3 November 2021

PRESENT: - Councillor K Vickers (Chairman)

Councillors T Foster (Vice-Chair), C Sherwood, S Wilson and L Yeadon.

The meeting was held in the Conference Room, Church Square House, Scunthorpe.

637 **SUBSTITUTIONS (IF ANY) -** Councillor C Sherwood substituted for Councillor T Mitchell.

638 **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS AND PERSONAL OR PERSONAL AND PREJUDICIAL INTERESTS (IF ANY) -** There were no declarations of disclosable pecuniary interests and personal or personal and prejudicial interests.

639 **TO TAKE THE MINUTES OF THE MEETING HELD ON 21 JULY 2021 AS A CORRECT RECORD AND AUTHORISE THE CHAIRMAN TO SIGN - Resolved**– That the minutes of the proceedings of this committee held on 21 July 2021, having been printed and circulated amongst the members, be taken as read and correctly recorded and signed by the Chairman.

640 **ANNUAL INFORMATION GOVERNANCE UPDATE -** The Director: Governance and Partnerships submitted a report that provided the committee with an annual position statement on the council's Information Governance arrangements.

The committee was informed that the council had a legal obligation to comply with information legislation, notably the UK General Data Protection Regulation (UK GDPR)/Data Protection Act 2018, Freedom of Information Act and the Environmental Information Regulations. Collectively, these requirements are referred to as "information governance".

An Information Governance Framework comprising a series of individual policy schedules set out how the council would comply with legislation and good practice. Its implementation was led and overseen by the Data Protection Officer with support from the Senior Information Risk Owner.

The council was committed to the ongoing strengthening of its Information Governance arrangements and continued to strive to meet the standards set by both internal audit and external assessments.

The committee discussed the key developments and assurance highlights over the last twelve months, before the Chairman facilitated a discussion with the Director.

Resolved – That after consideration of the report and discussion of its content, the Annual Information Governance update provided sufficient assurance on the adequacy of the council's Information Governance arrangements.

641 **GOING CONCERN ASSESSMENT AS AT 31 MARCH 2021 -** The Director: Governance and Partnerships submitted a report that summarised the management assessment of the council continuing to operate as a going concern for the purposes of presenting the completed Statement of Accounts for 2020-21.

The council prepared its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In presenting information in its financial statements, the council was required to have regard to the going concern assumption. The detailed requirements of the code were included at appendix 1 to the report, together with the responsibilities placed on the council's external auditors in obtaining sufficient assurance via an annual management assessment.

The going concern assumption underpinned the accounts drawn up under the Code and was made because local authorities carried out functions essential to the local community and were themselves revenue-raising bodies. If an authority were in financial difficulty, alternative arrangements may be made by central government either for the continuation of the services it provided or for assistance with the recovery of a deficit over more than one financial year.

If the going concern assumption was deemed not to apply, this would have a material impact on the financial statements. Adjustments would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies.

In accordance with the Code, the council's statement of accounts had been prepared under the going concern basis assuming the council would continue to operate in the foreseeable future and was able to do so within the current and anticipated resources available. This meant the council would realise its assets and settle its obligations in the normal course of business.

This was supported by the going concern assessment undertaken by the section 151 officer which concluded that the council could operate in the foreseeable future as a going concern.

The going concern assessment had been completed as at the balance sheet date of 31 March 2021. It included consideration of the impact that Covid-19 had had, and continued to have, on council finances.

Members were informed that the approved 2020-21 budget pre-dated the pandemic, and accordingly plans were altered during 2020-21 to reflect the changing composition of funding, income and expenditure brought about by the pandemic.

The Director guided the committee through the council's going concern assessment, before responding to questions on aspects of her report.

Resolved – That the going concern assessment set out in Appendix 1 of the report be endorsed.

642 **AUDIT COMPLETION REPORT - REPORT OF MAZARS -** The council's external auditors circulated the Audit Completion report for members information. Members heard that the detailed scope of the external auditors work was set out in the National Audit Office's (NAO) Code of Audit Practice, with its responsibilities and powers derived from the Local Audit and Accountability Act 2014, and as outlined in the Audit Strategy Memorandum. The external audit had also been conducted in accordance with International Standards on Auditing (UK).

Contained within section 4 of the report was the external auditors conclusions and significant findings from their audit. This section included Mazars conclusions on the audit risks and areas of management judgement in the Audit Strategy Memorandum, which were –

- management override of controls;
- valuation of property, plant and equipment; and
- net defined benefit liability valuation.

Section 5 of the report contained Mazars internal control recommendations and section 6 stated the audit misstatements and unadjusted misstatements.

Section 7 of the report outlined the external auditors work on the councils arrangements to achieve economy, efficiency and effectiveness in its use of resources.

The main findings within the Audit Completion Report that had led to amendments to the accounts were

- 1 Adjusted misstatement was identified in relation to the Cashflow.
  - Presentational error within the supporting notes relating to sale of property, plant and equipment

- 3 disclosure amendments were identified:
  - Capital Commitments – commitment figure reduced to reflect that £0.7m of the contract has been accrued for.
  - Related Party Transactions – Typographical error amended from £115k to £15k.
  - Agency Income and Expenditure – disclosure note removed as the administering of COVID19 grants not an agency arrangement covered by this disclosure

Upon completion of Mazars verbal presentation, the Chairman facilitated a discussion between the committee and its external auditors.

Resolved – That the Audit Completion report be noted.

643 **AUDITED ACCOUNTS 2020-21 -** The Director: Governance and Partnerships circulated the councils audited accounts for the financial year 2020-21.

The committee was informed that the Accounts and Audit Regulations 2015 (England) required the council to publish a statement of accounts each financial year. These accounts were the formal statement of the council's financial performance for the year and its financial position at the end of that period. A financial year ran from April to March.

The legislation relating to the timescale for the production and audit of the accounts was amended for the 2020-21 and 2021-22 financial years. These changes were incorporated into the Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263).

The production of the draft accounts deadline had moved from 31 May to 31 July 2021. The audit completion date moved from 31 July to 30 September 2021.

The council's unaudited accounts were approved by the Director: Governance and Partnerships on 1 July 2021. This met the statutory requirement that they be approved by 31 July 2021. The audit deadline was not met and full disclosure was published in line with guidance on the local authority's website.

Members commented on particular aspects of the report, to which the Director responded.

Resolved – That the audited accounts report be noted.

644 **STATEMENT OF ACCOUNTS -** The Director: Governance and Partnerships circulated the council's Statement of Accounts for the financial year 2020-21.

Members commented on particular aspects of the council's Statement of Accounts, which the Director responded to.

Resolved – (a) That the Statement of Accounts for 2020-21, prepared on a going concern basis and as amended in line with the auditors findings, be received and approved; (b) that the Chairman of the Audit Committee and Director: Governance and Partnerships be authorised to approve the audited set of accounts on behalf of the committee following the completion of all audit work, and (c) that all council officers who had contributed towards the closedown of the council accounts be congratulated for their commitment and professionalism.

* *The Director: Governance and Partnerships received confirmation on 2*

December 2021 that Mazars had now completed its work on the outstanding items and, as a result of the findings, had amended the ISA 260 report. Therefore, following receipt of the amended ISA 260 report, the council's external auditors had now given the council's accounts an unqualified opinion.

645 **ANNUAL GOVERNANCE STATEMENT 2020-21 -** The Director: Governance and Partnerships submitted the revised Annual Governance Statement for 2020-21, which had been amended to reflect the significant findings within the external auditors Audit Completion report (minute 642 refers).

The Director responded to members questions.

Resolved – That the revised Annual Governance Statement for 2020-21 be received and approved.

646 **NORTH LINCOLNSHIRE COUNCIL DRAFT MANAGEMENT REPRESENTATION LETTER -** The Director: Governance and Partnerships circulated the draft management representation letter for consideration by the committee.

Resolved - That the signing of the Letter of Representation by the Chairman of the Audit Committee and the Director: Governance and Partnerships be endorsed.

647 **EXTERNAL AUDIT APPOINTMENT PROCESS -** The Director: Governance and Partnerships circulated a report that set out the process for the external audit procurement process and the options available to the council.

The Local Audit and Accountability Act 2014 established arrangements for the appointment of external auditors and the setting of audit fees for all local government bodies in England. In relation to appointing external auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they could join and take advantage of the national approved collective scheme where contracts were negotiated with audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Members heard that in July 2016, the Secretary of State specified Public Sector Audit Appointments Ltd (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.

In 2017 the Committee approved the council opting into the scheme, and consequently Mazars was appointed as its external auditor.

Prior to the end of the current contract on 31 March 2023, the council would need to reprocure external audit services. The Regulations required the appointing person to set the duration of each appointing period; the maximum duration was five years.

The council had until December 2022 to make an external audit appointment. In practical terms this meant a decision by spring 2022 in order that the contract negotiation process could be carried out during 2022. However, the council was required to indicate whether it wished to continue with the PSAA Framework arrangement, by 11 March 2022.

The Director responded to members' questions on her report.

Recommended to Council – That the council continue to adopt into the Public Sector Audit Appointments Ltd framework.

648 **TREASURY MANAGEMENT MID YEAR REPORT 2021-22 -** The Director: Governance and Partnerships circulated the treasury management mid-year report for the financial year 2021-22. The report provided an overview of the council's treasury performance during the first six months of 2021-22 and set out national factors that affect the council's treasury activity.

Members heard that the report fulfilled the authority's legal obligation under the Local Government Act to have regard to both the CIPFA Code and the Department for Levelling Up, Housing and Communities (DLUHC), previously Ministry of Housing, Communities & Local Government, Investment Guidance. The CIPFA Code required that Council receive a report at the start of the financial year, mid-year and year end. The Audit Committee also received regular updates regarding treasury activity, providing assurance on the effectiveness of the council's treasury management arrangements.

The CIPFA Code set out the following objectives for treasury management:

"It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk, in that order of importance. No treasury management transaction is without risk and management of risks is the key purpose of the treasury management strategy." 2.3 Full Council agreed the Treasury Management Strategy Statement (TMSS) for 2021/22 in February 2021".

Full Council agreed the Treasury Management Strategy Statement for 2021-22 in February 2021.

The Director informed the committee that –

- Investment returns remained at near zero due to the impact of the Covid 19 pandemic. The council had continued to take a cautious approach to investing.
- Borrowing remained comfortably within the control levels set and no new borrowing was undertaken.
- Treasury activity was compliant with the Prudential Indicators set for the

financial year.

The Director responded to members' questions.

Resolved – (a) That after consideration of the report and discussion of its content, the Treasury Management Mid-Year report 2021-22 provided sufficient assurance on the adequacy of the council's Information Governance arrangements, and (b) that the mid-year treasury management performance for 2021-22 be noted.

649 **COUNTER FRAUD PROGRESS REPORT -** The Director: Governance and Partnerships submitted a report that informed the committee of the key issues arising from the council's counter fraud work.

The committee was informed that the council's framework to combat fraud, corruption and misappropriation was approved by the Audit Committee in April 2018. The framework followed national guidance as laid out in the document 'Fighting Fraud and Corruption Locally - The local government counter fraud and corruption strategy 2016-2019', published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre. It was based upon three key principles:

- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursue - Being stronger in punishing fraud and recovering losses.

The Director highlighted the work carried out in each of these areas to demonstrate the council's continuing commitment to minimise the risk of fraud. Attached to the report as an appendix was a fraud six-month progress report.

Following the verbal presentation, the Director responded to members questions.

Resolved - That the counter fraud work programme provided a sufficient level of assurance on the adequacy of the council's counter fraud arrangements.

650 **ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT BY REASONS OF SPECIAL CIRCUMSTANCES WHICH MUST BE SPECIFIED -** There were no urgent items for consideration at the meeting.

This page is intentionally left blank

Report of the Director: Governance and Communities

Meeting: 26 January 2022

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

TREASURY MANAGEMENT STRATEGY AND PRACTICES 2022/23

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 The Council is required to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services (The Code) as revised in 2017.

1.2 In order to comply with the key requirements of the Code, the Council should create and keep under review.

1.2.1 A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities, as approved by Council.

1.2.2 A Treasury Management Strategy covering the council's Borrowing and Investing Activities.

1.2.3 Suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

1.3 Audit Committee is responsible for ensuring effective scrutiny of the treasury management arrangements.

1.4 This report contains an updated Treasury Management Policy Statement, Treasury Management Strategy Statement and Treasury Management Practices for 2022-23.

2. **BACKGROUND INFORMATION**

2.1 The proposed Treasury Management Policy Statement, Treasury Management Strategy Statement (TMSS) for 2022/23 and Treasury Management Practices are attached as Appendices. They have been developed in consultation with our treasury management advisors, Link Group.

2.2 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

3. OPTIONS FOR CONSIDERATION

3.1 To consider the Treasury Management Policy Statement and note the revised Treasury Management Strategy and Treasury Management Practices in the Appendices.

4. ANALYSIS OF OPTIONS

4.1 The attached appendices have been compiled utilising the advice of our Treasury Advisors and comply with the requirements of the CIPFA Code.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 None, other than the those set out in the report and appendices.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Not applicable

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Not applicable

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable

9. RECOMMENDATIONS

9.1 The Audit Committee is requested to:

a) Consider the assurance the attached appendices give the Audit Committee on the Council's Treasury activities.

b) Adopt the Prudential Code 2017, the CIPFA Treasury Management in Public Services Code of Practice and related MHCLG Guidance.

c) Note the Treasury Management Policy Statement (Appendix 1

d) Note the Treasury Management Strategy for 2022/23 (Appendix 2)

e) Note the Treasury Management Practices (Appendix 3)

DIRECTOR: GOVERNANCE AND COMMUNITIES

Church Square House
SCUNTHORPE
North Lincolnshire
DN15 6NL
Author: Mark Kitching/Tracy Elliott
Date: 18th January 2022

Background Papers used in the preparation of this report –
- Local Government Act 2003
- CIPFA Treasury Management in Public Services Code of Practice (2017 Edition)
- CIPFA Code of Practice 2019-20
- CIPFA The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

APPENDIX 1

The Treasury Management Policy Statement

1. The Council defines its treasury management activities as:

The management of the Council'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."

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

3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. The Council's high level policies for borrowing, borrowing in advance and investments.

- The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

- This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

- The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Appendix 2

North Lincolnshire Council Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2022/23

INDEX

1.INTRODUCTION

1.1 Background

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

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

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

CIPFA defines treasury management as:

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

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

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this 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.

1.2.2 Treasury Management reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
    - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - an investment strategy, (the parameters on how investments are to be managed);
    - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
    - the capital plans, (including prudential indicators)

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

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

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken for a) by the Audit Committee (excluding indicators) and the Governance Scrutiny Panel and for b) & c) by the Audit Committee.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which 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
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, Department of Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was delivered in January 2022 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

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

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

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

1.6 Minimum Revenue Provision (MRP) policy statement

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

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. The Council is recommended to approve the following MRP Statement

For capital expenditure incurred before 1 April 2008 the MRP policy will be to set aside 1/50th of the balance per annum.

From 1 April 2008 the MRP policy will be

- **Asset life annuity method** – MRP will be based on the estimated life of the assets, in accordance with the regulations using the annuity method.

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in finance leases are applied as MRP over the life of the contract.

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 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 March 2021 the total VRP overpayments were £3.0m.

2 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the annual investment strategy.

2.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2021 and for the position as at 17 January 2022 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual		Current	
	31.3.21	**31.3.21**	**17.01.22**	**17.01.22**
Treasury investments	£000	%	£000	%
banks	5,830	24%	13,823	17%
DMADF (H.M.Treasury)	10,500	44%	56,500	69%
money market funds	7,700	32%	12,000	15%
Total treasury investments	**24,030**	**100%**	**82,323**	**100%**
Treasury external borrowing				
local authorities	9,000	6%	6,000	4%
PWLB	152,245	94%	149,887	96%
Total external borrowing	**161,245**	**100%**	**155,887**	**100%**
Net treasury investments / (borrowing)	**(137,215)**	**0**	**(73,564)**	**0**

2.2 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 14th January 2022. These are forecasts for PWLB certainty rates, gilt yields plus 80 basis points (bps).

Link Group Interest Ra 20.12.21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate													
Link	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.50	0.75	0.75	1.00	1.25	1.25	1.25	1.25	-	-	-	-	-
5yr PWLB Rate													
Link	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.80	1.90	2.10	2.20	2.20	2.30	2.40	2.40	-	-	-	-	-
10yr PWLB Rate													
Link	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	2.00	2.10	2.20	2.30	2.30	2.40	2.50	2.50	-	-	-	-	-
25yr PWLB Rate													
Link	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	2.20	2.30	2.50	2.70	2.70	2.70	2.80	2.90	-	-	-	-	-
50yr PWLB Rate													
Link	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.70	2.90	-	-	-	-	-

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until increasing the rate to 0.25% on 15th December 2021.

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%.

Forecasts for PWLB rates and gilt and treasury yields

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.
There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates.

There is a growing risk that medium to long term PWLB rates will increase.

Investment and borrowing rates

- **Investment returns** are expected 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.

- **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.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps (1%) in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** Our long-term (beyond 10 years), forecast for the Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if an authority is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk
- While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, , there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

2.3 Borrowing strategy

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

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

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

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

Any decisions to borrow will be reported to the Audit Committee at the next available opportunity.

2.4 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs and will not borrow primarily for yield.

2.5 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio will not occur due to the very large difference between premature redemption rates and new borrowing rates.

2.6 New financial institutions as a source of borrowing and / or types of borrowing

Consideration may need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the PWLB 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 and UK Infrastructure Bank where circumstances make their use value for money

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

2.7 Approved sources of long- and short-term borrowing

Funding Source	Fixed	Variable
Internal (capital receipts & revenue balances)	●	●
PWLB	●	●
Local authorities	●	●
Overdraft		●
Municipal bond agency	●	●
Banks	●	●
Finance leases	●	●
Local temporary	●	●
Local authority bills	●	
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Negotiable Bonds	●	●
Commercial Paper	●	
Medium Term Notes	●	

Lender Option, Borrower Option (LOBO) loans will not be used.

3 ANNUAL INVESTMENT STRATEGY

3.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

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

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity in accordance 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 , the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

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

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

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

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

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

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 5% of the value of its portfolio at the time of the potential investment.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

3.2 Creditworthiness policy

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Governance and Communities 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 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.

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 list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed considering market conditions.

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

- Banks 1 - good credit quality **–** the Council will only use banks which:
  1. are UK banks; and/or
  2. 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 & Poor's credit ratings (where rated):
  1. Short Term – *BBB-; Baa3, BBB-*
  2. Long Term *– F-3, P-3, A-3*
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- 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.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
  1. Building societies. The Council will use all societies which meet the ratings for banks outlined above;
- Money Market Funds (MMFs) – *AAAmmf*
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, parish councils etc
- Supranational institutions

Use of additional information other than credit ratings. 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, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch long term rating	The higher of		Time Limit
		Value (£m)	% of portfolio	
Banks 1 higher quality	AAA-	5	12.5%	1 year
Banks 1 medium quality	AA-	3	7.5%	1 year
Banks 1 lower quality	BBB-	1	2.5%	1 year
Banks 2 – part nationalised	BBB-	3	7.5%	1 year
Limit 3 category – Council's banker	BBB-	5	20.0%	60 days
Building Societies	BBB-	1	2.5%	1 year
Debt Management Account Deposit Facility	UK sovereign rating	Unlimited		1 year
Local authorities	N/A	4	10.0%	1year
	Fund rating**	Value (£m)	% of portfolio	Time Limit
Money Market Funds per fund	AAAmmf	3	10.0%	liquid

The proposed criteria for specified and non-specified investments are shown in Appendix 5.4 for approval.

Creditworthiness.
Significant levels of downgrades to short- and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

3.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 5% of the total treasury management investment portfolio or £2m whichever is the larger.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch or equivalent . The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than 5% or £2m whichever is the larger will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

3.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash 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 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.
The current forecast shown below, includes the increase in Bank Rate in December 2021.

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

Average earnings in each year	Now	Previously
2022/23	0.50%	0.25%
2023/24	0.75%	0.50%
2024/25	1.00%	0.50%
2025/26	1.25%	1.00%
Long term later years	2.00%	2.00%

For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

3.5 Investment performance / risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 1 month SONIA (Sterling Over Night Index Average)

3.6 End of year investment report

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

3.7 External fund managers

The Council does not currently use external fund managers. However it will keep this decision under review and if it is proposed to engage external fund managers this will be reported to the Audit Committee.

Appendix 3

Treasury Management Practices

Version Number	1.1	Approved By:	Audit Committee
Issue Date	January 2022		

TREASURY MANGEMENT PRACTICES
PRINCIPLE AND SCHEDULES

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for North Lincolnshire Council treasury operations are referenced below:

TMP1 - Risk Management

1. Credit and Counterparty Policies

1.1.1 All treasury management activities present risk exposure for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

1.1.2 The Director Governance and Communities will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties in consultation with the Council's advisors.

1.1.3 The criteria will be agreed by Audit Committee.

1.1.4 Investment with government offers the least risk but lower yields.

1.1.5 The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:

- Credit Ratings - the Council will use credit rating criteria as the main means of assessing the creditworthiness of counterparties for placing investments with – where available this Rating information will be supplemented by additional risk indicators such as Credit Default Swap Rates.
- Sovereign credit ratings/sovereign support mechanisms.
- The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.
- Financial limits for individual counterparties and sectors will be set to ensure a sound diversification policy.
- Longer term and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)
- Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.
- Credit Default Swap (CDS) information
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment
- Where one or more counterparties are part of a group a limit will be set for the aggregate for all investments with the group.

1.1.6 Treasury team will construct a lending list comprising time, type, sector and specific counterparty limits based on the Council's approved Treasury Management Strategy Statement.

1.1.7 It may be impractical to determine a specific list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria and whether the security is secured or unsecured will determine its selection for investment.

1.1.8 The counterparty list will be checked in accordance with the Treasury Management Strategy Statement. Credit ratings for individual counterparties can change at any time. The Treasury Advisors notify the Council of credit rate changes which affect the Councils counterparty list and any consequent change in limits. They also provide economic summaries, CDS information (monthly) and share price information.

1.1.9 The treasury management officer will amend the approved list in line with the policy on criteria for selection of counterparties.

1.1.10 Where an entity's credit rating is downgraded so that if fails to meet the minimum criteria, then only with the explicit approval of the Director Governance and Communities will a lower level of investment be permitted within the Non-Specified category. This is particularly apposite for the Council's own bankers where overnight deposits may be required for Operational purposes.

1.1.11 Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known. This will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.

1.1.12 Credit ratings will be used as supplied from one or more of the following credit rating agencies.
- Fitch Ratings Ltd
- Moody's Investors Services
- Standard & Poor's

1.1.13 Operationally the Director Governance and Communities may take measures to restrict (but not extend) the criteria approved in the Treasury Management Strategy Statement.

1.1.14 Advisers will be informed of changes to the Counterparty List where necessary.

1.2 Liquidity

1.2.1 The Council will seek to maintain sufficient cash balances to meet its daily cash requirements without recourse to short-term borrowing.

1.2.2 Should unforeseen circumstances arise short–term borrowing will be undertaken to ensure liabilities are met as they fall due.

1.2.3 The Treasury Specialist maintains cash flow forecasts (see TMP8)

1.2.4 Approved sources of short-term borrowing are:-
- The Council agrees an overdraft facility if necessary, with its bankers.
- The Council accesses temporary loans either through money brokers or directly from financial institutions/other local authorities

1.2.5. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current programme or to finance future debt maturities.

1.3 <u>Interest Rate Risk Management</u>

1.3.1 Treasury management strategies are prepared in consultation with treasury advisors to take account of interest rate forecasts (see TMP6). Trigger points for consideration of borrowing are included within the strategy where appropriate. The treasury management advisors periodically update the forecasts and any impact on trigger points. The Council may determine it is more cost effective in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring or refinancing in future years when interest rates are expected to be higher.

1.3.2 For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.

1.3.3 The Prudential Code requires the Council to determine each year upper limits on net fixed interest rate and net variable interest rate exposures are determined each year as part of the Treasury Management Indicators included in the annual Treasury Management Strategy Statement.

1.3.4 The upper limits on net fixed interest rate and net variable interest rate are reviewed at least annually and are approved by Council within the Treasury Management Strategy reports. The Treasury Specialist monitors compliance which is subject to regular review as part of the assurance arrangements.

1.3.5 Policies concerning the use of financial derivatives and other instruments for interest rate management are set out in TMP4-

- a. The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy. The authority does not currently intend to use derivatives. Should this position change, the Council will seek to develop a detailed and robust risk management framework governing the use of derivatives.
- b. Forward Dealing – consideration will be given to forward lending or borrowing for a period no more than 60 months in advance of the transaction.

1.4 <u>Exchange Rate</u>

1.4.1 Borrowing and Lending will only be undertaken in £ Sterling.

1.4.2 The Authority may have some exposure to exchange rate movements from time to time because expenditure or income is denominated in a foreign currency, but these transactions will generally be small and will normally be converted out of or into sterling at the time of the transaction.

1.5. Refinancing

1.5.1 The Council will seek to limit refinancing exposure by ensuring that only a limited amount of loan debt will mature in any one year. This limit will be kept under review and reported annually as part of the Treasury Management Strategy. The Prudential Code requires as a specific treasury management indicator, upper and lower limits for the maturity structure of the Council's debt.

1.5.2 The opportunities for debt restructuring will be kept under review in line with market conditions.

1.5.3 All loan debt rescheduling will be reported to the Audit Committee as part of the outturn report.

1.5.4 The council will prepare as a minimum a three-year plan for capital expenditure. The Capital Investment Strategy and capital programme will be used as a basis for estimating the anticipated financing requirement and a three-year revenue budget for loan charges consisting of MRP, interest and expenses as well as loan repayments and forecast interest rates.

1.5.5 The Council sets affordable limits for borrowing to inform the capital investment plans. The main source of borrowing for the authority is the Public Works Loan Board (PWLB) and estimates shall be prepared using forecast PWLB rates.

1.5.6 In addition to PWLB, any other source providing best value for money and favourable terms for borrowing will be considered.

1.6 Legal and Regulatory

1.6.1 **References to Relevant Statutes and Regulations**

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

English Authorities

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act.
- Local Government Act 2003
- Localism Act 2011
- S.I. 2020 no. 1212 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- S.I. 2021 no. 263 Accounts and Audit Regulations 2021
- All other relevant regulations/ codes of practice etc.

Guidance and codes of practice

- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2017,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- MHCLG Revised Guidance on Investments Feb 2017
- MHCLG guidance on minimum revenue provision – Feb 2017
- The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2018 edition)
- Practitioners' Guide to Capital Finance (2019 Edition)
- LAAP Bulletins
- Code of Practice On Local Authority Accounting In The United Kingdom
- PWLB circulars on Lending Policy
- The UK Money Markets Guide. Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

1.6.2 Where required, the Council will establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

1.7 Fraud, error and corruption

1.7.1 TMP5 and TMP6 set out the Council's arrangements for clarity of organisation, reporting arrangements, and management information systems and controls.

Contingency management

1.7.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.
Under established agile working practises, all members of the Treasury Management team have remote access to the required systems to enable continuity.

- An electronic record is kept of all necessary treasury management data.
- Payments can be given by instruction by hand to the Bank.
- Balances can also be obtained over the telephone.
- Capability exists to make payments off-site through agile working practices.

1.7.3 Details of systems and procedures to be followed:

Authority

- The scheme of delegation to Officers set out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by authorised persons.

Occurrence

- A detailed register of loans and investments is maintained as part of the treasury management arrangements (Treasury Live). This is confirmed to the ledger balance.
- Adequate and effective cash flow forecasting records are maintained within the treasury management arrangements to support the decision to lend or borrow.
- Confirmation of a deal is received from the counterparty or trading portal. This could be in electronic or hardcopy format.
- A broker note showing details of the loan arranged confirming all transactions placed through brokers.

Completeness

- The loans register (Treasury Live) is updated to record all lending and borrowing this includes the date of the transaction and its terms.

Measurement

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Authority.

Timeliness

- The Treasury Live system highlights when money borrowed, or lent is due to be repaid. The Dealer will obtain daily from the Authority's bankers the intraday balance, and ensure that allowance will be made for the repayment/ receipt of loans/ investment due.

Procedure

- All investment is only made to institutions on the approved list.
- All loans raised and repayments made go directly to and from the authority's designated bank account.
- Authorised limits are set for every institution, grouped entities and types of instrument.
- Every effort is made to maintain balances within approved limits.
- Transactions are cross-checked against broker notes, counterparty confirmations and schedules by dates, amounts, interest rates, maturity, interest payment dates, etc.
- Brokers will have a list of named officers authorised to perform loan transactions.
- There is adequate insurance cover for employees involved in loans management and accounting.
- The control totals on the Treasury Live system are reconciled quarterly with the ledger.
- There is a clear separation of duties between functions discussed in detail in TMP5

Security

- All Investment Payments should be authorised by a bank signatory.
- NLC Faster Payments –Payments should be authorised by relevant budget head.
- Cards, PINs and card readers are required for Barclays.net transactions.
- When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through independently obtained contact details for the payee before altering payment details.

Internal Audit

1.7.4 Internal Audit carries out an annual regulatory review of the treasury management function. (See TMP 7)

1.7.5 The Council has "Crime Stop" insurance cover. This covers the loss of cash by fraud or dishonesty of employees.

1.8 Market Risk Management

1.8.1 This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

1.8.2 The Council will from time-to-time access instruments in which there is an active secondary market (Certificates of Deposit, Treasury Bills etc.). The capital value of these instruments will fluctuate depending on the remaining period to maturity and prevailing market conditions. However, when using such instruments the Council will always do so on the basis that it intends to hold them to maturity and thereby secure a fixed capital value.

1.8.3 The method for accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice.

1.9 Management practices for non-treasury investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

The Authority intends that TMP 1-12 are replicated/applicable as far as this is relevant and practicable to its non-financial investment activity. This particularly applies to TMPs 1, 2, 5, 6, and 10.

TMP2- Performance measurement

Methodology to be applied for Evaluating the impact of Strategic Treasury Management Decisions

All strategic treasury decisions are to be evaluated to determine:

- The impact on the Council's finances
- Any resultant change in the treasury management risk characteristics.

2.1 Methods to be employed for measuring the performance of the authorities Treasury Management activities

- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- Benchmarking information can be obtained from Advisors (where applicable), Treasury Live and/or CIPFA.
- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e., the Council will avoid hindsight analysis.
  - For debt management the following Performance Indicators (PI's) will be used
  - Average rate on all external debt
  - Average rate on external debt borrowed in previous financial year
  - Average period to maturity of external debt
  - For new borrowing, the average PWLB borrowing rate for the period for the same maturity profile.
- For investments the following performance indicator within the TMSS regarding Security will be monitored - a portfolio credit rating of A and for liquidity total cash available with 3 months of £10m.

2.2 To assist in evaluating the impact of strategic treasury management decisions the following will be carried out

- Monitoring of Prudential, treasury indicators and compliance treasury strategy.
- Mid-year and annual report to Audit Committee and Full Council.
- Reviews with the treasury management advisors.
- Internal audit reviews

2.3 Policy Concerning Methods for Testing Value in Treasury Management

2.3.1 Frequency and Processes for tendering

Banking services and other treasury services provided by external providers shall be subject to review at least every 5 years depending on type of contract.

2.3.2 Money Broking Services

Except for approved direct dealing the Council uses money broking services in order to make deposits or to borrow from the market, and will establish charges for all services prior to using them.

Currently, council deals with following list of brokers which takes account of both prices and quality of services, to obtain funds from the money markets and to place investments in accordance with the Approved list.

- Martin Brokers
- Tullett Prebon
- ICAP (restricted to Borrowing transactions only)
- King and Shaxson Limited
- BGC Sterling
- Tradition UK
- Imperial Treasury Brokers

This list will be reviewed periodically. Use of individual brokers will be determined by the need to access the services which they provide in the first instance and by performance/cost assessment thereafter.

2.3.3 Consultants/Advisors Services

NLC's policy is to appoint full-time professional treasury management advisors; the contract will be reviewed at least every three years.

2.3.4 Policy on External Managers

The Authorities' current policy is not to appoint external investment managers, but this will be kept under review.

TMP3 - Decision making and analysis.

Documents will be retained to evidence the processes and rationale behind all decisions:

3.1 Funding, Borrowing, Lending, and New Instruments / Techniques

3.1.1 Records to be kept.
The Treasury team maintains a daily electronic record of bank balances, statements and cash flow calculations and uses specialist computer software to record all cash flow and treasury management transactions which are authorised independently.
The record will have the following details relative to each loan or investment.

- Brokers (if applicable)
- Counterparty
- Interest rate
- Repayment date
- Term of loan
- Loan type
- Commission
- Transfer arrangement
- Basis on which a particular deal was judged to be the correct one
- Confirmation of compliance with Counterparty List

In addition, the following records will be kept: -

- Broker Confirmations
- Counterparty Confirmations
- Deal Tickets

3.1.2 Processes to be pursued.

- Cash flow forecasting – 6 months ahead (daily breakdown), period of Medium-Term Financial Forecast (Monthly breakdown).
- Investment of surplus cash balances
- Temporary borrowing to cover cash deficits.
- Long-term borrowing to finance capital expenditure
- Obtaining other forms of financing where that offers best value.
- Managing the investment and debt portfolio – maturity profile, debt rescheduling opportunities etc.:
- Monitoring of actual against budget for debt charges, interest earnings and debt management expenses

3.1.3 Issues to be addressed.

In respect of every decision made the Council will have regard to the nature and extent of the risks to which the authority may become exposed

- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

- Be content that the documentation is adequate both to deliver the Authorities objectives and protect the authority's interests and to deliver good housekeeping.
- Ensure that third parties are judged satisfactory in the context of the Authorities creditworthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions are competitive.

3.1.4 In respect of borrowing and other funding decisions, following activities will be carried out.

- Evaluation of the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consideration of the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
- Consideration of the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use.
- Consideration of the ongoing revenue liabilities created, and the implications for the Authorities future plans and budgets.
- Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.

3.1.5 In respect of investment decisions, following activities will be caried out:

- Determination of that the investment is within the Council's strategy and pre-determined instruments and criteria.
- Consideration of the optimum period, in the light of cash flow availability and prevailing market conditions.
- Consideration of the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.
- Evaluating the credit risk associated with unsecured investments with banks and building societies.
- Determination of appropriate credit policy limits and criteria to minimise the Authorities exposure to credit worthiness and other investment risks.

TMP4 - Approved instruments, methods and techniques

4.1 Approved activities of the Treasury Management operation

- Borrowing
- Investing
- Capital Financing
- Debt Repayment and rescheduling
- Consideration, approval and use of new financial instruments and treasury management techniques.
- Managing the underlying financial risk associated with the Council's capital financing and surplus funds activities.
- Managing Cash Flow.
- Managing any underlying exchange rate risk associated with the Council's business activities.

The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

4.2 Approved Instruments for Investments

Investments will be with those bodies identified by the Council for use through the Treasury Management Strategy and may include using the following instruments:

- Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities, Term deposits, callable deposits, and forward deals with high rated banks and building societies.
- Treasury Bills, Gilts and other Government issued securities
- Certificates of deposit with high rated banks and building societies.
- AAA-rated Money Market Funds.
- Highly rated corporate bonds
- Covered bonds (i.e. those with underlying collateral)
- Unsecured corporate bonds
- Reverse Repurchase Agreements ('reverse repos')
- Floating Rate Notes
- Pooled funds i.e. Collective Investment schemes meeting the criteria in SI 2004 No 534 and subsequent amendments
- Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments – these will be capital expenditure investments.

4.2.1 Implementation of MIFID II requirements

Since 3 January 2018, UK public sector bodies are defaulted to “retail” status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to “professional” status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money markets funds will deal with both retail and professional clients.)

A list is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution (please see below)

SCHEDULE FOR OPT UPS TO PROFESSIONAL STATUS

Institution Type	Professional Status Required	Via
Banks	None	N/A
Money Market Funds	Black Rock	ICD
	Goldman Sachs	ICD
Bond Funds	None	N/A
Others	Link Asset Services	N/A
	King and Shaxson	N/A
	BGC Partners /RP Martin	N/A
	Tradition UK	N/A
	Imperial Treasury Brokers	N/A

SCHEDULE FOR EXEMPTIONS

4.3 Approved Techniques include

Forward dealing up to 5 years in advance. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director Governance and Communities has delegated powers in accordance with Financial Regulations, Standing Orders, and the Scheme of Delegation and the Treasury

Management Strategy to take the most appropriate form of borrowing from the approved sources.

Finance will only be raised in accordance with the Local Government Act 2003.

Prohibited sources of Finance:

- Lenders Option/Borrowers Option - no new LOBO loans will be entered into.
- The authority will not use standalone derivatives.

4.5 <u>Investment & Borrowing Limits</u>

All investment and borrowing decisions will be made within limits set in TMSS.

TMP5 Organisation, clarity and segregation of responsibilities and dealing

5.1 Limits to Responsibilities / Discretion at Authority Level

Council

- Formal Approval of the delegation of responsibilities (Constitution).
- Budget consideration and approval.
- Set the Prudential Indicators and revise them as and when necessary.
- Formal Approval of The Treasury Management Strategy Statement which incorporates the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Code indicators.
- Receive annual report and mid-year review on treasury management.

Cabinet

- Receive reports on treasury management arrangements and activities and the approval of decisions not reserved to Council

Audit Committee

- Scrutiny and overview of treasury management arrangements and Treasury
- Management Activity,
- Receive the Annual Report and mid-year review.
- Approve the Treasury Management Practices (TMPs).
- Receiving and reviewing internal and external audit reports and reviewing progress on the implementation of recommendations.

Portfolio Holder

- Oversight of treasury management activities in conjunction with the Director Governance and Communities.

5.2 Principles and Practices concerning Segregation of Duties.

The following duties must be undertaken by separate officers:-

- Dealing and recording of deals
- Checking of deal details
- Authorisation of deal and subsequent approval of the payment
- Administration of user profiles on cash management and banking systems

5.3 Treasury Management Organisation Chart

The Director of Governance and Communities /Section 151 Officer

Head of Finance and Commissioning / Deputy Section 151 Officer

Chief Accountant

Strategic Lead (Finance Service Desk)

Specialist (Treasury)/ Finance Practitioner (Treasury)

5.4 Statement of Duties / Responsibilities for Each Treasury Post

5.4.1 The Director Governance and Communities /Section 151 Officer

As per PART D Rule 6 – Financial Regulations of the Constitution

5.4.2 Head of Finance and Commissioning /Deputy s151 officer

a) Provides absence cover for the Director Governance and Communities on policy issues and undertakes the day-to-day treasury management duties of the Director Governance and Communities.
b) Maintains a strategic overview of the treasury management function.

5.4.3 Chief Accountant/ Strategic Lead (Finance Service Desk)

a) One of the officers who can approve investments.
b) Ensures that treasury management practices are documented and are regularly reviewed.
c) Provide oversight of the day-to-day treasury management operations.
d) To ensure that adequate resources are available,
e) Ensure Training is up to date for all roles,
f) Submitting management information reports to the Director Governance and Communities.
g) Review compliance with Assurance Targets and report any exceptions.
h) Agree reconciliation of Treasury transactions to the ledger.

5.4.4 Treasury Specialist

- Oversee the execution of transactions and ensure adequate recording takes place.
- Adherence to agreed policies and practices on a day-by-day basis.
- Maintaining relationships with banking and treasury related third parties and external service providers.
- Monitoring treasury performance on a day-to-day basis.
- Identifying and recommending opportunities for improved practices.
- Ensure Finance Practitioners are kept up to date with market developments.
- Horizon scanning for macro-economic factors.

5.4.5 Finance Practitioner

- Execution of Transactions and their recording.
- Maintenance of Dealer Duties
- The finance practitioner may enter payment details into online banking platforms and transfer funds between the Council's own accounts.

5.4.6 Treasury Management Group

- Chief Accountant, Treasury Strategic Lead and Specialist
- Monthly operational decision-making group within the Treasury Management Strategy Statement
- Reporting quarterly to Head of Finance and Commissioning with exception reporting more frequently as needed and to include Director Governance and Communities.

5.4.7 Head of Legal and Democracy

- Ensures compliance by the Director Governance and Communities with the legislative and regulatory requirements for treasury management.
- Satisfies himself that any proposal to vary treasury practice complies with the law or any code of practice.
- Advises the Director Governance and Communities where his advice is sought.

5.4.8 Internal Audit

- Reviews and makes recommendations in respect of compliance with approved policy and procedures.
- Reviews and makes recommendations in respect of duties and operational practice.
- Assesses the value for money of treasury activities.
- Undertakes the probity audit of the treasury function.

5.5 Absence cover arrangements

- All roles will be covered by at least two persons who have received sufficient training.

5.6 Dealing limits:

Long term (where the period is in excess of 364 days)

Investments

All long-term investment decisions shall be authorised by the Director Governance and Communities by discussion and appropriate (email/Decision notice) confirmation.

Borrowing

All long-term borrowing decisions shall be approved by the Treasury Management Group (paragraph 5.4.6) by recording in minutes of the meeting setting out compliance with the Treasury Management Strategy Statement.
Settlement transmission (paragraph 5.8) to be authorised by a different bank signatory.

Short term funding and investment

In respect of the daily surplus or loan decision, approval of Bank Signatories would be required prior to making commitment with counterparty.

5.7 Direct Dealing Practices

Direct dealing is carried out with institutions and with external pooled funds identified on the counterparty list and subject to maturity limits and dealing limits.

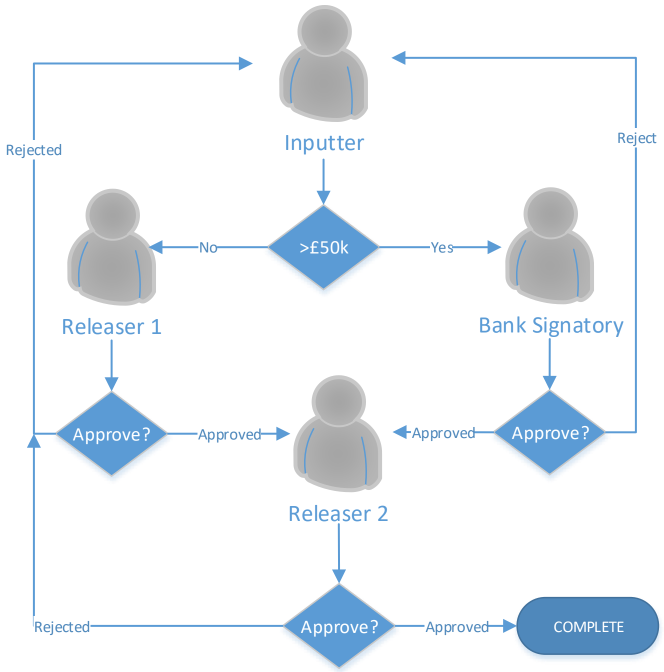
Deal Ticket Proforma:	Deals will be recorded as per the deal ticket proforma. (Proforma maintained at Operational level)
Deal Transactions:	By email, via online dealing portal or telephone.

5.8 Settlement Transmission Procedures

The transfer of funds for deals arranged shall normally be made via the Council's online banking platform. Every payment on Barclays.net would require 3 different individuals for processing. This would include Inputter, and two releasers, where over £50,000 one of the releasers will be a bank signatory:

- Bank Signatory – (strategic leads and senior staff within finance, 7 in total), authorise deals/payments on online banking system, manually or, as appropriate and reviewing their compliance with treasury management arrangements & strategy
- Releaser (Finance team, grade 8 and above) - authorisation of release of payments via online banking platform
- Inputter – treasury management team

Below process flow chart explains the online payment process on Barclays.net



5.9 **Documentation Requirements:**

For each deal undertaken the following will be prepared:

Investments

- Investment Deal ticket providing the investment details.
- Confirmation from the broker
- Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator
- Signed standard settlement instructions (SSI) for investment of principal along with list of authorised signatories of counter parties, except DMO.

Loans

- Borrowing Deal ticket with signature to agree loan
- Confirmation from the broker OR
- Confirmation from PWLB/market counterparty
- Signed standard settlement instructions (SSI) for repayment of principal and interest along with list of authorized signatories of counter parties, except DMO.
- Completed call back for repayment of principal and interest on maturity.

TMP6 Reporting requirements and management information arrangements.

6.1 Annual reporting requirements before the start of the year

- **Treasury Management Strategy report** on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- **Capital Strategy** / **Capital Investment Strategy** to cover the following: -
  - give a long-term view of the capital programme and treasury management implications thereof beyond the three-year time horizon for detailed planning.
  - an overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
  - The authorities risk appetite and specific policies and arrangements for non-treasury investments
  - Schedule of non-treasury investments
- Mid-year review
- Annual review report after the end of the year

6.2 Treasury Management Strategy Statement

The Treasury Management Strategy Statement (TMSS) sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted by the Director Governance and Communities to the Council for approval before the commencement of each financial year.

The Treasury Management Strategy is concerned with the following elements:

- The current treasury portfolio position
- The prospects for interest rates
- The expected borrowing strategy
- The expectations for debt rescheduling
- The Annual Investment Strategy (see below) The Prudential Limits placed by the Council on treasury management activities.

6.3 Annual Investment Strategy

As part of its annual TMSS for the following year, the Director Governance and Communities will present an Annual Investment Strategy covering the identification and approval of the following:

- The strategy guidelines for decision making on investments.
- The maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (defined by the Council), and high liquidity investments in sterling and with a maturity of no more than a year.

- 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.

6.4 Prudential Indicators

Under the prudential system, the Council must determine the level of their affordable borrowing, having regard to the CIPFA Prudential Code.

The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. These are included as an Appendix to the TMSS.

The Director Governance and Communities is responsible for ensuring compliance with these limits. Should it prove necessary to amend these limits, the Director Governance and Communities shall submit the changes for approval to Council.

6.5 Annual reporting requirements after the year end

An annual report will be presented to Council at the earliest practical meeting after the end of the financial year, but in any case, by the end of September.

The report will include.

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results.
- Report on risk implications of decisions taken and transactions executed.
- Compliance report on approved policy, practices and statutory/regulatory requirements.
- Measurements of performance.
- Report on compliance with CIPFA code recommendations.

6.6 In year reporting requirements

A mid-year report on treasury management activity will be presented to Audit Committee and Cabinet by the Director Governance and Communities.

The reports will include.

- Report on risk implications of decisions taken and transactions executed.
- Measurements of performance.
- Treasury Management Indicators

6.7 Management information requirements

The Treasury Specialist will provide to the Treasury Management Group.

- Monitoring and forecast information in respect of relevant treasury budgets.

- Loan and investment balances
- Information demonstrating compliance with prudential indicators.
- Extent of compliance with Treasury Strategy and reasons for variance (if any).

The Treasury Specialist will produce for each meeting of the Treasury Management Group

- Borrowing and lending balances
- Cash flow report
- Market Intelligence

The Treasury Specialist will bring any major issues to the attention of the Chief Accountant officer outside of scheduled meetings.

TMP7 Budgeting, Accounting and audit Arrangements

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.
The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Budgets/Accounts

Chief Accountant in consultation with the Treasury Specialist will prepare revenue estimates for treasury management activity and function for the medium-term financial planning period.

This will bring together all the costs involved in running the function, together with associated income, i.e.:

- Interest payable
- Interest receivable
- Debt management expenses (including bank charges, external advisors etc)

The Treasury Specialist will monitor and report on these estimates throughout the year in accordance with the Council's budget monitoring arrangements.

7.3 Information requirements of Auditors

- Related treasury information/ records will be provided upon request.

TMP8 - Cash and cash flow management

8.1 Arrangements for preparing /submitting cash flow statements

The Treasury Specialist shall keep up to date annual and daily rolling cash flow projections. The projections are prepared from the Medium Term Financial Plan and accumulated knowledge on individual cash flow items, adjusted for known changes in levels of income and expenditure (revenue and capital) and changes in payments and receipts dates. Daily Cash flow records are maintained on the Treasury Live system.

TMP9 Money Laundering

9.1 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the Proceeds of Crime Act (POCA), but are not legally obliged to apply the provisions of the Money Laundering Regulations, 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- evaluate the prospect of laundered monies being handled by them
- determine the appropriate safeguards to be put in place
- require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- make all its staff aware of their responsibilities under POCA
- Appoint a member of staff to whom they can report any suspicions.
- in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Director of Governance and Communities and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.2 Procedures for establishing Identity of Lenders/Borrowers

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000.
The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/Prudential Regulation Authority's website.

The Council will only borrow from permitted sources identified in TMP4

All banking transactions will only be undertaken by the personnel authorised to operate the Council's bank accounts.

When receiving requests for change of payment details due care is exercised to ascertain the bona fide of the request and avoid potential fraud. Checks will be made through pre-existing contact details for the payee before altering payment details.

Banking details for invoices above £50,000.00 from new vendors should be reconfirmed thorough appropriate means such as call back.

9.3 Methodologies for identifying deposit takers

In the course of its treasury activities, the council will only lend money to or invest with those counterparties that are on its approved lending list.

TMP10 - Training and Qualifications

10.1.1 The Director Governance and Communities will ensure that Council members tasked with Treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their need and those responsibilities

10.1.2 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

10.1.3 The Director Governance and Communities is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other staff involved in Treasury Management activities who are members of CIPFA must also comply with the SOPP (Statement of Professional Practice).

10.1.4 Details of staff training needs will be identified, as part of the training needs analysis undertaken as part of the Council's Performance Management Framework.

10.1.5 In addition all treasury management staff will receive appropriate training relevant to the requirements and duties of their role prior to undertaking those duties.

10.1.6 The training needs of each of the following roles is documented, reviewed and delivered by the Chief Accountant or his nominee:

- Dealing staff
- Releasers
- Authorising Staff

10.1.7 Training updates will be provided as required. Regular meetings will be co-ordinated by the Treasury Specialist with Dealing Staff to ensure they are up to date with developments on Treasury issues (e.g. Strategy decisions arising from TMG).

10.1.8 Treasury management seminars will be attended as appropriate and will be open to all relevant staff.

10.1.9 The Chief Accountant will ensure that there are sufficient trained staff in each of the roles to ensure:

- No disruption of effective treasury management service or standards,
- That there is adequate cover and succession arrangements in the event of departure of key staff.
- That there are opportunities for staff to develop their skills.

TMP11 - Use of external service providers

Responsibility for Treasury management decisions remains with the Council at all times

11.1.1 Banking Services

Barclays Bank PLC
PO Box No 3333 1 Snow Hill
Snow Hill Queensway
Birmingham B3 2WN

11.1.2 **Money Broking Services**

- Tullet Prebon Ltd
  155 Bishopgate
  London
  EC2N 3DA
- BGC Partners / Martin Brokers (UK) plc
  One Churchill Place
  Canary Wharf
  LONDON
  E14 5RD
- King & Shaxson Ltd
  Candlewick House
  120 Cannon Street
  London
  EC4N 6AS
- Tradition UK
  15 St. Botolph St.
  London EC3A 7QX
- Imperial Treasury Services
  5 Port Hill, Hertford
  SG14 1PJ

Additional money brokerage service providers may be added subject to approval of Treasury Management Group.

11.1.3 **Treasury Advisers**

Link Asset Services

11.1.4 Deals Recording

Public Sector Live
31 Southampton Row
London
WC1B 5HJ30 day
Rolling 30 day contract

11.1.5 Money Market Funds Dealing

Institutional Cash Distributors Ltd
9 Devonshire Square
LONDON
EC2N 4YF

Bribery Act

The council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers.

<u>TMP12 - Corporate Governance</u>

All applicable treasury related documents will be available on council's website such as Treasury Management Strategy statement etc.

Note that in order to maintain commercial confidentially, requests for more detailed information should be made to inforequest@northlincs.gov.uk clearly explaining the information you would like and providing a contact email or postal address.

This page is intentionally left blank

External Audit Progress Report

North Lincolnshire Council

January 2022

Appendix 6

mazars

1. Audit Progress
2. National publications

01

Section 01:

Audit Progress

Audit Progress

Purpose of this report

This report provides the Committee's January 2022 meeting with:

- an update on progress in delivering the 2020/21 audit and assurance work;
- the 2021/22 audit planning process; and
- a summary of recent relevant reports and publications for your information (Section 2).

2020/21 Audit

The position on the key elements of the audit are as follows:

- Financial Statements Audit – our Audit Completion Report was presented at the Committee's November 2021 meeting and we gave the audit opinion on the 9th December 2021.
- Value for money arrangements– as summarised in our Audit Completion Report we did not identified any significant weaknesses in the Council's arrangements. We will report our Value For Money Commentary in our Auditor's Annual Report in February 2022.
- Other auditor responsibilities – we have not needed to take any action in relation to any of our broader auditor responsibilities.
- Assurance work – The work on the Teachers Pensions return and School Centred Initial Teacher Training claim was completed in December 2021. We have started work on the Housing Benefit Claim which we expect to complete by the end of March 2022.
- We expect the National Audit Office to confirm their requirements for the Whole of Government Accounts in January 2022.

2021/22 Audit

At this stage we do not expect any significant changes to the audit risk profile and the overall audit approach, and we have not identified any significant changes to the financial reporting requirements under the 2021/22 CIPFA Code. The operating and financial environment continues though to be challenging and its important our audit plan is properly tailored to the risks and issues. We will share our 2021/22 Audit Strategy Memorandum at the next meeting of the Committee.

02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1.	New Prudential and Treasury Management Codes	These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate.
2.	CIPFA launches value for money toolkit with the University of Oxford's GO Lab	Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation.
Department for Levelling Up, Housing and Communities		
3.	Consultation on changes to the capital framework: Minimum Revenue Provision	This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.
4.	Measures to improve local audit delays and accounts and audit timetable confirmed	DLUHC have announced a new package of measure to support the improved timeliness of local audit. These include additional funds and an extension of the deadline for publishing accounts.
National Audit Office (NAO)		
5.	The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management	The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall approach.
6.	The Local Government finance system in England: Overview and Challenges	This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.
7.	Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities	This provides a summary of the Department's spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year.
8.	Cyber and Information Security: Good practice guide	Audit committees should be scrutinising cyber security arrangements. This guidance complements government advice by setting out high-level questions and issues for audit committees to consider.
9.	Climate change risk: A good practice guide for Audit and Assurance Committees	This guide helps Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.
Financial Reporting Council		
10.	Inspection findings into the quality of major local body audits	The findings show an improvement on the previous year but the timeliness of reporting was a concern.

NATIONAL PUBLICATIONS
CIPFA

1. CIPFA publishes new Prudential and Treasury Management Codes, December 2021

CIPFA has published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) following a consultation period. These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. Guidance notes will follow shortly in the new year.

The updated **Prudential Code** includes the following as the focus of the substantive changes:

- The provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for yield as the primary purpose of the investment or represent an unnecessary risk to public funds.
- Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.

The main changes to the updated **Treasury Management Code** and the accompanying guidance for local authorities are as follows:

- Investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.
- The guidance will recommend the introduction of the Liability Benchmark as a treasury management indicator for local government bodies (note that CIPFA has issued a toolkit to assist local authorities with the production of this indicator).
- Environmental, Social and Governance (ESG) risks are incorporated into TMP1 (Risk Management) rather than a separate TMP 13.
- The purpose and objective of each category of investments should be described within the Treasury Management Strategy.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-issues-new-prudential-and-treasury-management-codes

CIPFA (continued)

2. CIPFA launches value for money toolkit with the University of Oxford's GO Lab, August 2021

CIPFA has partnered with the Government Outcomes Lab (GO Lab) from the University of Oxford's Blavatnik School of Government to develop the innovative GO Lab-CIPFA Value for Money (VfM) Toolkit.

Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.

The toolkit provides public managers with a framework to help assess the economic validity of public programmes, while also serving as a self-assessment instrument. The toolkit promotes thinking about the longer-term effects of interventions, such as outcomes and impacts, during the design and planning stage of public sector programmes.

The GO Lab-CIPFA VfM toolkit is available for free download on the CIPFA website.

https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

3. Consultation on changes to the capital framework: Minimum Revenue Provision, December 2021

This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the NAO's report Local Authority Investment in Commercial Property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision#excluding-specific-debt-from-mrp-determination

4. A new package of measures to support the improved timeliness of local audit

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. The measures include:

- Steps to increase the number of auditors with skills to carry out the work;
- Additional funding to support increases in audit fees; and
- Extension of the audit deadlines to 30 November 2022 and 30 September for 2023 onwards.

https://www.gov.uk/guidance/measures-to-improve-local-audit-delays?utm_medium=email&utm_campaign=govuk-notifications&utm_source=81365e1a-e6b1-4c1b-bce1-b5ef8fafef6f&utm_content=daily#section-4-longer-term-measures-to-help-stabilise-the-market-and-address-long-term-supply-issues

National Audit Office

5. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

In November 2021

This report sets out the facts on:
• the government's approach to risk management and emergency planning (Part One);
• the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
• the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
• recent developments (Part Four).
The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/

NATIONAL PUBLICATIONS
National Audit Office

6. The Local Government finance system in England: Overview and Challenges, November 2021

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England. It covers:

- An introduction to local government funding
- Government policy and actions since 2010
- Some results or consequences of these changes.

The report headlines include the following in respect of the impact of the changes implemented by government on councils:

- Rising social care spending has squeezed funds available for non-social care services, yet rising spend has not prevented concerns about social care, and projections suggest continued cost and demand pressures.
- Local authorities have made substantial spending reductions in some services and sought to maximise revenue funding from other sources. Some local authorities have sought to maximise revenue available for services in ways that may reduce financial resilience. Commercial property investment strategies have increased some local authorities' exposure to risk. Local authorities now rely more on sources of income that are dependent on local economic conditions.
- A lack of short-term funding certainty hampers local authorities' ability to plan. Local authorities are also planning and delivering services amid medium-term financial uncertainty. Financial uncertainty does not support value-for-money decision-making.
- The governance mechanisms that support decision-making about financial sustainability are under strain. The financial resilience of the local government sector was being tested, even before the COVID-19 pandemic

The full report can be seen at this link: https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/

NATIONAL PUBLICATIONS
National Audit Office

7. Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities, November 2021

This provides a summary of the Department for Levelling Up, Housing and Communities' spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.

The full report can be seen at this link: https://www.nao.org.uk/report/departmental-overview-2020-21-department-for-levelling-up-housing-and-communities/

8. Cyber and Information Security: Good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management;
- Capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and our detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

NATIONAL PUBLICATIONS
National Audit Office

9. Climate change risk: A good practice guide for Audit and Assurance Committees, August 2021

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The full report can be seen at this link: https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/

Financial Reporting Council

10. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its **inspection findings into the quality of major local body audits** in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins

Contact

Mazars

Director: Mark Kirkham

Email: mark.kirkham@mazars.co.uk

Manager: Louise Stables

Email: louise.stables@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

www.mazars.com

Follow us:

LinkedIn:
www.linkedin.com/company/Mazars

Twitter:
www.twitter.com/MazarsGroup

Facebook:
www.facebook.com/MazarsGroup

Instagram:
www.instagram.com/MazarsGroup

WeChat:
ID: Mazars

Report of the Director: Governance and Communities

Meeting 26 January 2022

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ACCOUNTING POLICIES 2021/2022

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 To approve the accounting policies as an appropriate basis to prepare the Council's 2021/2022 financial statements.

1.2 To delegate to the Director: Governance and Communities the power to make new accounting policies and amend existing policies as may become necessary in the production and audit of the financial statements.

2. **BACKGROUND INFORMATION**

2.1 The Code of Practice on Local Authority Accounting in the United Kingdom 2021/2022 (The Code) requires each local authority to adopt accounting policies that set principles for recording financial transactions within the Council's accounts.

2.2 The Code specifies the principles and practices required to prepare a Statement of Accounts to give a true and fair view of the financial position, financial performance and cash flows of the Council.

2.3 The policies proposed for North Lincolnshire are based upon guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and amended to take account of local circumstances.

2.4 The local amendments to the standard accounting policies are set out below.

a) A de minimis level has been applied to the accrual of income and expenditure. The de minimis level has been applied to reduce the administration surrounding the accrual of income and expenditure, without materially affecting the accounts. For 2021/2022 the level remains unchanged from previous years, being set at £10,000, subject to justified exceptions e.g., where grant conditions apply.

b) The council has set a de minimis level of £100,000 for inventories. Any inventories valued at less than £100,000 are not accounted for as inventories. This reduces administration and does not have a material effect on the accounts.

c) Accruals are not processed for Housing Benefit Payments, Social Services Income for Home Care. Travel payments & supply Teachers and Property Trading Account Income for commercial properties. The accounts still contain 12 months activity.

d) Depreciation normally commences in the first full year of operational use. In the case of vehicles this is applied from the point of initial use (less estimated residual value) to align with the fleet hire charging policy.

2.5 Some of the standard accounting policies within the Code are not relevant to the council and in the interest of clarity, have been removed. E.g., References to Housing Revenue Account (HRA) sales and Private Finance Initiative (PFI) arrangements.

2.6 There have been no additions, or amendments, to the accounting policies this financial year.

2.7 Delegating approval to the Director Governance and Communities to amend any existing policies during the production and audit of the financial statements allows for minor amendments to be made which may be picked up during the audit. Any major amendments to accounting policies would be reported back to this committee at the time of approving the audited version of the accounts.

3. **OPTIONS FOR CONSIDERATION**

3.1 Approve the Accounting Policies, as set out in Appendix A and delegate approval to the Director Governance and Communities to amend any existing policies as may become necessary in the production and audit of the financial statements.

3.2 Approve the Accounting Policies, as set out in Appendix A and do not delegate approval to the Director Governance and Communities to amend any existing policies as may become necessary in the production and audit of the financial statements.

3.3 Do not approve the Accounting Policies as set out in Appendix A.

4. **ANALYSIS OF OPTIONS**

4.1 Approving the Accounting Polices and delegating any amendments to be approved by the Director Governance and Communities will allow the financial statements to be produced and any minor amendments to be made during the audit process.

4.2 Approving the Accounting Polices and not delegating any amendments to be approved by the Director Governance and Communities will allow the financial statements to be produced but will not allow any amendments to be made during the audit process.

4.3 Not approving the Accounting Policies will not allow the statement of accounts to be produced in accordance with the Code.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 None.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 None.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 None.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 None.

9. RECOMMENDATIONS

9.1 That members approve the accounting policies set out in Appendix A.

9.2 That members delegate to the Director Governance and Communities the power to make new accounting policies and amend existing policies as may become necessary in the production of the accounts or during the audit of the accounts, with any such changes being reported to the next meeting of this committee.

DIRECTOR: GOVERNANCE AND COMMUNITIES

Church Square House
30 - 40 High Street
SCUNTHORPE
North Lincolnshire
DN15 6NL

Author: Clare Swainson
Date: 22 December 2021

Background Papers used in the preparation of this report

- The Code of Practice on Local Authority Accounting in the United Kingdom 2021/2022 (The Code)

Accounting Policies

i. General Principles

The Statement of Accounts summarises the council's transactions for the 2021/2022 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 require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/2022, supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. 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 where individual inventory categories are above £100,000.
- 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 of debtors is written down and a charge made to revenue for the income that might not be collected. In respect of both capital and revenue transactions, the council operates on the normal accruals concept of income and expenditure above the council's de minimis threshold of £10,000. Exceptions to this policy are:
    - Housing Benefit payments
    - Social services Income for home care
    - Travel payments and supply teachers
    - Property Trading account Income for property rentals

These exceptions still mean a full 12 months of income and expenditure are accounted for in a financial year.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with a low risk of change in value.

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.

iv. 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.

v. 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
- amortisation of intangible 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 in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Council Tax and Non-Domestic Rates

The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities, central government and precepting bodies of council tax and non-domestic rates (NDR). There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from the collecting non-domestic rates and council tax belong to the bodies (i.e., major preceptors, central government and billing authorities).

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid monthly and reflected as expenditure in the relevant service line in the Comprehensive Income and Expenditure Statement.

Termination Benefits

When the council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy, these costs are charged on an accruals basis to the respective service line in the Comprehensive Income and Expenditure Statement.

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 Local Government Pension Scheme administered by East Riding of Yorkshire Council.
- The NHS Pension Scheme administered by the NHS Business Services Authority

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet.

The Schools' service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. Various lines within the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Local Government Pension Scheme

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

- The liabilities of the East Riding 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.
- The assets of East Riding pension fund attributable to the council are included in the Balance Sheet at their fair value.

The change in the net pension 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.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the East Riding 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 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.

viii. 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
- 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.

ix. 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.

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 Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

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

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:
- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:
- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

x. 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 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-ring-fenced 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.

xi. Heritage Assets

The council holds several assets which are held to increase the knowledge, understanding and appreciation of the council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The council's collections of heritage assets are accounted for as follows:

Civic Regalia, Museum Collection and Memorials
The asset will be accounted for at the value used for insurance purposes or its fair value as determined by a qualified valuer.

Heritage Assets – General
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. The council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items 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.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g., software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Intangible assets are measured initially at cost and then carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The council has set a de minimis value of £100,000, below which inventories are not held on balance sheet.

xiv. Investment Property

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 (in the ordinary course of operations).

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Leases

Leases are classified as finance leases where the terms transfer substantially all the risks and rewards of ownership of the asset 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.

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 an asset, this is retained on the Balance Sheet. Rental income is recognised in the Comprehensive Income and Expenditure Statement 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.

xvi. 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.

xvii. Property, Plant and Equipment

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

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 and providing that the expenditure is above the council's de minimis threshold of £20,000.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance), is charged as an expense when it is incurred.

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 council does not capitalise borrowing costs incurred while 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 and Expenditure 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:

- assets under construction and community assets (without a determinable finite useful life) – historical cost
- infrastructure, community assets (with a determinable finite useful life) – depreciated historical cost
- all other assets are measured at current value

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

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

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 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).

Deprecation is normally charged in the first full year of operational use, except where stated, and 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. Depreciation is charged on vehicles from the point of initial use.
- infrastructure – straight-line allocation over its technically assessed life.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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 and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

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

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 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). 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. The receipts are transferred to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement. The reserves 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).

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.

xviii. Provisions, Contingent Liabilities and Contingent Assets

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 a note 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.

xix. 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 the 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.

xx. 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.

xxi. 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.

xxii. VAT

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

xxiii. 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 bonds 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 its highest and 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 or liabilities 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.

This page is intentionally left blank

Report of the Director:
Governance and Communities

Meeting: 26 January 2022

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

INTERIM INTERNAL AUDIT REPORT 2021/22

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 The interim internal audit report provides an update on Internal Audit activity up to 30 November 2021.

1.2 Although it is forecasted that sufficient work will be carried out by 31 May 2021 to provide a reliable annual audit opinion on the Council's control environment, there are some risks to its delivery that need to continue to be managed.

2. **BACKGROUND INFORMATION**

2.1 It is a requirement of the PSIAS for the Audit Committee to receive regular updates on the activities of Internal Audit, in particular:

- providing assurance that sufficient work will be carried to provide a reliable risk based annual opinion on the effectiveness of the control environment and any amendments to the audit plan;
- bringing to the Committee's attention any issues identified during the course of the 2021/22 audit which could impact on the annual opinion; and
- providing assurance of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS).

2.2 On 8 April 2021, the Audit and Governance Committee formally approved a plan consisting of 1145 days. As communicated to the Committee there would potentially be ongoing amendment and re-prioritisation to the plan to reflect changes in risk. The attached report at Appendix 1 prepared by the Head of Audit and Assurance provides an update on the delivery of the audit plan up to 30 November 2021. Although it forecasts that sufficient work should be carried out by May 2022 to provide a reliable opinion on the Council's control environment during the year the plan has been subject to significant change, there is risk to the delivery of the plan which will need to be managed.

2.3 A list of final reports issued up to 23 December 2021 is shown within the report. There are currently two limited assurance report, but these should not impact on the overall annual audit opinion.

3. OPTIONS FOR CONSIDERATION

3.1 In its role as the body charged with governance the Audit Committee is asked to consider the progress against the delivery of the audit plan.

4. ANALYSIS OF OPTIONS

4.1 It is a requirement of the PSIAS for the Audit Committee to receive updates on progress against the delivery of the audit plan.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 There are no specific resource implications relating to this report.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 The delivery of the audit plan contributes to the Council's approach to risk management by identifying and testing the design and operation of controls to mitigate risk. In addition, most audit assignments provide an opinion on the prevailing residual risk.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 An Integrated Impact Assessment is not required.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9. RECOMMENDATIONS

9.1 That the Audit Committee is asked to consider the Interim Internal Audit Report 2021/22 as part of its responsibilities for reviewing the effectiveness of Internal Audit,.

DIRECTOR: GOVERNANCE AND COMMUNITIES

Church Square House
SCUNTHORPE
North Lincolnshire

Author: Peter Hanmer, Head of Audit and Assurance
Date: 13 January 2022

Background Papers used in the preparation of this report

Internal Audit Plan 2020/21 (April 2021)

This page is intentionally left blank

North Lincolnshire Council

Interim Audit Report 2021-22

Month 8

Introduction

The purpose of this briefing paper is to keep the Audit Committee Members informed in relation to the delivery of the audit plan, in particular:

- providing assurance that sufficient work will be carried to provide a reliable risk based annual opinion on the effectiveness of the control environment;
- bringing to the Committee's attention any issues identified during the course of the 2021/22 audit which could impact on the annual opinion; and
- providing assurance of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS)

Delivery of the audit plan

On 8 April 2021 the Audit Committee formally approved the 2021/22 audit plan consisting of 1145 days. The Head of Audit and Assurance confirmed that, based on the risks identified, there were sufficient resources available to deliver the Audit Plan by 31 May 2022, but it was also recognised that resourcing remained a risk, and in response the delivery of the plan would be monitored on a monthly basis, and where appropriate the audit programme would be reprioritised to meet changing audit resourcing needs and risks.

According to PSIAS 2010 "the chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls". A summary of the revisions to the plan, together with the days charged is shown on the table below. As shown as of 30 November 2021 there has been a reduction in the budgeted days on the area of the plan covering strategic risks, operational risks and governance, to reflect adjustments to assignment budgets and the deferral of a planned audit on contaminated land to 2022/23.

Days charged against the revised audit plan as of 30 November 2021

Area	Planned days	Revised days	Actual days
Strategic risks, operational risks, and governance	460	435	164
Financial systems	145	145	60
ICT	50	50	43
Procurement and contract management	25	20	8
Grants	60	102	85
Schools	100	100	58
Follow up	35	35	16
Fraud and investigation	80	80	42
Advisory	70	70	42
Audit Management	75	75	50
Contingency	45	33	
Total	1145	1145	568

As of 30 November 2021 568, days had been charged against the audit plan. This compares to the anticipated 573 days at this point in the audit cycle. Whilst this a pleasing position to be in at this time of year (particularly when taking account of the level of contingency which is currently available), and it is anticipated that sufficient work will be carried out to provide a reliable audit opinion on the Council's control environment by 31 May 2021, risks to the delivery of the plan remain including:

- the time charged to the 2021/22 plan includes 45 days for uncompleted work carried forward from the 2021/22 plan, which thus creates a resource pressure;
- some of the resources available will be required in April and May 2022 for setting up 2022/23 audit assignments;
- the availability of audit staff- although the internal audit team have been fortunate that it has been able operate at full capacity for most of the year there is a risk that this could be subject to change due to staff turnover or incidences of long term sickness;
- Grant certification- there has been considerable work this year on grant certification resulting in audit resources having to be to be diverted to this area, both in the original plan and the revised plan. Although some of this work is related to COVID related grants, there appears to be a growing trend that government departments are expecting internal audit certification of the use of grant funding in general , and therefore there is a possibility that further additional time may be required in 2021/22;

- the need to review the audit programme in relation to public health following the appointment of the Interim Director of the Audit Public Health which could also lead to a revision of the plan; and
- staff within services being available to ensure that planned audits are completed promptly so that the number of audits outstanding as of 31 May 2022 is minimised- the audit team has been having regular discussion with Heads of Service about the progress of audit work in their area, and where appropriate identifying those areas where progress has been slower than anticipated.

Advisory and other support work is an important part of audit's work. A summary of such work carried out is shown on Appendix 1.

Audit reports

A summary of audit reports issued since June 2021 is shown in Appendix 2. They include a number of audits which were largely carried out as part of the 2020/21 audit plan but were reported in 2021/22 and therefore will be considered as part of the 2021/22 opinion. Two reports have received limited assurance, but neither are anticipated to impact on the year-end audit opinion. In relation to both these reports will be subject to follow-up audits either later in 2021/22 or early 2022/23, and Members should seek assurance that the issues identified have been addressed.

Quality

As reported n previous year Internal Audit has a Quality and Assurance Improvement Programme (QAIP), which is reviewed annually. No significant amendments to the QAIP have been identified

An important element of the standards is that every five years audit teams are subject to an external inspection to assess compliance with the Public Sector Internal Audit Standards. As previously reported the outcome of the external inspection held in March 2018 was that “the internal audit function for North and North East Lincolnshire Council generally conforms to the Public Sector Internal Audit Standards”, where ‘Generally conforms’ is the top rating available. The next external review is scheduled for early 2023.

During 2021/22 a number of quality review measures have been carried out to ensure compliance with the standards, including the following:

- continuing to ensure that all audit work is subject to supervision and review, with any emerging issues being discussed at team meetings:
- updating of the Audit Manual which provides guidance to staff on how to carry out their work and using virtual team meetings to talk about the various sections of the manual- the sections on assignment planning and the approach to counter fraud have been recently updated;

- annually reviewing the audit charter, which establishes the internal audit activity's position within the organisation, including the head of internal audit's reporting lines, access to records, people and property, and the scope of its activities- an updated charter will be brought to the April Audit Committee alongside the Audit plan 2022/23;
- having a system in place to regularly remind managers of their agreed audit actions and to ask for updates on their implementation;
- monitoring the % of respondents to post audit questionnaires who thought that an audit was carried out well - as of 30 November 2021 this was 100% (although based on a small number of returns);
- monitoring the % of respondents to post audit questionnaires who thought that an audit added value - as of 30 November 2021 this was 100% (although based on a small number of returns)
- monitoring the timeliness of the completion of audits- as of 30 November 2021 73% of audits had been issued in draft by the date agreed in the terms of reference, whilst 60% were issued in final within 20 working days of the issue of the draft.

Further quality assurance activities to be carried out in 2021/22 will be reported in the Annual Head of Audit Report and Opinion.

Appendix 1: Summary of advisory work provided by Internal Audit in 2020/21

- Via membership of CIPFA's Better Governance Forum, inform relevant managers of national developments and emerging issues relating to internal control and governance which may impact upon their duties
- The certification of grants in relation to Covid-19, transport, highways, and troubled families
- Providing considerable advice and support, where appropriate, on the design of systems in relation to Covid related Business Support Grants
- As part of audit's work on financial systems providing support and challenge to the Financial Project Board tasked with implementing the new financial system
- Co-ordinating the production of the Audit Committee Annual Report 200/21
- Providing a training session to Audit Committee Members on the role of the committee, governance, internal control, and the role of Internal Audit
- Working with HR in relation to the consideration of organisational culture indicators
- Working with Heads of Service in the development of a "Guide to the Control Environment" which is intended allow managers to have an enhanced understanding of the importance Internal Control and their responsibilities related to it
- Providing a training session to the Head of Service Group in relation to governance and internal control
- Membership of the "Growing the Economy group"
- Membership of the "Adults Transformation group"
- Responding to various accounting, and human resources and information governance queries
- As part of audit's probity and fraud work co-ordinating the council's response to the National Fraud Initiative
- As part of audit's probity and fraud work supporting investigations into allegations of fraud or financial misconduct

Appendix 2: Completed Audit work contributing to the 21/22 audit opinion as of 23 December 2021

Audit Assignment	Assurance	Residual Risk	Comments
Delivery of strategic and operational outcomes and good governance			
Blue Badges	Substantial	Low	
Child Exploitation	Substantial	Low	
Child Protection Case Conferences in North Lincolnshire (in the plan as Independent Review)	Substantial	Low	
Children's Direct Payments	Satisfactory	Low	
Children to Adults Transitions	Substantial	Low	
Complaints	Satisfactory	Low	
Demand Management-Prevention Strategy	Substantial	Low	
Educational Visits	Satisfactory	Low	
Highways	Satisfactory	Medium	
HR Data Migration and Data Quality	Substantial	Low	
Looked After Children-Fostering and Connected Persons	Substantial	Low	

Audit Assignment	Assurance	Residual Risk	Comments
Section 17- Children In Need	Substantial	Low	
Financial systems			
LTB- Initial work	Substantial	Medium	
ICT			
Cloud Computing	Limited	Medium	At the time of the audit the Council had outstanding work to do to comply with the 14 National Cyber Security Centre (NCSC) cloud security principles. The Council has documented specified requirements, but this has not been reviewed since 2015. Work is in progress to seek assurance from suppliers of Cloud services regarding controls in place.
Implementation - HR-Payroll system	Satisfactory	Low	
Procurement			We provide an opinion on procurement arrangements by a mixture of a review of overall arrangements and reviewing a sample of procurement exercises. The review of a sample of procurement exercises has not been completed but as shown below we could provide "substantial assurance" on the council's overall procurement arrangements.
Overall arrangements	Substantial	Medium	

Audit Assignment	Assurance	Residual Risk	Comments
Grants			We have been increasingly required to certify grant claims and in 2021/22 this has taken up substantially more time than in previous years. This has included Covid grants (e.g. community testing, public transport support) as well as various non-covid related highways and environmental grants. In addition, although audit is not required to directly provide certification for returns on things such business grants, infection control fund, emergency assistance and Covid winter grants we have carried out work to provide assurance in these areas. We have identified no significant areas of concern in carrying out our work in this area, but when appropriate have reported areas where controls could be improved to the relevant services.
Probity and Counter Fraud audits			
Leisure and Golf Memberships	**Satisfactory**	Low	
Mobile Phones	**Satisfactory**	Low	
Schools			
Crosby Primary	**Satisfactory**	Low	
Belton All Saints Primary	**Satisfactory**	Low	

Audit Assignment	Assurance	Residual Risk	Comments
Enderby Road Infant School	**Limited**	**Medium**	Some weaknesses were noted in the control environment across a wide range of financial management / governance areas; individually these would not be of concern but due to the number of findings, limited assurance was provided.
Killingholme Primary	**Satisfactory**	**Low**	

Key to control effectiveness:

Effectiveness	Action Level
Substantial Assurance	Strong controls support achievement of the business objectives.
Satisfactory Assurance	Controls support the business objectives, but some improvements should be made.
Limited Assurance	Controls provide some support for business objectives, but improvements are essential.
No Assurance	Controls do not support the achievement of business objectives.

Key for residual risk rating

Priority Level	Action Level
High	Significant possibility for substantial financial, service, reputational or personal safety issue (including the non-achievement of strategic outcomes). Action must be taken to mitigate the risk.
Medium	Potential for financial, service, reputational or personal safety issue (including the non-achievement of strategic outcomes). Depending on risk appetite, action should be taken to either mitigate the risk or accept that an event could occur and manage its impact.
Low	Risk is being suitably managed based on current knowledge. Should be regularly reviewed and monitored.