# AUDIT COMMITTEE

## MONDAY 21 FEBRUARY 2022
## 5.00 PM

**Engine Shed, Sand Martin House**

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|---|
| ***THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING*** |

## AGENDA

To note there have been no updates since the last meeting on 29 November 2021.

**12. Work Programme** **97 - 102**

There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Daniel Kalley on 01733 296334 as soon as possible.

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http://democracy.peterborough.gov.uk/ecSDDisplay.aspx?NAME=Protocol%20on%20the%20use%20of%20Recording&ID=690&RPID=2625610&sch=doc&cat=13385&path=13385

Committee Members:

Councillors: A Shaheed, Joseph, I Ali, S Farooq, Haseeb, Sainsbury (Vice Chairman), and J Allen

Co-opted Members: Chris Brooks (Chair), Michael Langhorn, Stuart Green

Substitutes: Councillors: Burbage, Iqbal, Jones and Bond

Further information about this meeting can be obtained from Daniel Kalley on telephone 01733 296334 or by email – daniel.kalley@peterborough.gov.uk

PETERBOROUGH
CITY COUNCIL

# MINUTES OF THE AUDIT COMMITTEE MEETING HELD AT 5:00PM, ON MONDAY, 29 NOVEMBER 2021 ENGINE SHED, SAND MARTIN HOUSE, PETERBOROUGH

Present: Councillors Over (Chairman), Sainsbury (Vice-Chair), S Farooq and Haseeb

Officers in Attendance:
Peter Carpenter, Corporate Director of Resources
Dan Kalley, Senior Democratic Services Officer
Fiona McMillan, Director of Law & Governance and Monitoring Officer
Steve Crabtree, Chief Internal Auditor
Julian Patmore, Head of Operational Services

Also in Attendance:
Councillor Andy Coles, Cabinet Member for Finance
Neil Harris, Associate Partner, Ernst & Young
Dan Cooke, Audit Manager, Ernst & Young

## 24. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor I Ali.

## 25. DECLARATIONS OF INTEREST

There were no declarations of interest were received.

## 26. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 13 SEPTEMBER 2021

The minutes of the meeting held on 13 September 2021 were agreed as a true and accurate record.

## 27. VERBAL UPDATE – AUDIT RESULTS REPORT FOR THE YEAR ENDED 31 MARCH 2021

The Audit Committee received a verbal update from EY on the audit results for the year ended 31 March 2021.

The Corporate Director of Resources introduced the report and highlighted that a report sent to finance directors across the Country last week showed that 91% of Councils would not hit their audit deadlines this year.

The Associate Partner, EY, introduced the verbal update to members. At the last meeting members received the external auditors planning report which set out the focus on assessments of risks to the financial statements of the Council and Value for Money arrangements for the year ended 31 March 2021. Good progress had been made on these areas and it was hoped the final audit opinion would be reported back to the committee in February 2022.

Members were informed that the external auditor's views were broadly the same as those set out in the Department for Housing and Levelling up Communities (DHLUC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) report that was published on 2 November 2021. These reports highlighted the adverse value for money position of the Council. The external auditors would look at the Council's response to the recommendations contained within those reports when they were finalised.

The Corporate Finance team were in the process of looking into the Council's financial plan to undertake a stress test on the savings plan, looking at both local and national trends. A draft report had been prepared and members were informed that continued to indicate the Council's financial position was under severe strain. This had also been robustly tested and was reported as such by the Council. The savings programme outlined by the Council was significant and would likely require radical transformation to be able to achieve the scale of savings needed. Members were further informed that the external auditors stated that the governance arrangements in place were sound, especially in the way they were tracked and monitored.

Commentary around the Council's value for money was likely to look and feel different to previous years. In previous years the external auditors had a statutory audit opinion which contained a qualified value for money arrangement. The difference this year was that there was to be a lot more narrative around the Council's value for money position. The external auditors could issue a statutory audit recommendation, however this was only done if the Council were not following recommendations made or another issue came to light.

Members were informed that the external auditors were looking at two further areas. One of the areas was the Council's policy around the minimum revenue position, which was being carried out at a number of other local authorities. A technical specialist was looking at this policy and any recommendations would be provided in the final report. The other area in relation to value for money was around the loan arrangements with Empower that were now being dealt with in-house.

The external auditors had made good progress on the Council's financial statements. Further work had been identified, looking in particular at the Council's asset valuations. A number of queries had been raised over some of the valuations that had been performed by the Council's external valuer.

Members were informed that the external auditors had asked the Capital Equipment team to value the waste park facility which had now been concluded. The valuation was within the reasonable range at £69.5 million, however this reasonable range was fairly wide from £63.8 million to £76.3 million.

It was highlighted that the working relationship with Council officers was good and the team had co-operated with the external auditors throughout the auditing process.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- There were no indications of any significant difficulties in terms of the pension fund. The return on assets had been better than in previous years.
- The Council had a number of difficult decisions to take in the next few years, which included the level of Council Tax to be raised. The scale of savings was difficult to achieve in the short term. In general terms a referendum was needed if the Council wanted to exceed the maximum increase of Council Tax allowed by government. However in the case of Northamptonshire County Council this was allowed back in 2018 without the need of a referendum as they had been issued a S114 notice.
- There had been a rise in the number of senior officers taking retirement early since the start of the pandemic, however this was unlikely to have any impact on the pension fund.
- It was anticipated that the final external auditors report would be ready by the next Audit Committee meeting in February.

The Audit Committee considered and **RESOLVED** (unanimously) to note the verbal update of the “Audit Results Report - (ISA260)” for the year ended 31 March 2021 from Ernst & Young (EY) on behalf of the Council.

## 28. INTERNAL AUDIT PLAN PROGRESS REPORT

The Audit Committee received a report in relation to internal audit progress made during 2021/22.

The purpose of the report was to provide an overall opinion on the soundness of the control environment in place to minimise risk to the council. It is based on the findings of the completed internal audits from the Annual Audit Plan 2021 / 2022 as at 30 September 2021.

The Chief Internal Auditor introduced the report and outlined the details of the work completed by Internal Audit in the first six months of the year against the Internal Audit Plan, which was agreed by the Committee in March 2021.

Members were advised that the report set out the work completed to date, any significant gaps identified in the control framework and any areas of limited or no assurance. The report also covered new areas which had been covered since the plan was agreed; and the resources utilised during this time.

With regards to Appendix A members were informed that working arrangements remained consistent with previous years. The highest risk areas seen as impacting on the Council were still the team's main priority. Although there were two vacant posts in the team one of these had recently been filled permanently. The other officer was still seconded to the Coordination Hub. Resources were targeted against the Internal Audit Plan, which still had elements of covid-19 works. In addition the team also had a shared Protocol with Cambridgeshire County Audit so that the team could undertake reviews which crossed over to the other Council and vice versa. Members were informed that there had been a skewing of resource with the Chief Internal Auditor who also oversees corporate complaints in that 18 cases where investigated in 2020/21 and at the 6 month point, 14 had been completed.

The original plan set out 57 areas for cover and this had been refreshed with changes and now stood at 61. This was in part to revised risks being identified but also works to support Covid-19 payments.

With regards to Appendix B this provided details of all the works undertaken to date. Any area shaded had not yet been started. In terms of work around governance this included work to support the committee agendas of the Audit Committee and Shareholders Cabinet Committee; various cross department governance groups as well as fraud works in particular the National Fraud Initiative. In terms of other resources provision this was work which had come through management requests or consultancy outside of the original plan. These included works looking at reviewing spending data for duplicates; ICT systems new design and controls; digital signatures as well as following up on previous works for progress.

The team had also carried out work on grant claim certification. These were requirements spelt out in the various successful bids made by the Council which required both approval by Internal Audit as well as the Chief Executive and these had specific completion dates which divert audit resources early. They covered all aspects of the Council and include a number of new areas linked with schools, the Cambridgeshire and Peterborough Combined Authority (CPCA) or Covid-19.

The Internal Audit plan also set out the progress to date on key risks identified A number of works had been completed so far, including works into debt management, the HR management system as well as Cyber Security. A large swathe of the other works are in train at this point in time. From the works completed to date one review has been identified as limited – cyber security and that was set out in Appendix C.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The limited assurance given in terms of cyber security had come about due to a number of factors. The Head of Operational Services provided on overview of progress to address. One of the main issues was the impact of Covid-19, which meant that people worked from home at short notice and this did not allow IT to ensure all process and procedures were in place. Devices were being taken home so that work could continue, however some of these devices were unable to be kept up to date. Work had been carried out to ensure that even though devices were not connected to the servers they could still be updated with the right software.

- One of the changes was the termination of the SERCO contract and IT services being brought in-house. There was a lot of work being carried out with colleagues from Cambridgeshire County Council as this service was now being shared.
- Cyber security is forever changing, there were no measures that were ever adequate enough. At the current time a number of systems had been put in place which were working, however more work was needed to ensure further security of systems. Various projects were underway to update some of the Council's hardware.
- The Chief Internal Auditor stated a number of audit staff undertook separate duties during the elections which slightly reduced available audit days. There were no real concerns over the demands on elections, this was the same as previous years and would be the same across other local authority services.
- In terms of the Mayors charities some work would be done to verify this although it would be a short piece of work due to the level of monies generating being below the charities threshold.

The Audit Committee considered and **RESOLVED** (unanimously) to note the report.

**29. TREASURY MANAGEMENT MID YEAR UPDATE**

The Audit Committee received a report in relation to the Treasury Management report and mid-year update.

The purpose of the report was to report current performance and the forecast outturn position against the Prudential Indicators in the strategy.

The Corporate Director of Resources introduced the report and stated that this needed to be approved by committee. The strategy ensured that the prudential indicators were adhered to and taken in accordance with professional practices. The Council continues to operate and only borrows to fund capital programmes. Capital expenditure had been reduced due to covid-19. Interest rates continued to be low but this was subject to change and the Council would continue to review this.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The prudential indicators were set at a high level. One of the reasons for this was to prevent having to go to Full Council to borrow more. If the interest rates increased, even by 1%, this would potentially have an impact on the base level for borrowing.
- In relation to the Towns Fund the Council was match funding some of the money being put into the pot. There was an argument that if the programme was cut the Council would not have to put money into the pot. This had been the case at some other local authorities. A further

discussion with members over the Towns Fund was needed in the future.

The Audit Committee considered and **RESOLVED** (unanimously) to Review current performance against the Prudential Indicators as approved in the Treasury Management Strategy (TMS) contained in the Medium-Term Financial Strategy (MTFS).

## 30. INVITATION TO OPT INTO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS FROM APRIL 2023

The Audit Committee received a report in relation to the invitation to opt into the national scheme for external auditor appointments from April 2023.

The purpose of the report was to confirm the opting into the national scheme for auditor appointments from April 2023.

The Corporate Director of Resources introduced the report and stated that the Council had agreed to opt in from the 2018/19 financial year. A notification from the Secretary of State that Councils were being invited to opt into the new scheme and this needed to be agreed by 11 March 2022. The Public Sector Audit Appointments had done significant work around the contracts and the benefits of sticking within the scheme. Members were informed that the Council had enjoyed a good relationship with the external auditors and that the new scheme was good value for money. It was important to try and keep the same external auditors who knew and understood the Council’s processes and procedures. It was not viable to use small local firms as they did not carry enough expertise or knowledge to carry out such audits.

The Audit Committee considered and **RESOLVED** (unanimously) to confirm to Public Sector Audit Appointments that it will opt into the national scheme for auditor appointments from April 2023 by agreeing at this Committee and then passing to Council for approval.

## 31. AUDIT COMMITTEE START TIME 2022/23

The Audit Committee received a report in relation to agreeing the Audit Committee start time for the municipal year 2022/23.

The Senior Democratic Services Officer introduced the report and stated that the committee could recommend their start time for the next municipal year and this would be agreed at Full Council.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- It was preferable to start at 6pm as some committee members had full time jobs. In addition it was worth deferring a final decision until the independent members of the committee were appointed, in order to seek their views.

The Audit Committee considered and **RESOLVED** (unanimously) to defer the recommendation to Council with regards to the start time for all Audit Committee meetings for the Municipal Year 2022-23 in order to allow the newly appointed independent members to be involved.

## 32. USE OF CONSULTANTS

The Audit Committee received a report in relation to the use of consultants.

The Corporate Director of Resources introduced the report and stated that this was a standard report presented to committee. The figures for the current financial year had been much lower than in previous years. This was mainly down to people wanting security of jobs during the pandemic. There was likely to be a raft of work around the implementation of the budget and the improvement plan which was likely to increase the spend on consultants for the remainder of the year.

The Audit Committee considered the report on the Use of Consultants up to October 2021 and **RESOLVED** (unanimously) to consider the update report on the use of consultants for the 2021/22 period for the first seven months of the financial year (April 2021 - October 2021).

## 33. DEBT WRITE-OFF EXCEEDING £10,000

The Audit Committee received a report in relation to the debt write offs exceeding £10,000.

The Corporate Director of Resources introduced the report and stated that was undertaken twice a year. In total 262k of debt was being written off and was only written off when all avenues have been exhausted most of the debt being written off at this stage was sundry debt. There was no Council Tax or NNDR at this stage, although this was likely to be reported in March.

The Audit Committee considered the report on the Debt write offs exceeding £10,000 and **RESOLVED** (unanimously) to note the debt write offs.

## 34. WORK PROGRAMME

The Audit Committee received a report in relation to the work programme for 2021/2022.

The report was introduced by the Senior Democratic Services Officer who advised that the format followed a similar process to previous years and further items could be added to the programme at the Members discretion.

The Corporate Director of Resources commented that the Improvement and Assurance Panel were likely to recommend some items to be debated at Audit Committee in the future.

The Audit Committee considered and **RESOLVED** (unanimously) to note the report.

Chairman
5:00pm – 6.00pm

| AUDIT COMMITTEE | AGENDA ITEM No. 4 |
|---|---|
| **21 FEBRUARY 2022** | PUBLIC REPORT |

| | | |
|---|---|---|
| Report of: | Cecilie Booth, Interim Corporate Director Resources | |
| Cabinet Member(s) responsible: | Cllr Andy Coles, Cabinet Member for Finance | |
| Contact Officer(s): | Cecilie Booth, Interim Corporate Director Resources | Tel. 452520 |

**2022/23 DRAFT TREASURY MANAGEMENT STRATEGY (TMS)**

| RECOMMENDATIONS | |
|---|---|
| **FROM:** Cecilie Booth, Interim Corporate Director Resources | **Deadline date:** *2 March 2022* |

It is recommended that Audit Committee:

1. Review and comment on the draft 2022/23 Treasury Management Strategy (TMS) before it is approved as part of the Medium-Term Financial Strategy (MTFS) at Full Council in March 2022.

## 1. ORIGIN OF REPORT

1.1 The Treasury Management in the Public Services: Code of Practice 2017 recommends that Members receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

1.2 The annual strategy is approved by Council as part of the MTFS. Members are required to review and approve the strategy to ensure compliance with best practice.

## 2. PURPOSE AND REASON FOR REPORT

2.1 To provide the Treasury Management Strategy 2022/23 to Audit Committee for approval of the policies and Prudential Indicators in line with the consultation timelines for the MTFS.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.18 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

## 3. TIMESCALES

| | | | |
|---|---|---|---|
| Is this a Major Policy Item/Statutory Plan? | **YES** | If yes, date for Cabinet meeting | |
| Date for relevant Council meeting | 2 March 2022 As part of the MTFS process | Date for submission to Government Dept. *(Please specify which Government Dept.)* | |

## 4. BACKGROUND AND KEY ISSUES

4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in long term and current assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:
a) Capital investment plans are affordable;
b) All external borrowing and other long term liabilities are within prudent and sustainable levels; and
c) Treasury management decisions are taken in accordance with professional good advice.

The 2022/23 – 2024/25 Treasury Management Strategy is contained in Appendix 1 to this report.

The Council has continued to operate a restrictive lending list due to the continued economic uncertainty. Surplus cash is only invested for short periods with Barclays, Bank of Scotland (part of the Lloyds Banking Group) and the Churches, Charities and Local Authorities (CCLA) money market fund. The Council also invests with other Local Authorities and the Debt Management Office (DMO).

The Council has continued to borrow to fund the capital programme. Loans have been arranged at interest rates to achieve budget certainty and for varying periods to fit in with the Councils debt maturity profile.

The main changes to the TMS policies from last year's MTFS Treasury Strategy are as follows:

- An amendment to the Minimum Revenue Provision (MRP) Policy from the 2023/24 financial year where capital receipts received will be used to either fund capital expenditure or fund the revenue costs of transformation projects under the Capital Receipts Flexibility programme, rather than to redeem debt.
- a revised capital programme profile over the next three years with the purpose of reducing external borrowing.

The strategy presented at this meeting is in draft format as final borrowing assumptions, phasing of the capital programme is refined as part of the final Medium Term Financial Strategy (MTFS) which will be taken to Council on 2 March 2022. It is anticipated that the final indicators will be amended, but overall approach and policy will not be changed from this version.

## 5. CONSULTATION

5.1 The Council's Prudential Code and Treasury Management Strategy 2022/23 - 2024/25 will undergo a full consultation and go through the scrutiny process as it forms part of the Annual MTFS.

5.2 The Council continues to liaise with its treasury advisors, Link Asset Services.

## 6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

## 7. REASON FOR THE RECOMMENDATION

7.1 This report and strategy are presented to the Committee to provide the opportunity to review and approve the policies and Prudential Indicators of the 2022/23 TMS in advance of it being presented to Full Council in March 2022.

7.2 There is a statutory requirement for Council to approve the Prudential Indicators as contained in the TMS, and it is in line with best practice for scrutiny to be undertaken on this strategy prior to full approval by Council.

## 8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The Prudential Code and Treasury Management Strategy 2022/23 - 2024/25 is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2017.

## 9. IMPLICATIONS

### Financial Implications

9.1 The assumptions as contained in the TMS have been used to inform the capital financing budget as contained and detailed in the MTFS.

### Legal Implications

9.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017, which clarifies the requirements of the Minimum Revenue Provision guidance.

Updated versions of both the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice were published in December 2021. However, the guidance notes for practitioners which accompany and support the codes are not expected to be published until the end of January. Although the new Codes apply immediately, the Prudential Code states that the changes to reporting requirements that they introduce can be deferred until the 2023/24 financial year. These new reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. Given the timing of the publication of the updated Codes it has not been possible to implement the new reporting requirements in the 2022/23 Treasury Management and Capital and Investment strategy documents, however work is underway to evaluate the new requirements. Full adoption and compliance with the new Codes is therefore expected to be in place for the 2023/24 Financial year.

### Equalities Implications

9.3 None

## 10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1
- The Prudential Code for Capital Finance in Local Authorities –2017 Edition, CIPFA; and
- Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition, CIPFA

## 11. APPENDICES

11.1 Appendix 1 - Treasury Management Strategy 2022/23 to 2024/25 - Including: Minimum Revenue Provision Policy 2021/22 and 2022/23

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# Treasury Management Strategy 2022/23 to 2024/25

Including:
Minimum Revenue Provision (MRP) Policy 2021/22 & 2022/23

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## 1. Introduction

### 1.1. Background

1.1.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet its cash expenditure. The Treasury Management Strategy (TMS) has four fundamental roles:

- Manage external investments - security, liquidity and yield
- Ensure debt is prudent and economic
- Produce and monitor the Prudential Indicators
- To ensure that decisions comply with regulations.

1.1.2. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low-risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

1.1.3. 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.

1.1.4. 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.

1.1.5. Whilst any 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.

1.1.6. In Financial Sustainability Workstream 3 – Capital Programme, one of the key objectives is to reduce borrowing costs as a proportion of the annual revenue budget. This will require an almost zero tolerance to new borrowing across the medium-term. This will help ensure that one of the four fundamental roles of this TMS (Ensure debt is prudent and economic) is met. This TMS reflects the key objectives of the Council's Improvement Plan, where appropriate.

1.1.7. CIPFA defines treasury management as:

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

### 1.2. Reporting Requirements

1.2.1. **Capital Strategy**

1.2.2. The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare an additional report, 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;
- Asset Investment Strategy – this was previously a separate report however due to the changes in PWLB borrowing after the recent consultation the this has now been included within the Capital Strategy.

1.2.3. 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.

1.2.4. This Capital Strategy is reported separately from the Treasury Management Strategy Statement and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and investments usually driven by expenditure on an asset. The Capital Strategy will show:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- for non-loan type investments, the cost against the current market value;
- the risks associated with each activity.

1.2.5. Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.6. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance and CIPFA Prudential Code have not been adhered to.

1.2.7. The Council does not hold any non-treasury investment for purely yield and financial return purposes. However, if a loss is incurred on any non-treasury investment during the final accounts and audit process, the strategy and revenue implications will be reported through the budgetary control process.

### 1.3. Treasury Management Reporting

1.3.1. 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.

1.3.2. **Prudential and Treasury Indicators and Treasury Strategy** - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

1.3.3. **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.

1.3.4. **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.

1.3.5. **Scrutiny**

1.3.6. The above reports are required to be adequately scrutinised before being recommended to the Council and this role is undertaken by the Audit Committee and Cabinet.

1.4. **Treasury Management Strategy for 2022/23**

1.4.1. The strategy for 2022/23 covers:

**Capital issues**

- the capital expenditure plans and the associated prudential indicators;
- the 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.

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

1.5. **IFRS16 - Leases**

1.5.1. A new International Financial Reporting Standard (IFRS) on leases is due to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with effect from 1st April 2022. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use as asset (the underlying asset) for a period of time in exchange for a consideration. The CIPFA/LASAAC Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 *Leases* until the 2022/23 financial year, CIPFA/LASAAC has taken this decision in response to pressures on council finance teams as a result of the COVID-19 pandemic.

1.5.2. Under the standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the Council using its approach to determining de minimus items).

1.5.3. This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2022/23 and form part of the Capital Financing Requirement. An estimate of the impact of the transition to the new standard has been built into the relevant indicators. The full impact will not be known until the 2022 Code has been issued and the detailed assessment completed. If this has a material impact on the

Prudential Indicators then an amendment will be made in the mid-year Treasury Management Report once the detailed impact is known.

1.6. **Training**

1.6.1. The CIPFA Code requires the responsible officer to ensure that Council members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are reviewed regularly as part of the monthly supervisions- “our conversations”.

1.7. **Changes to the Treasury Management Code and Prudential Code**

1.7.1 CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG (Environmental, Social and Governance) issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

**Treasury management**

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

**Service delivery**

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

**Commercial return**

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

1.7.2 Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMS report.

1.8. **Treasury Management Advisors**

1.8.1. The Council uses Link Group, Treasury solutions as its external treasury management advisors who have a contract until September 2023.

1.8.2. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon external advisors.

1.8.3. The Council also recognises that there is value in employing external providers of treasury management services in order to access 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, documented and subjected to regular review.

1.9. **Treasury Management Policy Statement**

1.9.1. The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2017 guidance.

1.9.2. 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 organisation, and any financial instruments entered into to manage these risks.

1.9.3. The 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.

1.9.4. Investments using the above definition cover all financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns such as existing investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework.

1.9.5. The Council's high-level policies for borrowing and investments are set out below.

- to invest available cash balances with a number of high-quality investment counterparties over a spread of maturity dates in accordance with the Council's lending list;
- to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible;
- to seek to reschedule or repay debt at the optimum time.

1.10. **The Treasury Management Role of the Section 151 Officer**

**The S151 (responsible) officer must do the following:**

- recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submit regular treasury management policy reports;
- submit budgets and budget variations;
- receive and reviewing management information reports;
- review the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing -risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority. This is done by regular training presentations to the Audit Committee;

- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above. This is done by regular attendance at course and conferences and joint working with Link Group;
- creation of Treasury Management Practices (TMPs) which specifically deal with how non treasury investments will be carried out and managed, to include the following -
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken to the various committees;
  - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

## 2. Capital Prudential Indicators 2022/23 to 2024/25

2.1 The Council's capital programme is the key driver of the treasury management activity. The output of the capital programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

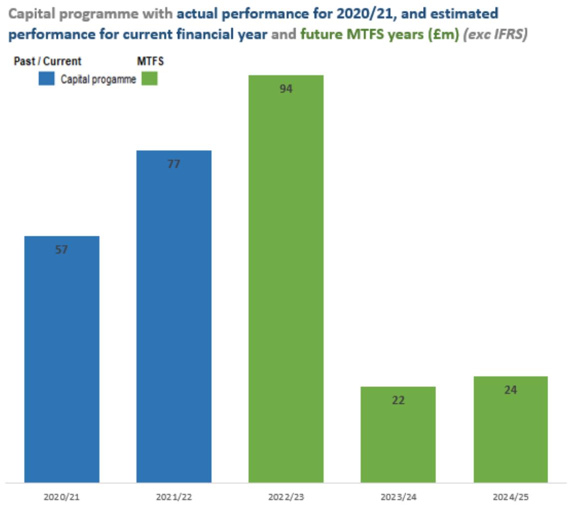
2.2 **Indicator 1** – Capital Expenditure – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following two financial years including how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement'

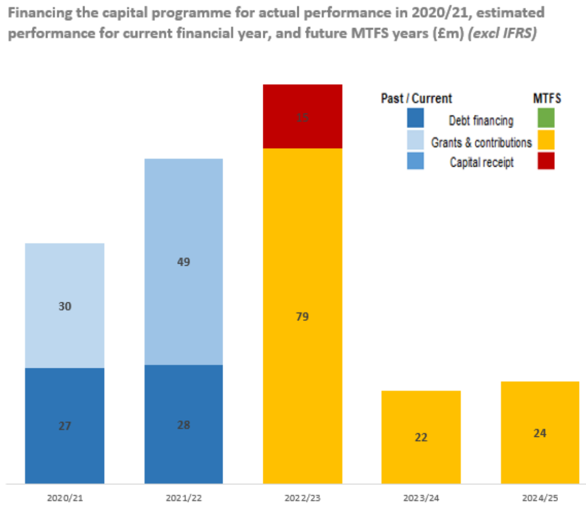
| **Capital Expenditure** | **2020/21 Actual £m** | **2021/22 Est £m** | **2022/23 Est £m** | **2023/24 Est £m** | **2024/25 Est £m** |
|---|---|---|---|---|---|
| Customer & Digital Services | 1.6 | 3.1 | 3.2 | 2.1 | 3.0 |
| People & Communities | 15.5 | 37.8 | 22.4 | 7.2 | 15.7 |
| Place & Economy | 27.9 | 32.3 | 71.5 | 21.1 | 13.6 |
| Resources | 8.0 | 4.6 | 2.9 | 1.5 | 1.5 |
| Capitalisation Direction | 0.8 | - | - | - | - |
| Invest to Save | 3.0 | 8.9 | 3.2 | - | - |
| Target Reduction tbc | | -10.0 | -9.2 | -9.8 | -9.4 |
| Total | **56.8** | **76.7** | **94.0** | **22.1** | **24.4** |
| **Financed by:** | | | | | |
| Capital receipts (repayment of capital loans) | - | - | 15.0 | - | - |
| Capital receipts (used to fund capital programme) | - | - | - | 0.2 | 0.2 |
| Capital grants & contributions | 29.5 | 48.6 | 79.0 | 21.9 | 24.2 |
| Net Financing Requirement | 27.3 | 28.1 | - | - | - |
| Total | **56.8** | **76.7** | **94.0** | **22.1** | **24.4** |
| IFRS16 Transition | | | 22.0 | | |

2.3 The capital receipts (repayment of capital loans) shown in the table above relate to:

- 2022/23 - Hotel – capital loan - £15m

2.4 The Invest to Save schemes are included in total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings on revenue budgets elsewhere in the Council's services. Therefore, the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.




2.5 **Indicator 2** – Capital Financing Requirement (CFR) – the CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

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

2.7 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next three financial years for Council approval:

| Capital Financing Requirement | 2020/21 Actual £m | 2021/22 Est £m | 2022/23 Est £m | 2023/24 Est £m | 2024/25 Est £m |
|---|---|---|---|---|---|
| CFR brought forward | 588.4 | 598.8 | 609.0 | 613.1 | 595.2 |
| Borrowing / Repayment | 6.6 | 1.3 | (21.1) | (17.1) | (16.7) |
| Invest to Save | 3.0 | 8.9 | 3.2 | - | - |
| IFRS16 Transition adjustment | - | - | 22.0 | (0.8) | (0.8) |
| Capitalisation Direction | 0.8 | - | - | - | - |
| CFR carried forward | 598.8 | 609.0 | 613.1 | 595.2 | 577.8 |
| **Movement in CFR** | **10.4** | **10.2** | **4.1** | **(17.9)** | **(17.5)** |
| Net financing requirement | 27.3 | 28.1 | - | - | - |
| Lease Liability (Est IFRS16 adj) | - | - | 22.0 | - | - |
| Less MRP & other financing | (16.9) | (17.9) | (17.9) | (17.9) | (17.5) |
| **Movement in CFR** | **10.4** | **10.2** | **4.1** | **(17.9)** | **(17.5)** |

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2.8 **Indicator 3 –** Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e., the net interest cost and the provision to repay debt.

| **Ratio of Gross Financing Costs to Net Revenue Budget** | **2020/21 Actual** | **2021/22 Est** | **2022/23 Est** | **2023/24 Est** | **2024/25 Est** |
|---|---|---|---|---|---|
| Total Ratio | 12.8% | 14.0% | 16.5% | 17.0% | 16.2% |
| Ratio with gross MRP charge (capital receipts to redeem debt not factored into financing) | 16.1% | 16.7% | 19.5% | 17.0% | 16.2% |
| Relating to Capitalisation Direction | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |

## 3. Minimum Revenue Provision (MRP) Policy Statement

3.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g., buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual MRP.

3.2 DLUHC Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.

3.3 A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Previous accumulated overpayments were fully utilised as at 31 March 2021.

3.4 Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.

3.5 During 2019/20 detailed discussions were held with DLUHC with regards to the council's application of capital receipts to redeem debt. On 30 November 2021 DLUHC released a consultation on changes to the Capital Framework – Minimum Revenue Provision. The paper primarily covers the concerns that the government has in respect of compliance with the duty to make a prudent revenue provision, which in their view, results in an underpayment of MRP. The consultation document states that the DLUHC are not intending to change the statutory MRP guidance, but to clearly set out in legislation the practices that authorities should already be following. The proposed change to the regulation is set out below

The government is proposing additional text to be added to the 2003 Regulations to make explicit that:

1. Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

2. Prudent MRP must be determined with respect to the authority's total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government's statutory guidance on Minimum Revenue Provision.

The proposal is that the changes will first come into force for the financial year beginning 1 April 2023.

The council has amended its approach from the 2023/24 financial year where capital receipts received will be used to either fund capital expenditure or fund the revenue costs of transformation projects under the Capital Receipts Flexibility programme.

The closing date for responding to the consultation is 8 February 2022 and the Council intends to submit a response.

3.6 Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.

3.7 The following table summarising the MRP Policy.

| Capital Expenditure Incurred | MRP Policy Update 2021/22 & 2022/23 |
|---|---|
| Expenditure funded by unsupported borrowing | Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.<br>If capital receipts have been used to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Chief Finance Officer (S151), taking into account forecasts for future expenditure, the generation of further receipts and alternative uses which may provide better value for money for the Council's financial strategy. The same process will apply for S106, POIS and CIL receipts. |
| Private Finance Initiative (PFI) - Finance Lease | Use the annuity method of calculation over the remaining asset life |
| Other Finance Leases | The MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.<br>Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off- balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement. |
| Secured Loans to third parties repaid in bullet form. | No MRP will be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount the Council will recognise the associated impairment and will charge MRP for the outstanding loan amount over the next MTFS periods or remaining life of the asset, whichever is longer. Impairment relating to IFRS9 adjustments will attract the same treatment. |
| Secured Loans to third parties repaid over the life of the loan | MRP will be charged each year equal to the Annual Base Repayment Amounts profiled in the legal agreement. Where additional repayments are made by the borrower the Council will make voluntary MRP charges to match. In the event of default reliance will be placed on the capital receipt that will be generated on realisation of the security. If realisation of the security does not equate to the remaining balance of the loan the Council will recognise the associated impairment and charge MRP on this amount over the next MTFS period or remaining life of the asset, whichever is longer. Impairment relating to IFRS9 adjustments will attract the same treatment. |

## 4 Current Treasury Position

4.1 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.

4.2 The overall treasury management portfolio as at 31 March 2021 and for the position as at 14h January 2022 are shown in the following table for both borrowing and investment.

| Treasury Portfolio | Actual 31.03.21 £'000 | Actual 31.03.21 % | Current 14.01.22 £'000 | Current 14.01.22 % |
|---|---|---|---|---|
| **Treasury Investments** | | | | |
| Banks | 8,125 | 45 | 4,785 | 17 |
| DMADF (HM Treasury) | | | 14,000 | 49 |
| Money Market Funds | 10,000 | 55 | 10,000 | 34 |
| **Total Treasury Investments** | **18,125** | **100** | **28,785** | **100** |
| **Treasury External Borrowing** | | | | |
| Local Authorities | (82,500) | 18 | (50,000) | 12 |
| PWLB | (369,587) | 79 | (365,087) | 84 |
| LOBOs | (17,500) | 3 | (17,500) | 4 |
| **Total External Borrowing** | **(469,587)** | **100** | **(432,587)** | **100** |
| **Net Treasury Investment / (Borrowing)** | **(451,462)** | | **(403,802)** | |

4.3 **Indicator 4** - The Council's treasury position at 31 March 2022, with estimates for future years, is summarised below. The table below shows the actual external borrowing (Gross Debt) against the CFR

| Gross debt & capital financing requirement | 2020/21 Actual £m | 2021/22 Est £m | 2022/23 Est £m | 2023/24 Est £m | 2024/25 Est £m |
|---|---|---|---|---|---|
| **External Borrowing** | | | | | |
| Market Borrowing | 477.6 | 469.6 | 479.8 | 461.9 | 444.9 |
| Repayment of borrowing | (110.5) | (82.0) | (32.2) | (17.0) | (16.7) |
| Expected change in borrowing | 102.5 | 92.2 | 14.2 | - | - |
| Capitalisation Direction | - | - | - | - | - |
| Other long-term liabilities | 48.8 | 48.0 | 69.2 | 67.5 | 65.8 |
| **Gross Debt at 31 March** | **518.4** | **527.8** | **531.0** | **512.4** | **494.0** |
| CFR | 598.8 | 609.0 | 613.1 | 595.2 | 577.8 |
| **% of Gross Debt to CFR** | **86.6%** | **86.7%** | **86.6%** | **86.1%** | **85.5%** |

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

4.5 The Chief Finance Officer (S151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this Medium-Term Financial Strategy (MTFS).

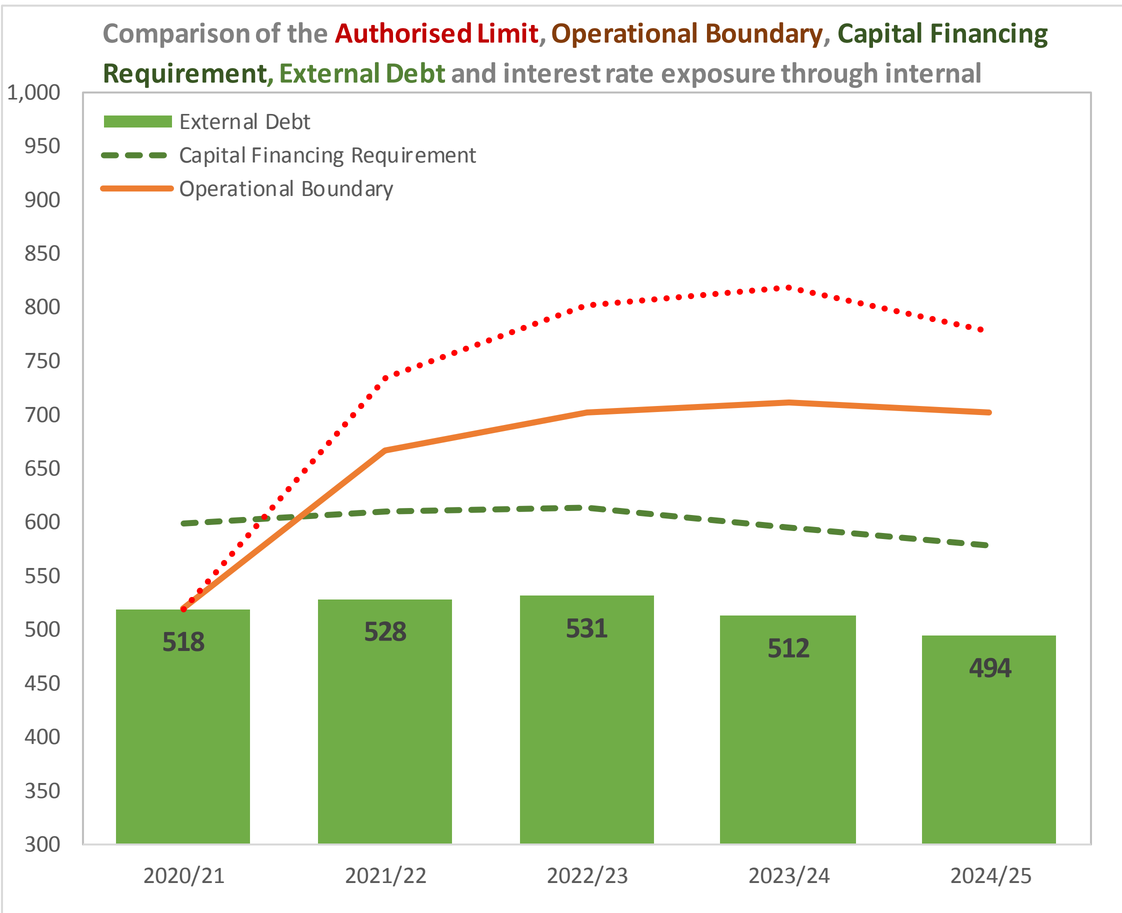
4.6 **Indicator 5** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded. The Operational Boundary is set out below:

| **Operational Boundary** | **2020/21 Actual £m** | **2021/22 Est £m** | **2022/23 Est £m** | **2023/24 Est £m** | **2024/25 Est £m** |
|---|---|---|---|---|---|
| Borrowing | 469.6 | 619.0 | 633.1 | 643.1 | 635.2 |
| Other long-term liabilities | 48.8 | 48.0 | 69.2 | 67.5 | 65.8 |
| **Total** | **518.4** | **667.0** | **702.3** | **710.6** | **701.0** |

4.7 **Indicator 6** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited. This limit is set and revised by full Council.

| **Authorised Limit** | **2020/21 Actual £m** | **2021/22 Est £m** | **2022/23 Est £m** | **2023/24 Est £m** | **2024/25 Est £m** |
|---|---|---|---|---|---|
| Borrowing | 469.6 | 687.0 | 732.3 | 750.6 | 711.1 |
| Other long-term liabilities | 48.8 | 48.0 | 69.2 | 67.5 | 65.8 |
| **Total** | **518.4** | **735.0** | **801.5** | **818.1** | **776.9** |

4.8 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. Government under sections 4(1) and 4(2) may limit either the total of all Council borrowing, or those of a specific Council, although this power has not yet been exercised.



**Prospects for Interest Rates**

4.9 The Council utilises the treasury services of Link Group and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions.

4.10 The Link Group forecast for bank base rate (as at 20.12.21) and PWLB new borrowing as at 20.12.21 is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment)

<table>
<tr><th>Interest Rate (All rates shown as %)</th><th>Bank Rate View</th><th>5yr PWLB Rate</th><th>10yr PWLB Rate</th><th>25yr PWLB Rate</th><th>50yr PWLB Rate</th><th>Budget Assumption</th></tr>
<tr><td>Mar-22</td><td>0.25</td><td>1.50</td><td>1.70</td><td>1.90</td><td>1.70</td><td>1.70</td></tr>
<tr><td>Jun-22</td><td>0.50</td><td>1.50</td><td>1.80</td><td>2.00</td><td>1.80</td><td rowspan="4">1.90</td></tr>
<tr><td>Sep-22</td><td>0.50</td><td>1.60</td><td>1.80</td><td>2.10</td><td>1.90</td></tr>
<tr><td>Dec-22</td><td>0.50</td><td>1.60</td><td>1.90</td><td>2.10</td><td>1.90</td></tr>
<tr><td>Mar-23</td><td>0.75</td><td>1.70</td><td>1.90</td><td>2.20</td><td>2.00</td></tr>
<tr><td>Jun-23</td><td>0.75</td><td>1.80</td><td>2.00</td><td>2.20</td><td>2.00</td><td rowspan="4">2.05</td></tr>
<tr><td>Sep-23</td><td>0.75</td><td>1.80</td><td>2.00</td><td>2.20</td><td>2.00</td></tr>
<tr><td>Dec-23</td><td>0.75</td><td>1.80</td><td>2.00</td><td>2.30</td><td>2.10</td></tr>
<tr><td>Mar-24</td><td>1.00</td><td>1.90</td><td>2.10</td><td>2.30</td><td>2.10</td></tr>
<tr><td>Jun-24</td><td>1.00</td><td>1.90</td><td>2.10</td><td>2.40</td><td>2.20</td><td rowspan="4">2.25</td></tr>
<tr><td>Sep-24</td><td>1.00</td><td>1.90</td><td>2.10</td><td>2.40</td><td>2.20</td></tr>
<tr><td>Dec-24</td><td>1.00</td><td>2.00</td><td>2.20</td><td>2.50</td><td>2.30</td></tr>
<tr><td>Mar-25</td><td>1.25</td><td>2.00</td><td>2.30</td><td>2.50</td><td>2.30</td></tr>
</table>

4.11 Following the conclusion of the PWLB Lending terms consultation, revised lending terms were published of which one of the main features was that authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. This process is closely modelled on the existing application process that authorities follow to access the Certainty Rate. The Council applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 April 2021 to 31 March 2022. This results in the Council being able to benefit from reduced interest rates on PWLB loans by 20 basis points (0.20%).

4.12 When borrowing is undertaken an assessment of the prevailing interest rates is performed across the different period lengths and the debt taken will represent best value for money in accordance with the existing debt maturity profile and capital financing budget performance.

4.13 Link Group interest rate forecasts, detailed above, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

Over the last two years, 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 raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

**Significant risks to the forecasts**

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

**The balance of risks to the UK economy: -**

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

**A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE**

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

- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

**MPC MEETING 16H DECEMBER 2021**

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.
- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.
- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.
- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other

commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.
- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking.
- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".
- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)
- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.
- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by

Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

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

## 5 Investment and Borrowing Rates

5.1 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

5.2 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

5.3 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 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.

5.4 Borrowing for capital expenditure - greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

5.5 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Chief Finance Officer (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

5.6 There will remain a cost of carry to any new long-term borrowing that temporarily increases cash balances. This revenue cost is the difference between borrowing costs and investment returns.

## 6 Borrowing Strategy

6.1 The Council is currently maintaining an under-borrowed position, where the CFR balance is greater than gross debt, see Indicator 2, and chart on page 10. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.2 The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding Schemes
- Specific Schemes – e.g. School Extensions
- Rolling Capital Projects e.g. Enhancing current assets

6.3 Any borrowing decisions will be reported to the appropriate decision-making body at the next available opportunity.

6.4 The MTFS is based on the following borrowing strategy for the next three years. The borrowing strategy is under constant review throughout the year monitoring changes in interest rates and borrowing opportunities. The proposed strategy for 2022/23 financial year is:

a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.

b) Significant risk of a sharp fall in long and short-term rates may arise. In this case long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

c) Significant risk of a much sharper rise in long and short-term rates than currently forecast may arise. This may arise due to a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

d) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

e) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

## 7 Approaches Considered for New Borrowing Requirements

7.1 To realign the loan maturity profile with the rate of the existing CFR debt will be financed by taking out shorter term Local Authority Loans. In the current climate this will reduce interest costs in the short term.

7.2 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding at cheaper rates from Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates) and the Municipal Bonds Agency. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

7.3 Maturing long-term debt is replaced by new borrowing. To achieve long-term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.

7.4 The use of Capital receipts or S106 receipts to make MRP is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.

7.5 Interest rates are liable to change. In the event of significant changes, the Council seeks to avoid an increased revenue cost on its capital financing charges.

7.6 The Treasury Management Strategy uses the planned Capital Programme to calculate the borrowing requirement. Typically, the Council does not spend at the planned level in any financial year.

7.7 Link Group have a product that will allow the Council to borrow from the market at current interest rates with a small premium but not draw down the funds until they are required - ‘forward borrow’.

## 8 Treasury Debt Prudential Indicators

8.1 There are three debt treasury indicators which ensure debt structure remains within appropriate limits. This manages risk and reduces the impact of any adverse movement in interest rates.

8.2 **Indicator 7** – Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

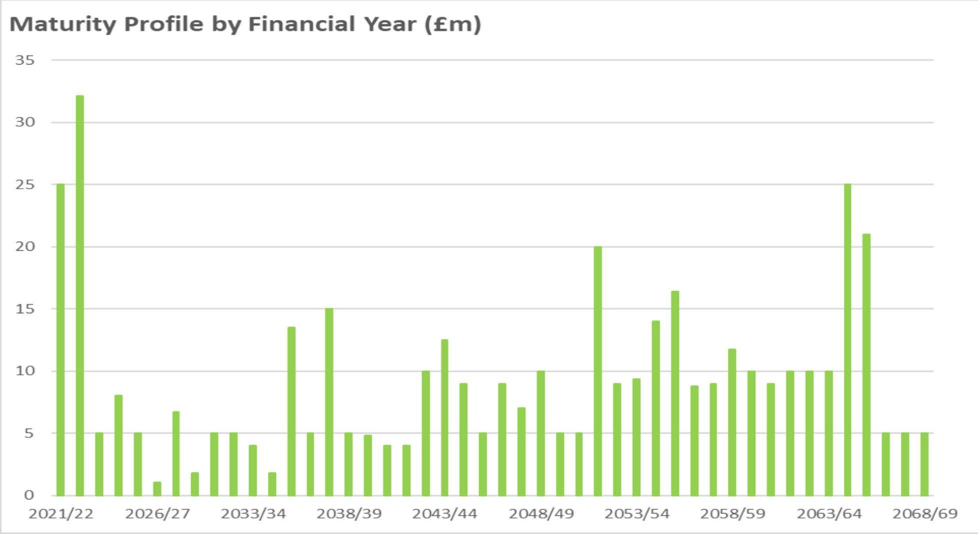
8.3 **Indicator 8** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

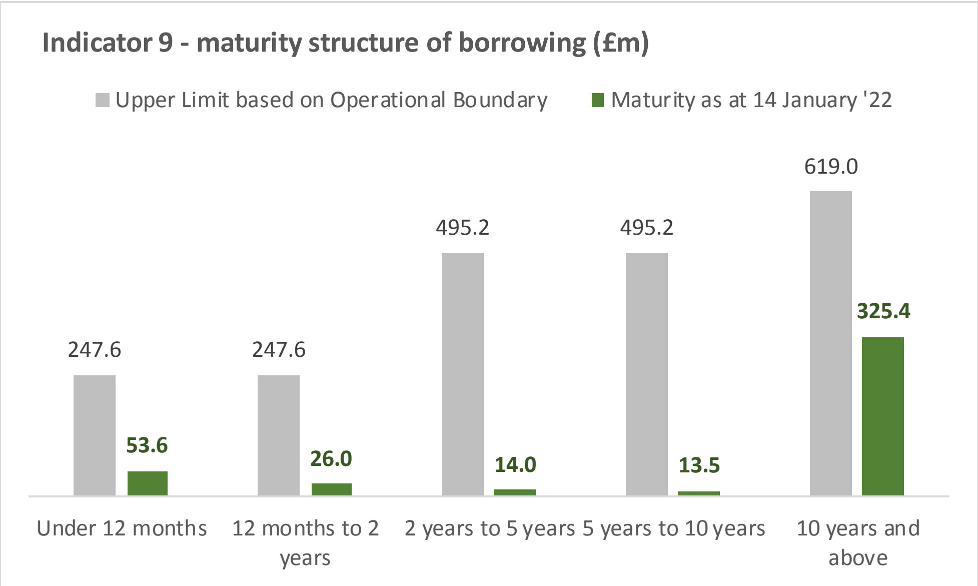
| Interest Rate Exposure (Upper Limits) | 2020/21 Actual £m | 2021/22 Est £m | 2022/23 Est £m | 2023/24 Est £m | 2024/25 Est £m |
|---|---|---|---|---|---|
| (7) Limits on fixed interest rate net debt | 469.6 | 643.1 | 663.1 | 683.1 | 645.2 |
| % of fixed interest rate exposure | 100% | 100% | 100% | 100% | 100% |
| (8) Limits on variable interest rate on net debt | - | 160.8 | 165.8 | 170.8 | 161.3 |
| % of variable interest rate exposure | - | 25% | 25% | 25% | 25% |

8.4 **Indicator 9** - Maturity structure of borrowing. These gross limits are set to reduce the Council’s immediate exposure to large fixed rate sums falling due for refinancing.

| Maturity Structure of borrowing | Upper Limit | As at 14th January 2022 |
|---|---|---|
| Under 12 months | 40% | 12.40% |
| 12 months to 2 years | 40% | 6.01% |
| 2 years to 5 years | 80% | 3.24% |
| 5 years to 10 years | 80% | 3.12% |
| 10 years and above | 100% | 75.23% |

8.5 The following chart shows the Council’s debt maturity profile by financial year as at 14th January 2022:




## 9 Policy on Borrowing in Advance of Need (Future Capital Expenditure)

9.1 The Council will not borrow more than it requires, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. However, at any time the Council may obtain a loan or other financing at what are considered advantageous terms in anticipation of future capital expenditure. The money borrowed will be invested temporarily. The Council may also borrow in the day-to- day management of its cash flow operations or as an alternative to redeeming higher yielding investments.

9.2 The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.

9.3 The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFS.

9.4 Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

## 10 Debt Rescheduling on Existing Debt Portfolio

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

## 11 Investment Strategy Principles

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

11.2 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

11.3 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team).

## 12 Investment Counterparty Selection Criteria and Financial Investment Strategy

12.1 As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g., a grant received in advance of spend or from borrowing in advance of need. Therefore, investment activity will be kept to a minimum.

12.2 However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. 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.
- 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.

12.3 The Chief Finance Officer (S151) will maintain a counterparty list in compliance with the set out below. Any revision of the criteria will be submitted to Council for approval as necessary.

12.4 The Councils minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council's call accounts and Money Market Funds, which are used for short-term investments only, will use the Short-Term credit ratings in the table shown within 12.5. If an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria.

This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice 2017.

12.5 In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Group which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Link Group monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades. Minimum Credit Ratings Criteria – further explanations are given in Annex 1.

| **Minimum Credit Ratings for Group 2 Banks** | | |
|---|---|---|
| **Agency** | **Short-Term** | **Long-Term** |
| Fitch | F1 | AA+ |
| Moody's | P-1 | Aa1 |
| Standard & Poor's | A-1 | AA+ |

12.6 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link creditworthiness service

12.7 The Council does not place sole reliance on the use of Link Groups advice as the Council uses internal expertise and knowledge to make decisions. Market data, market information, information on government support for banks and the credit ratings of that government support are also considered when making treasury decisions.

12.8 The criteria for providing a pool of high-quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, all of the following are subject to continuous credit rating reviews:

- Money Market Funds
- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.

12.9 The Council also uses Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 12.5 then the following strategy will be followed:

- with regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, the Council will reduce the maximum of £15m in the call account to £5m and a keep a low balance in the current account.
- if two or more credit rating agencies reduce their ratings below the criteria in 12.5 the Council will still require to use the Barclays accounts for transactional purposes, so maximum balance of £500k will be left overnight in the current account to prevent the account becoming overdrawn and incurring overdraft fees.
- Seek advice from Link Group

12.10 The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point 12.5. The above approach to Barclay's Bank has been developed following consideration that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity the significant impact, resource requirement, and risk exposure of changing bank provider the possible state and stability of the banking sector and viable alternative suppliers.

- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd). These banks can be included if they continue to be part nationalised and / or they meet the ratings in 14.6.
- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.
- Building Societies – if they meet the ratings above
- Money Market Funds – AAA - rated by Fitch
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However, this arrangement will be closely monitored to ensure funds continue to be transferred daily.

12.11 The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Annex 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by Council. Approval will also be required if any new counterparties are added to the lending list.

12.12 Link Group approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

| Link Asset Services Banding | Description |
|---|---|
| Blue | 1 year (only applies to nationalised / semi nationalised UK banks) |
| Orange | 1 year |
| Red | 6 months |
| Green | 100 days |
| No colour | The Council will not invest with these institutions |

12.13 The proposed criteria for Specified and Non-Specified investments are shown in Annex 1 for approval.

12.14 **Indicator 10** - Upper limit for total principal sums invested for over 365 days excluding loans. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear.

| Overall limit for sums invested over 365 days | 2020/21 Actual £m | 2021/22 Est £m | 2022/23 Est £m | 2023/24 Est £m | 2024/25 Est £m |
|---|---|---|---|---|---|
| Principal sums invested 365 days | 0.0 | 0.0 | 10.0 | 10.0 | 10.0 |

13 **Loans Made to Third Parties**

13.1 The Council makes secured loans to third parties to advance the Council's strategic interests.

13.2 Loans are only made after the Council's formal decision-making process has been followed. This includes formal approval by the Chief Finance Officer (S151).

13.3 As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.

13.4 Non treasury investments are disclosed in the Capital Strategy.

13.5 A facility for an unsecured loan to Peterborough Limited, a Council wholly owned company, of £1.75m was agreed at the end of the 2019/20 financial year for a period of five years. As at 31st March 2021, the full £1.75m of this loan had been draw down, £0.15m of which was a capital loan, and £0.83m had been repaid.

13.6 Further unsecured loans to Council owned Local Authority Trading Companies (LATCo's) only may require to be issued during the financial year and will only be issued in accordance with the governance set out in point 13.2 above.

14 **Non-financial Investments**

14.1 The Council does currently not hold any non-financial investments whose purpose is to generate revenue to support core services. For further information see the Acquisitions Policy.

15 **Treasury Management Scheme of Delegation**

15.1 The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

<u>Full Council / Audit Committee</u>

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of the Annual Strategy.

<u>Audit Committee / S151 Officer (Chief Finance Officer (S151))</u>

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

<u>Section 151 Officer (Chief Finance Officer (S151)) / Deputy Section 151 Officer</u>

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.

- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service advisors

## 16 Housing Revenue Account (HRA)

16.1 The Regulator of Social Housing confirmed the Council as a Registered Provider on 2nd November 2020. This follows the Cabinet decision of September 2019 to explore the viability of opening an HRA and engaging in the supply of affordable housing. Discussions have taken place with Homes England to explore potential funding opportunities. Once the strategic direction of this area has been agreed any plans will be included in future Treasury Management strategies.

16.2 If it is agreed to move forward with an HRA a revised Treasury Management Strategy will be produced which will include separately identified HRA capital expenditure and associated accumulated debt and further indicators relating to the affordability of this expenditure.

**Specified Investment Credit Criteria and Limits**

**Specified Investment:**

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short-term or easy access to funds
- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating

| Investment Type | Maximum Maturity Period | Minimum Credit Criteria | Collective Limit £m | Individual Limit £m |
|---|---|---|---|---|
| Deposit accounts with regulated UK Banks and UK Building Societies | Repayable on call, without notice | Minimum of two short-term rating criteria | 100 | 15 |
| Money Market Funds repayable on call, no notice | Call | Minimum rating – AAA (Fitch) | 50 | 10 |
| Debt Management Agency Deposit Facility | 6 months currently | UK Government backed | N/A | 75 |
| Term Deposits UK Government & Local Authorities | Maturities of up to 1 year | Sovereign risk high security not credit rated | 100 | 20 |
| Term Deposits & Certificates of Deposit Banks Group 1 | Maturities of up to 1 year | Minimum of three short-term rating criteria | 100 | 75 |
| UK Government & Local Authority Stock Issues | Maturities of up to 1 year | Sovereign risk high security not credit rated | 100 | 20 |
| Term deposits & Certificates of Deposit Banks Group 2 | 6 months | Minimum of three short-term rating criteria | 50 | 10 |
| Forward Term Deposits with Regulated UK Banks | Maturities of up to 1 year | Minimum of three short-term rating criteria | 100 | 15 |

**Non-specified Investment Credit Criteria and Limits**

- With the same institutions classified as "specified" investments but have maturity dates in excess of one year – once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity -, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate, the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the 'Non-Specified' Investments category at this time
- If the Council decide to use these investments then Indicator 11 will need to be revised

| Investment Type | Maximum Maturity Period | Minimum Credit Criteria | Collective Limit £m | Individual Limit £m |
|---|---|---|---|---|
| Term deposits with UK Government & Local Authorities | 1-5 years | Sovereign risk high security not credit rated | 20 | 20 |
| Term deposits & Certificates of Deposit with Banks Group 1 | 1-5 years (tradable) | F1(Fitch – short-term) AAA (long-term) | 10 | 10 |
| UK Government & Local Authority Stock Issues | 1-10 years (tradable) | Sovereign risk high security not credit rated | 10 | 10 |
| Term deposits & Certificates of Deposit with Banks Group 2 | 1-5 years (tradable) | F1 (Fitch-short-term) A (long--term) | 20 | 10 |
| Deposit accounts with regulated UK building societies | 1 – 5 years | F1 (Fitch short-term) A (long-term) | 5 | 5 |
| Term deposits UK building societies no formal credit rating | Up to 1 year | Financial position assessed by Chief Finance Officer (S151). | 5 | 5 |
| Bonds issued by financial institution guaranteed by UK Govt | 1-10 years (tradable) | UK Govt backed AAA (Fitch, S&P etc.) | 5 | 5 |

In the current economic climate, the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the 'Non-Specified' Investments category at this time.

**Explanation of Credit Ratings**

| Agency | Short-Term | Long-Term |
|---|---|---|
| Fitch | F1-Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a "+" may be added to denote any exceptionally strong credit feature. | AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| Moody's | P-1- Ratings of Prime-1 reflect a superior ability to repay short-term obligations. | Aa- Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. |
| Standard & Poor's | A-1-The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's/issuer's capacity to meet its financial commitment on these obligations is extremely strong. | AA-more susceptible to the adverse effects of changes in circumstances and economic conditions. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. |

| AUDIT COMMITTEE | AGENDA ITEM No. 5 |
|---|---|
| **21 FEBRUARY 2021** | PUBLIC REPORT |

| Report of: | Cecilie Booth – Interim Corporate Director of Resources | |
|---|---|---|
| Cabinet Member(s) responsible: | Councillor Coles – Cabinet Member for Finance | |
| Contact Officer(s): | Steve Crabtree, Chief Internal Auditor | Tel. 384557 |

**INTERNAL AUDIT PLAN 2022 / 2023: APPROACH TO AUDIT PLANNING**

| RECOMMENDATIONS | |
|---|---|
| **FROM:** Steve Crabtree, Chief Internal Auditor | **Deadline date:** N/A |
| It is recommended that Audit Committee:<br><br>1. Note and comment upon the emerging themes to be considered for inclusion in the 2022 / 2023 Internal Audit Plan. | |

## 1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on the development of the 2022 / 2023 Internal Audit plans.

## 2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to provide Members with details of Internal Audit's annual planning approach and emerging issues and risks that Internal Audit need to provide assurance over. It provides an opportunity for Members to consider these themes and provide input into the development of the Audit Plan.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.2.9 *"To commission work from internal and external audit".*

## 3. TIMESCALES

| Is this a Major Policy Item/Statutory Plan? | **NO** | If yes, date for Cabinet meeting | N/A |
|---|---|---|---|

## 4. BACKGROUND AND KEY ISSUES

### 4.1 INTRODUCTION

4.1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Chief Audit Executive must develop a risk-based plan to determine the priorities of the internal audit activity. It must also explain how the planned assurance delivery links to the organisational objectives and priorities.

4.1.2 Within Peterborough City Council (PCC), the role of Chief Audit Executive is undertaken by the Chief Internal Auditor. The Internal Audit Team comprises 6.1 Full Time Equivalent staff. We currently have one member of staff on secondment (*) and the Chief Internal Auditor's time is split with two other teams - Insurance and Investigations.

| | Number | FTE |
|---|---|---|
| Chief Internal Auditor | 1 | 1.00 |
| Group Auditor | 2 | 1.60 |
| Principal Auditor | 1 | 0.50 |
| Senior Auditor | 2 * | 2.00 |
| Auditor | 1 | 1.00 |

4.1.2 In an ever-changing risk and control environment it is important that audit plans can adapt quickly to the needs of the organisation. To ensure a flexible and prioritised approach to our work, we utilise an assessment and planning tool which is used throughout the year on a rolling basis. This helps to ensure that at the point of each piece of work commencing, it is the next highest priority one according to our risk assessment.

4.1.3 This year, and beyond, we will ensure that our planning process aligns with the activities being undertaken under the Improvement Plan. We will keep informed of the scope and timing of reviews to ensure that we do not duplicate coverage or overlap timescales where possible. We will also ensure we have a strong focus in our plan on areas that feed into the themes of financial sustainability and governance. We are also aware that the outcomes of the various reviews will result in changes to service delivery, including new or changed risk, control and governance structures and processes. Our flexible planning will ensure that we take account of these and build them into our programme of work where appropriate. Additionally, the outcome of some Improvement Plan reviews may provide assurance that can feed into our Annual Audit Opinion at the end of 2022-23 and we will assess whether this is appropriate throughout the year.

4.1.4 We will also take into account the ongoing impacts of Covid, such as increased fraud risks, changes to working practices, supply chain failure, demand for social care services and reduction in income streams and increased debt. Time will be allocated for certification of Covid related grants and for post-payment assurance of Business Support Grants payments.

## 4.2 APPROACH

4.2.1 Consultation and research is currently underway to determine possible themes and areas for audit work. This includes consulting with senior management and reviewing risk registers, budgets, plans and strategies, decisions, project and contract registers. The governance structures for the Improvement Plan are being developed currently, along with the scoping of specific service, contract and company reviews and we will continue to review proposals as they evolve.

4.2.2 The potential areas for review that this generates will then be subject to an assessment, using our planning tool (see **Appendix A** for details). The key factors being assessed are:

- Materiality: The size of a system or process in terms of financial value or numbers of transactions or number of people affected.
- Corporate Importance: The extent to which the Council depends on the system to meet statutory or regulatory requirements or corporate priorities.
- Stability: The degree of change within the process.
- Vulnerability: Extent to which the system is liable to breakdown, loss, error or fraud.
- Specific concerns: Arising from management's assessment of risk as well as audit intelligence.

The assessment tool is designed to ensure that our work is aligned to organisational objectives and priorities.

4.2.3 The Annual Internal Audit Plan will be compiled using our knowledge of:

- The prioritised list of potential audit reviews generated by the above assessment.
- The number of audit days available for the year.

- The skills, knowledge and experience of audit staff.
- Assurance available from other sources.
- Cambridgeshire County Council Internal Audit plans in relation to our shared services.
- An allowance for statutory activities, grant certifications, supporting the democratic process and follow-up reviews.

4.2.4 The Draft Annual Internal Audit Plan will be presented to the Audit Committee at the 21 March meeting. It will show all audits assessed as high priority but will distinguish between those achievable within current audit resources and those which are not.

4.2.5 During the year, there will be new risks and concerns identified, or changes to those already identified and included in the plan. There will be regular review of these changes and a reassessment of priorities in accordance with the approach set out above. This will result in areas of work being added to or removed from the plan.

4.2.6 Co-ordination between Internal Audit and the Risk Management Board/risk functions can assist this process in identifying emerging local and national risks and areas that need to be covered in audit work where appropriate.

## 4.3 THEMES EMERGING

4.3.1 Our initial stages of planning have identified the following broad themes for inclusion in our risk assessment process.

4.3.2 Financial Governance

- Arrangements for ensuring that savings proposals are tracked and being achieved.
- Review of Financial Regulations and Contract Standing orders as part of the revised Financial Operating Framework
- Financial Systems – Payroll, Council Tax and NNDR, Debt Recovery
- Income generating activities – charging policy, accurate billing and debt recovery
- Enhanced Spend Controls – data analysis and dip sampling
- Town Fund and Levelling Up Fund Assurance Framework

4.3.3 Information Governance

- The operation of new or upgraded IT systems (MyView – staff expenses module)
- Cyber Security and remote working
- PCI compliance
- Information Governance – compliance with policies
- Attendance at Strategic Information Board

4.3.4 Corporate Governance

- Attendance at the Risk Management Board
- Risk Management
- Compliance with our Code of Corporate Governance.
- Compliance with corporate policies/review of new strategies
- Post-Payment Assurance for Business Support Grants
- Workforce Development and Succession Planning

4.3.5 External Companies

- New arrangements for governance of external companies

4.3.6 Contracts and Procurement

- Contract management and open book reviews – those not being reviewed as part of the Improvement Plan (awaiting confirmation)
- New Contract Management manual
- Supplier Resilience following Covid – due diligence and supplier set up/processes in place to monitor supplier resilience

4.3.7 Project and Programme Management

- New Programme and Project governance arrangements initiated to oversee the Improvement Plan
- Project Management – compliance with policy on specific projects (eg Academy to Cloud)

4.3.8 Environment

- Climate Change – Organisational resilience
- Asset Management systems and land transfer process
- Homelessness / Temporary Accommodation

4.3.9 Service Delivery

- Changes to service delivery as a result of decisions to in-source/outsource or otherwise change the activities of major contracts, companies or services (dependant on the outcomes from the Improvement Plan)
- Home to School transport – compliance with eligibility criteria
- Direct Payments

## 5. CONSULTATION

5.1 Directors and Heads of Service have been invited to input into the planning process to date. Consideration of any information received has been incorporated into this report where applicable and further consultation is in train with Directors and their Management Teams.

The Audit Committee is similarly invited to input into the annual planning process by way of this report. Any areas identified will be assessed for inclusion within the plan in accordance with the planning tool (See Appendix A).

## 6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Audit Committee note and comment on the contents of this report.

## 7. REASON FOR THE RECOMMENDATION

7.1 To provide members with an insight into the development of the audit plan to provide assurance to the Council on its governance and operations.

## 8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None

## 9. IMPLICATIONS

### Financial Implications

9.1 The Audit Plan needs to be deliverable within available resources and the achievement of the audit plan will require that the current structure remains essentially intact throughout the year. Resource requirements are reviewed each year during the planning process.

Any changes to the structure and resourcing of Internal Audit will result in a further review of our programme of work and this will be reported to the Audit Committee.

### Legal Implications

9.2 The Accounts and Audit regulations 2015 require the Council to have a sound system of internal control which includes effective arrangements for the management of risk, controls and governance.

### Equalities Implications

9.3 The identification of risks and the proper management of those risks will ensure that:

- The Councils environmental policies and ambitions can be met; the Council is able to mitigate against potential financial losses, litigation claims and reputational damage; the Council is able to effectively deliver the strategic priorities.

## 10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 None.

## 11. APPENDICES

11.1 Appendix A

APPENDIX A

## INTERNAL AUDIT PLANNING AND ASSESSMENT TOOL

| ***Category*** | ***Weight*** | ***Description*** | ***Total Possible Category Score*** |
|---|---|---|---|
| Materiality | 2 | Value (budgeted income and expenditure; contract values; project costs etc.) and volume (number of transactions, number of staff/public affected).<br>1= up to £100k or 100 transactions<br>2= £100k-£1m, or 100-1000 transactions<br>3= £1-10m, or 1000-10,000 transactions<br>4= £10-£100m, 10,000 or 100,000 transactions<br>5= £100m plus, or 100,000 plus transactions<br><br>Score 1 to 5 (1= low, 5 = high). | 10 |
| Stability | 2 | Amount of change within a system or process.<br>Growth in size or responsibilities; staff turn-over; legislative change; new or upgraded IT systems; cultural change; new service delivery models; significant internal policy change.<br><br>Score 1 to 5 (1= low, 5 = high) | 10 |
| Vulnerability | 3 | Inherent risks (fraud, corruption, error, commercial or sensitive information, health and safety, vulnerable adults and children).<br>Control environment (limited central control or ownership, poor physical security, high turn-over of staff, complexity of systems and processes, poor SoD, lack of expertise)<br><br>Score 1 to 5 (1= low, 5 = high) | 15 |
| Corporate Importance | 5 | Dependence on the system to meet regulatory requirements or corporate priorities and objectives.<br><br>Score 1-5 (1= low, 5= high) | 25 |
| Specific Concerns | 4 | Concerns and risk assessment of management and auditors. Review risk registers, specific areas raised by management, audit intelligence.<br><br>score 1-5 (1= low, 5= high) | 20 |
| ***Total Possible Overall Score*** | | | **80** |

**Prioritisation Schedule**

| | | | | | |
|---|---|---|---|---|---|
| >50 | High Priority | 30-50 | Medium Priority | < 30 | Low Priority |

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| AUDIT COMMITTEE | AGENDA ITEM No. 6 |
|---|---|
| **21 FEBRUARY 2022** | PUBLIC REPORT |

| | | |
|---|---|---|
| Report of: | Cecilie Booth, Interim Chief Finance Officer and s.151 Officer | |
| Cabinet Member(s) responsible: | Councillor Coles, Cabinet Member for Finance | |
| Contact Officer(s): | Steve Crabtree, Chief Internal Auditor | Tel. 384 557 |

**INVESTIGATING ALLEGATIONS OF FRAUD**

| R E C O M M E N D A T I O N S | |
|---|---|
| **FROM:** Steve Crabtree, Chief Internal Auditor | **Deadline date:** N / A |

It is recommended that Audit Committee:

1. Receives, considers and endorses the attached report on the investigation of fraud; and
2. Approves the policies identified within the report.

## 1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee to provide awareness of some of the steps undertaken within the Council to tackle fraud and corruption together with progress in scrutinising data matches arising from participation in the National Fraud Initiative (NFI).

## 2. PURPOSE AND REASON FOR REPORT

2.1 The Council provides a raft of services to the public from its scarce resources. Every effort is made to ensure that resources are used for their intended purpose. However, there are occasions when this may not always be the case and the Council needs to have appropriate mechanisms to protect the public purse. This report sets out some of the approaches in place to tackle fraud and corruption together with the outcomes.

2.2 The Terms of Reference for the Audit Committee – latest update agreed at Full Council on 26 January 2022 – set out the key roles of the Committee including the following:

2.2.2.16: To monitor council policies on “raising concern at work” and the anti-fraud and anti-corruption strategy and the Council’s complaints process.

## 3. TIMESCALE

| Is this a Major Policy Item/Statutory Plan? | **NO** | If yes, date for Cabinet | - |
|---|---|---|---|

## 4. BACKGROUND AND KEY ISSUES

### 4.1 Introduction

4.1.1 The Accounts and Audit Regulations 2015 state that the Council must have measures in place "*to enable the prevention and detection of inaccuracies and fraud*". Fraud also refers to cases of bribery and corruption. The Councils Financial Regulations Section 4.4 "*Preventing Fraud and Corruption*" set out its position. It requires the Corporate Director of Resources to lead on the development of anti-fraud policies, with all Directors responsible for reporting and operating in accordance with those policies.

4.1.2 The Council's approach to tackling fraud and corruption is underpinned by a range of policies and procedures which set out ways in which concerns can be raised, investigated and reported and appropriate action taken. This report sets out the details in relation to:

- Anti-Money Laundering Policy;
- Sanction and Prosecution Policy (Council Tax and Business Rates); and
- Sanction and Prosecution Policy (Blue Badge and Car Park Permits)

4.1.3 Similarly, external organisations provide support and evidence which can be used to target potential fraud against the Council. An example of this is the regular National Fraud Initiative which has been in place since 1994 and undertaken every 2 years. In addition, Business Grants paid out as part of the pandemic response have also been included in these checks to ensure that the public purse is protected.

### 4.2 Corporate Policies

4.2.1 It is important that the Council has policies and procedures in place which are fit for purpose and are effective in preventing, detecting and investigating fraud where it occurs. Staff, agency workers and Members need to be made aware of, be able to understand and comply with the policies and procedures which comprise the Council's counter fraud framework. Staff agency workers, Members and citizens must have confidence in the reporting arrangements and subsequent investigation of concerns which can be reported via the various channels available.

4.2.2 A review of a number of the policies has been undertaken. Each of the policies listed above remain relevant, up to date and are included for reference in **Appendices A – C**.

4.2.3 A key aspect for fraud policies has been the ability to prosecute should the need arise. With the prolonged various lockdown arrangements over recent times, Courts have not been open to enable these to be prosecuted. For example, in the normal course of events for investigating Council Tax Reduction Scheme, once evidence is established that there has been a fraud committed, the claimant is interviewed under caution. This can lead to either an Administration Penalty levied (an additional 50% of the overpayment) or can proceed to prosecution. With lockdown, we have not had the ability to complete these interviews and over time these cases can become time barred in relation to prosecution.

### 4.3 Information, Analysis and the National Fraud Initiative

4.3.1 The Cabinet Office is responsible for organising and coordinating the NFI process to assist in the identification of public sector efficiency and reform. The NFI is a national data matching exercise that has enabled participating organisations across the United Kingdom, to prevent and detect instances of fraud and error totaling £245 million between 2018 and 2020. This brings cumulative outcomes of the initiative to a total value of more than £1.93 billion since its inception.

4.3.2 Over 1,200 participating organisations from both the public and private sectors provide data for the NFI, which currently takes place every two years (excluding single person discount matches which are annual). The data matching process involves comparison of data sets, including payroll and benefits records, against other data held by the same or another body to establish a match. Where such matches arise, these instances are investigated to identify potential fraudulent or erroneous claims or payments.

4.3.3 Biennial Data Matching Exercise

The full list of datasets provided are:

- Blue Badge Parking Permits (data provided by a national software provider)
- Concessionary Travel Passes
- Creditors (Payment data and Supplier references)
- Council Tax Reduction Scheme recipients
- Council Tax Single Person Discounts
- Housing Benefits (data provided by DWP)
- Payroll
- Resident Parking Permits
- Single Person Discount
- Taxi Drivers
- Waiting List

Due to an update to the NHS Act 2006 legislation, personal budgets, residential care homes and social care data now falls into the definition of patient data and therefore cannot be matched, however NHI are consulting with the relevant government departments and legal teams (Department of Health and Social Care and Cabinet Office lawyers) to change legislation to enable this data to be matched in future.

4.3.4 Internal Audit is the Council's coordinator for the data matches received from the Cabinet Office and ensures matches are investigated. Due to changes in personnel and responsibilities across the Council, Internal Audit continue to undertake the majority of the investigations. The web-application provided by the Cabinet Office is updated to track progress on reported matches.

4.3.5 The number of matches received was 6,184. The Cabinet Office does not expect all of these to be checked and provide guidance on which they recommend are investigated. Whilst the matches may be an indicator of fraud and error, in most cases, the match can be attributed to outdated or incorrect data, but nevertheless still needs to be checked and if necessary, records put right. Furthermore, regular refreshes are undertaken by Cabinet Office as and when new data is provided.

4.3.6 Key outcomes from the works to date show that:

- As the country was in the middle of the pandemic around the time of the data download (October 2020) – it has been identified that timely updates to our data records were not maintained due to the level of matches relating to deceased individuals. Verification has been undertaken that passes or permits have been cancelled and returned.
- A number of matches relate to links with Housing Benefits, for example, Council Tax Reduction Scheme recipients. The Department for Work and Pensions (DWP) lead on Housing Benefit investigations and these have been referred through to them.
- Payroll matches identify instances where an employee and creditor are linked by the same bank account or the same address which could indicate employees with interests in companies with which Peterborough is trading. This could indicate potential undeclared interests and possible procurement corruption or where a member of staff has set up a creditor with their own bank details in order to receive payments they are not entitled to. No issues have been identified.
- Duplicate creditors have been identified through a number of matches. Overwhelming, the majority of the matches can be linked to data quality. For

example, the company name may have been misspelt or moved address but are linked by the same bank account. Similarly, a number of recurring quarterly payments have been identified, for example, energy payments. From the works undertaken, £2,755 of duplicate payments were identified but had been already recovered.

4.3.7 Annual single person discount matches.

Separate results are received in relation to Council Tax Single Person Discounts which is a separate exercise undertaken around December each year (following publication of the latest Electoral Roll). The Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption / discount. Council taxpayers are under a duty to report within 21 days if they think they should no longer qualify for a discount. The Council has in excess of 26,000 households within Peterborough who currently receive the 25% discount.

4.3.8 While most residents are claiming the discount appropriately, there are likely to be a minority who are attempting to defraud the system. From the records submitted, PCC has 143,596 entries on the Electoral Roll and 87,344 on Council Tax. The potential anomalies for investigation to verify data held to look to cancel identified errors or fraudulent claims are shown below.

4.3.9 Matches identify addresses where the householder is claiming a SPD on the basis that they live alone yet the electoral register suggests that there is more than one person in the household aged 18 or over. The electoral register also includes details of individuals who are approaching their 18th birthday. Unless there is an exemption, for example, a student, then the single person discount would need to be revoked from the date of their birthday.

4.3.10 Key outcomes from the works to date show that:

- A number of SPD have been cancelled and reinstated at the full Council Tax level. This has produced an additional £59,795 to be recovered.
- Similar to other datasets, there are a number of records which need updating to improve the quality of reports.

4.3.11 Business Grants

Due to the national pandemic, numerous grants have been paid to local authorities for distribution across their areas. One such grant relates to businesses. To date, 3 separate schemes have been in place. This data is not part of the mandatory bi-annual NFI exercise, however an opportunity was made available to all authorities to use that tool to assist in verification of payments made.

4.3.12 Grant payments made to businesses have been coordinated through Revenues and Benefits. The basis of the payments are based upon records held within Business Rates and a number of additional checks were undertaken prior to payments being made. Data matching has focused on two keys areas, namely verification of the bank account and also an active company check. There is also a combined check. NFI has similarly risk assessed the matches so as to enable PCC to focus on the higher risks. Further submissions have been made as and when additional grants have been awarded by Central Government.

4.3.13 Key outcomes to date are:

- A number of checks were undertaken prior to payment which has reduced the potential for fraud and error.
- At this point in time there are no issues identified for further investigation, however ongoing works continue.

4.3.14 NFI continues to be an important exercise for detecting fraud across the public sector. With more and more datasets being requested and the increasing numbers of organisations matched against, there is a risk that this could become unmanageable to keep track of and do justice to the wealth of data and matches received.

4.3.15 Works are coordinated and investigated through Internal Audit currently but going forward greater ownership is required by the organisation to manage and regularly update its own records – enhancing the data quality so as to reduce the number of matches to those of highest fraud risk only.

4.4 **Whistleblowing and Raising Awareness**

4.4.1 The Council has a Whistleblowing Policy which was issued and approved in January 2017. The lead officer for whistleblowing is the Director of Law and Governance & Monitoring Officer. It is timely for the Policy to now be reviewed to ensure that it remains concise, accessible and easy to understand for potential whistleblowers.

4.4.2 The Council has received a low level of whistleblowing allegations in recent years, whether to Internal Audit or each of the named officers who can receive them. During the summer 2021, as part of leadership training provided to all Managers across the Council in relation to how governance is delivered, various presentations where provided which included how whistleblowing operates and the safeguards in place for protection for whistleblowers. While this has not generated many more initial allegations to be investigated, it has raised the profile that the Council will not tolerate wrong doings.

4.4.3 In terms of allegations raised, to date Internal Audit in 2021 / 22 has received:

| | | **Open** | **Closed** |
|---|---|---|---|
| Theft | Undertaking private works | 0 | **1** |
| Governance | – | 0 | **0** |
| Safeguarding | – | 0 | **0** |
| Fraud | – | 0 | **0** |
| | | **0** | **1** |

The case identified related to allegations of private works being undertaken in a department. Closer inspection of the details identified that this did not relate to Peterborough City Council.

## 5. CONSULTATION

5.1 This report has been issued for consideration as part of normal committee reporting protocols.

## 6. ANTICIPATED OUTCOMES OR IMPACT

6.1 That the Audit Committee is informed of the measures taken across the organisation to tackle and prevent fraudulent activity. Furthermore, this will assist in the development of future policies and procedures and allow the Committee to support this important function.

## 7. REASON FOR THE RECOMMENDATION

7.1 To enable the Audit Committee to continue to monitor the Council's approach to the areas dealt with by the team

## 8. ALTERNATIVE OPTIONS CONSIDERED

8.1 As the Council has a legal duty to provide data to support the NFI process and investigate the resultant matches, there is no alternative options to consider.

The option is not to present a report into fraud and the activities undertaken. This could result in a lack of awareness.

## 9. IMPLICATIONS

**Financial Implications**

9.1 The NFI exercise is a significant contribution to the Council's responsibility for the prevention and detection of fraud. The cost to the Council of participation in the bi-annual exercise is £3,900. Further costs have been incurred for business grants based on the number of grants paid.

The Council will become more fraud aware and will continue to consider the risks and consequences. Fraud is unacceptable and requires a well thought thorough approach. The presumption must be about preventing fraud by designing systems to stop it happening in the first place but where it occurs, there should be an equal presumption that its perpetrators will face tough action. This can only serve to increase the standards of conduct across the Council.

**Legal Implications**

9.2 The NFI is conducted using the data matching powers conferred on the Minister for the Cabinet Officer by Part 6 and Schedule 9 to the Local Audit and Accountability Act 2014. As a relevant authority, the Council is required to provide data for the purposes of conducting data matching exercises.

The legal basis for processing personal data in connection with the NFI process, is under Article 6 (1)(e) processing is necessary for the performance of a task carried out in the public interest.

The Council will also ensure that the principles of Data Protection Act are observed in providing the data for this exercise and will take all reasonable steps to ensure the data submitted is accurate.

The NFI does not require the consent of the individuals concerned under current data protection legislation.

## 10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 None

## 11. APPENDICES

11.1 A: Anti-Money Laundering Policy

B: Sanction and Prosecution Policy (Council Tax and Business Rates)

C: Sanction and Prosecution Policy (Blue Badge and Car Park Permits)

# Anti-Money Laundering Policy

## Introduction

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) came into force in June 2017 and, for offences committed after 26 June 2017, replace the Money Laundering Regulations 2007.

The MLR 2017 and the Proceeds of Crime Act 2002 ('POCA') impact on certain areas of local authority business and require local authorities to establish internal procedures to prevent the use of their services for money laundering.

## Scope of the Policy

This Policy applies to all employees (including agency staff) of the Council and elected Members, and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.

## What is Money Laundering?

Money laundering offences include:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 POCA);
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328 POCA);
- Acquiring, using or possessing criminal property (section 329 POCA);
- Investing the proceeds of crime into other financial products or the acquisition of property / assets; or
- Tipping off a person(s) who is suspected of being involved in money laundering is such a way as to reduce the likelihood of or prejudice of an investigation.

Although the term "*money laundering*" is generally used to describe activities of organised crime, for most people it will involve a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

Potentially any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way, do nothing about it, or tip off anyone attempting to launder funds. Failure to report money laundering is an offence.

The Guidance Note gives practical examples of money laundering, to aid understanding. This Policy and Procedure sets out how any concerns should be raised. It is important that employees in areas of money laundering risk are familiar with their legal responsibilities as criminal sanctions may be imposed for failure to comply with legislative requirements. Failure by a member of staff to comply with the procedures set out in this Policy could also lead to disciplinary action.

Whilst the risk to the Council of contravening the legislation is low, it is extremely important that all employees are familiar with their legal responsibilities; serious criminal sanctions may be imposed for breaches of the legislation.

## Legislation

The main UK legislation covering anti-money laundering and terrorist financing is:

- Proceeds of Crime Act 2002 (as amended by the Serious Organised Crime and Police Act 2005);
- Terrorism Act 2000 (as amended by the Anti-Terrorism, Crime and Security Act 2001); and
- Money Laundering, Terrorist Financing and Transfer of Fuds (Information on the Payer) Regulations 2017

## Our Responsibilities

The main requirements of the legislation are:

- To appoint a Money Laundering Reporting Officer (MLRO);
- Maintain client identification procedures in certain circumstances;
- Implement a procedure to enable the reporting of suspicions of money laundering; and
- Maintain record keeping procedures.

Providing the Council does not undertake activities regulated under the Financial Services and Markets Act 2000, the offences of failure to disclose and tipping off do not apply. However, the Council and its employees and Members remain subject to the remainder of the offences and the full provisions of the Terrorism Act 2000.

The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purpose of terrorism, or resulting from acts of terrorism.

Potentially very heavy penalties (unlimited fines and imprisonment of up to 14 years) can be handed down to those who are convicted of one of the offences above.

The regulations require the Council to appoint a Nominated Officer as the Money Laundering Reporting Officer: The officer nominated to:

- Receive internal suspicious transactions reports (known as disclosures) from within the Council;
- Deciding whether these should be reported to the National Crime Agency; and
- If appropriate, making such reports to the National Crime Agency, is

**Fiona McMillan, Director of Law and Governance**
**Peterborough City Council**
**Email: fiona.mcmillan@peterborough.gov.uk**

Not all of the Council's business is "relevant" for the purposes of the legislation. The areas of council business which are relevant include:

- Dealing in, managing and administering investments;
- Accountancy services and tax advice;
- Audit services;
- Legal services involving finance and property;
- Conveyancing work - sale of property and land. The provision of services in relation to the formation, operation or management of a company or a trust; and
- Dealing in goods of any description by way of business (including dealing as an auctioneer) wherever a transaction involves accepting a total cash payment.

A cash payment of £10,000 or more should not be accepted without seeking advice or approval from the Director of Law and Governance / Service Director Financial Services / Chief Internal Auditor as set out in Financial Regulations.

The safest way to ensure compliance with the law is to apply them to all areas of work undertaken by the Council. The legislation applies to all staff, but awareness raising will be targeted at staff in highest risk areas.

## Reporting to the Money Laundering Reporting Officer (MLRO)

Where you know or suspect that money laundering activity is taking / has taken place, or you become concerned that your involvement in a matter may amount to facilitating the acquisition, disguising, converting, possessing or retention of criminal property (a prohibited act) you must disclose this as soon as practicable to the MLRO. The disclosure should be on or before the activity. There must be good reason if it is reported afterwards.

The Disclosure Report must include as much detail as possible, for example:

- Full details of all the people involved
- Full details of your / their involvement

If you are concerned that your involvement in the transaction would amount to a prohibited act, then your report must include all relevant details, as you will need consent from the National Crime Agency (NCA), via the MLRO, to take any further part in the transaction.

You should therefore make it clear in the report whether there are any deadlines which make the matter more urgent, for example, a completion date or court deadline.

Once you have reported the matter to the MLRO you must follow any directions that may be given to you.

- Do not make any further enquiries into the matter yourself: any necessary investigation will be undertaken by National Crime Agency (NCA);
- Co-operate with MLRO and the authorities during any subsequent money laundering investigation;
- Don't voice any suspicions to the person(s) whom you suspect of money laundering, even if the NCA has given consent for the transaction to proceed. This could constitute a tipping off offence;
- Don't make any reference on a client file or record, to a report having been made to the MLRO in case of a client exercising their subject access rights. The MLRO will keep the appropriate records in a confidential manner.

## Consideration of the disclosure by the Money Laundering Reporting Officer

Upon receipt of a disclosure report, the MLRO will note the date the report is received and acknowledge receipt of it. They should also advise you of the timescale within which a response can be expected.

The MLRO will consider the report and any other available internal information that might be relevant and make other enquiries as necessary to determine whether a report to NCA is required. The MLRO may also need to discuss the report with you.

Once the MLRO has evaluated the report and any other relevant information, a timely determination must be made as to whether:

- there is actual or suspected money laundering taking place; or
- there are reasonable grounds to know or suspect that is the case; and
- Whether consent needs to be sought from NCA for a particular transaction to proceed.

A report must be made as soon as practicable to the NCA by the MLRO. The report may not be immediately made to NCA if there is a genuine reason not to do so. For example, legal professional privilege may apply and be a genuine reason for not disclosing the information to the NCA immediately.

Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then a note must be made in the Money Laundering reporting format accordingly; consent can then immediately be given for any ongoing or imminent transactions to proceed.

In cases where legal professional privilege may apply, the MLRO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting the matter to NCA.

Where consent is required from NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from NCA.

Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then the record shall be marked accordingly and consent given for any ongoing or imminent transaction(s) to proceed.

All disclosure reports referred to the MLRO and reports made by them to the NCA must be retained by the MLRO in a secure manner for a minimum of five years.

The MLRO commits a criminal offence if they fail to report a disclosure made to them, to the NCA.

## Client Identification Procedure (Due Diligence)

When dealing with financial transactions, employees must take steps to identify a citizen and check that they are who they say they are. This will mean obtaining identification documents.

Where the Council is carrying out relevant business (accountancy and financial functions, audit services and financial, company and property transactions of legal services) and:

- forms an ongoing business relationship with a client; or
- carries out an occasional transaction in excess of £10,000; or
- suspects money laundering or terrorist financing; or
- Doubts the reliability or adequacy of documents, data or information previously obtained for the purposes of identification or verification.

Then the Client Identification Procedure must be followed before any business is undertaken for that client. Please note that unlike the reporting procedure, the client identification procedure is restricted to those operating 'relevant businesses.

Satisfactory evidence of the identity of the prospective client must be obtained as soon as practicable after instructions are received. This might involve:

- checking the company website;
- confirming the nature of the business and directors with Companies House; or
- confirming the identity of the key contact within the company

If there is any doubt about a citizen's identity then do not continue to deal with them until you are sure.

In certain circumstances enhanced citizen due diligence must be carried out for example where:

- The citizen has not been physically present for identification;
- The citizen is a politically exposed person (an individual who at any time in the preceding year has held a prominent public function outside of the UK, and EU or international institution / body, their immediate family members or close associates);
- There is a beneficial owner who is not the citizen with which you are dealing. A beneficial owner is any individual who: holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.

Enhanced citizen due diligence could include any additional documentation, data or information that will confirm the citizen's identity and / or the source of the funds to be used in the business relationship/ transaction. If you believe that enhanced citizen due diligence is required then you must consult the MLRO prior to carrying it out.

If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.

The requirement for the citizen identification procedure, or due diligence, applies immediately for new customers and should be applied on a risk sensitive basis for existing customers. Ongoing citizen due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the citizen and a regular scrutiny of the transactions involved.

## Record Keeping Procedures

Each department of the Council conducting relevant business must maintain records of:

- client identification evidence obtained; and
- Details of all relevant business transactions carried out for clients for at least five years.

This is so that they may be used as evidence in any subsequent investigation by the authorities into money laundering.

The precise nature of the records is not prescribed by law, but must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the business units of the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard. All records must be kept in compliance with the Data Protection Act 1998.

## Training

In support of the policy and procedure, the Council will:

- Make all staff aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation;
- Give targeted training to those most likely to encounter money laundering;
- Prepare guidance notes to assist staff in the operation of this policy;
- Make the Policy, guidance and reporting form available to officers and members on the intranet; and
- Issue regular reminders to staff on the requirements of the Anti-Money Laundering Policy adopted by the council.

## Help and Advice

Should you have any concerns whatsoever regarding any transaction then you should contact the MLRO. Other contacts in Internal Audit available to discuss any suspicions are:

Steve Crabtree, Chief Internal Auditor
Email: steve.crabtree@peterborough.gov.uk

Julie Taylor, Group Auditor
Email: Julie.taylor@peterborough.gov.uk

Louise Cooke, Group Auditor
Email: louise.cooke@peterborough.gov.uk

Responsible Officer: Chief Internal Auditor
Version Control 1.03
Next Review: February 2023

**Annex 1**

# ANTI MONEY LAUNDERING GUIDANCE

## Introduction

Money laundering legislation implemented by the Proceeds of Crime Act 2002 and the Money Laundering, Terrorist Financing and Transfer of Fuds (Information on the Payer) Regulations 2017 requires the Council to establish procedures designed to prevent the use of its services for money laundering.

The law is intended to prevent money from illegal activities such as drug dealing from being 'laundered' and turned into legitimate finance. Money laundering might also be used to hide the financing of terrorism or other criminal activities.

## What is Money Laundering?

Money laundering is the disguising of the source of criminal money, either in cash, paper or electronic form. This may be in order to conceal that the money has originated from crime, or it may be to conceal the source of money that is to be used in the pursuit of future crime. Money Laundering can be complex and involve several transactions.

## How to make a disclosure report

Where you know or suspect that money-laundering activity is taking / has taken place it must be disclosed immediately to the Money Laundering Reporting Officer. The disclosure should be on or before the activity. There **must** be good reasons if it is reported afterwards.

If you prefer, you can first discuss your suspicions with the named officers below.

Contacts are:

- Money Laundering Reporting Officer – Fiona McMillan, Director of Law and Governance
- Cecilie Booth, Interim Corporate Director of Resources
- Steve Crabtree, Chief Internal Auditor
- Julie Taylor, Group Auditor
- Louise Cooke, Group Auditor

No discussions should take place with colleagues other than your manager as confidentiality is paramount. You will be informed if a report is to be sent to the National Crime Agency and advised on what to do next. Please see the Council's Anti-Money Laundering Policy for more information.

Any Council employee, could contravene the money laundering legislation if they become aware of, or suspect the existence of criminal 'property', and continue to be involved in the matter without reporting their concerns.

If an employee has a concern they should ask questions or seek further information to allay any suspicions they may have. Enquiries can be made of the individual to establish whether or not there is an innocent explanation before deciding whether or not to make a disclosure report. If you continue to be suspicious you should make a report to the Council's nominated officer.

The suspected money launderer must not be informed that the matter is being reported.

Once a report has been made to the Council's nominated officer or if you suspect that a report has been made, the potential offence of "Tipping Off" arises. Tipping Off is where someone may prejudice an investigation by giving information to a person suspected of money laundering.

How you might recognise money laundering and what checks you must do

*Carry out appropriate checks to satisfy yourself of the company's or citizen's ID. Additional care must be taken when the person is not physically present.*

*Satisfy yourself as to the source of the funds and the owner of them. Ask yourself "Given my knowledge of this person, is it plausible that they can pay this amount, for this service, by this means?"*

## Ongoing Monitoring

Once you have verified the identity of the citizen (or company) you will still need to monitor activity throughout the relationship and obtain updated documents when necessary. Records must be kept of citizen identification and business transactions for at least 5 years after the transaction or end of the business relationship. All records must be kept in accordance with the Data Protection Act.

## Examples of potential money laundering

**Example 1: Any large cash transaction should alert suspicion.**

- A business looks to pay its business rates with a payment in cash of £10,000 and the balance by bank transfer.
- Financial Regulations do not allow deposits of cash in excess of £10,000 to be accepted, unless approval has been given by the Service Director Financial Services. Any large cash transactions should arouse suspicion.

**Example 2: An offer is made for a parcel of land, by a developer, which is far in excess of its value.**

**Example 3: There is an unexplained significant overpayment which the person then requests is paid back to them, or a transaction is cancelled and refund requested.**

- Payments should always be paid back to the account from which they came. Look to see if there is a pattern of similar transactions.

**Example 4: Liabilities are repeatedly met by payment from an unconnected 3rd party.**

Other behaviour that may arouse suspicion:

- If information about the client reveals criminality or association with criminality;
- If there is more than one Solicitor / Conveyancer used in the sale or purchase of a property or land or if there is an unexplained and unusual geographic use of a solicitor in relation to a property's location;

- If the Buyer or Seller's financial profile does not fit, particularly in relation to property transactions.
- If there are over complicated or poor financial systems;
- Any odd or secretive behaviour;
- Illogical involvement of an unconnected third party;
- A large transaction split into smaller ones without apparent reason (other than perhaps to avoid identity checks)

**Referral to Money Laundering Responsible Officer (MLRO1)**

| MONEY LAUNDERING REPORTING OFFICER DICLOSURE FORM | |
|---|---|
| Date of Disclosure | |
| Officer making disclosure (including Job Title) | |
| Contact details | |
| **Subject Details** | |
| Surname | |
| Forename(s) | |
| Date of Birth | |
| **Or if the matter refers to a Company** | |
| Company Name | |
| Address | |
| Company Number (if known) | |
| **Reasons for Disclosure** | |
| | |

# Council Tax and Local Council Tax Reduction Scheme:

# Sanction and Prosecution Policy

## Council Tax Support Scheme

Council Tax is a tax on the occupation of a domestic property. It is a system of local taxation used to part fund the services provided by local government. The primary legislation for Council Tax is the Local Government Finance Act 1992. Operationally, the governing regulations are the Council Tax (Administration and Enforcement) Regulations 1992.

Tax payers can apply for various exemptions, discounts and reductions. They are dependent upon the circumstances of the tax payer / the people living in the household and with some being dependent upon the property. It is necessary for Local Authorities to regulate the discounts and reductions to ensure that they are only awarded under the circumstances to which they are eligible to be received.

Council Tax Support Scheme is a means tested Council Tax discount. It is intended to help people on low incomes meet their Council Tax costs. The primary legislation is the Local Government Finance Act 2012. Operationally the governing regulations are:

- For those who have reached the qualifying age for Pension Credit it is the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012.
- For working age claimants, local authorities have been given the power to design their own schemes and accompanying rules.

Local Authorities need to guard against fraudulent applications for Council Tax Support to ensure that only tax payers eligible to receive support with their Council Tax liability actually receive assistance.

## Single Person Discounts

Single person discounts of 25% are available where there is only one adult living within the property. Circumstance changes should be notified in the correct way to ensure correct charges can be levied.

## Prosecution

The most appropriate sanction action will be applied in each case, on their merits. This can range from a Caution, to Civil Penalties, through Financial Penalties to ultimately criminal court prosecutions.

The most appropriate sanction action will be considered by reference to:

- The severity of the offence;
- The value and duration of the overpayment;
- The circumstances of the offender; and
- The public interest test (See Annex A)

## Alternatives to Prosecution

Cautions

A caution is a warning (of which a written record is made), given in certain circumstances to a person who has committed an offence.

A caution can only be considered when:

- There is sufficient evidence to justify instituting criminal proceedings;
- The person has admitted the offence during an interview under caution and agrees to the caution;
- There are no previous convictions for benefit fraud; and
- There was no other person involved in the fraud

A caution can be offered if there is no loss to public funds following the presentation of a false document. For example: a false statement on an initial claim form that was identified prior to payment being made. Although there is no loss to funds, there may be an offence of making a false statement in an attempt to obtain a reduction in Council Tax liability.

However, a caution cannot be offered in cases where there is no loss to public funds following a customer’s failure to declare a change of circumstances.

If the person refuses a caution, the Council’s policy is to commence criminal proceedings. The court will be informed that proceedings have been brought because the person refused the offer of a Caution.

If the person is subsequently prosecuted for another benefit offence, the caution may be cited in court.

Financial Penalties

Council Tax Support came into existence on 1st April 2013 and replaced Council Tax Benefit. Council Tax Benefit was a fully subsidised scheme administered by Local Authorities on behalf of the Department for Work & Pensions. Council Tax Support is a discount awarded against the annual Council Tax liability, by Local Authorities, created by the Local Government Finance Act 2012.

Under amendments to Local Government legislation there are occasions when there is an option to consider financial / administrative penalties as an alternative to prosecution.

Section 11 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013, introduced financial / administrative penalties as alternatives to prosecution in Council Tax Support cases. The penalty amounts to 50% of the gross overpayment

- with a minimum of £100, and
- up to a maximum of £1,000

It can be offered if the following conditions are met:

- There is a recoverable overpayment or excess award of Council Tax Support as defined by the relevant legislation;
- The cause of the overpayment is attributed to an act or omission on the part of the defendant;
- There are grounds for instituting criminal proceedings for an offence relating to the overpayment upon which the penalty is based;
- The person offered such a penalty has the ability to repay it within a reasonable timeframe and the imposition of such a penalty will not overburden them if they have existing priority debts; and

- A failure on the part of the customer to accept a Financial / Administrative Penalty will result in the case proceeding to prosecution.

Civil Penalties: Incorrect Statements

Regulation 12 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) 2013 allows PCC to impose a penalty of £70 where an incorrect statement or representation has been made.

The £70 penalty can only be imposed where a person has not been charged with a Local Council Tax Reduction offence or been offered a Caution or Financial Penalty under Regulation 11 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

Civil Penalties: Failure to notify change of circumstances

Regulation 13 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) 2013 allows PCC to impose a penalty of £70 where without reasonable excuse; there is a failure to report a relevant change of circumstances promptly.

The £70 penalty can only be imposed where a person has not been charged with a Local Council Tax Reduction offence or been offered a Caution or Financial Penalty under Regulation 11 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

Civil Penalties: Single Person Discount

Schedule 3 of the Local Government Finance Act 1992 allows Councils to impose a civil penalty of £70 in cases were a resident fails, without a reasonable excuse, to supply information (or negligently supplies incorrect information) which affects their liability or entitlement to a council tax discount or exemption. This is in addition to the recovery of the associated discount.

## Publicity

The Council intends to positively promote this policy as well as the outcome of any prosecutions, which will deter others from fraudulent activity.

Final: Version 1.06

Next Review By: February 2023

# Annex 1

## Definition of Fraud

Fraud is a wrongful or criminal deception intended to result in financial or personal gain:

- Makes a false statement;
- Produces a false document; and / or
- Fails to promptly notify of a relevant change in circumstances which the person knows will affect the discount / exemption / relief / support they are entitled to / or are in receipt of.

Most local taxation fraud offences are prosecuted under the Fraud Act 2006:

- Section 2 – fraud by false representation
- Section 3 – fraud by failing to disclose information.

Council Tax Support fraud offences can also be prosecuted under section 14(3) of the Local Government Finance Act 1992.

## Culture

The Council has a Compliance Team which is part of Internal Audit within the Resources Department. The team consists of two investigating officers and is line managed by the Chief Internal Auditor.

Cases of suspected Council Tax fraud can be referred to the team by e-mail (**fraud@peterborough.gov.uk**) they can also be made on-line via the Council's website. They can also be made by letter. In a similar vein this can be used for reporting of any other suspected fraud. Employee investigations are also covered by the team and follow the Employees Code of Conduct and the Disciplinary Code. There is a dedicated fraud hotline **01733 452250** which can be used by either staff members or the general public. Outside office hours there is an answerphone service attached to this number.

Cases of suspected Housing Benefit fraud are now investigated by the Department for Work & Pensions. Local authorities no longer have any powers to either investigate allegations of Housing Benefit fraud or to prosecute instances of proven Housing Benefit fraud. Benefit fraud allegations can be reported on the Department for Work and Pensions National Benefit Fraud Hotline (**0800 854 440**) or via www.gov.uk/report-benefit-fraud.

## Prevention, Detection and Investigation

The Team will investigate allegations of fraud to a criminal standard, i.e. evidence is collated and alleged offenders formally interviewed in accordance with the Police & Criminal Evidence Act 1984 / the Criminal Procedure and Investigations Act 1996. A case will only be deemed suitable for prosecution if it meets the requirements of the Code for Crown Prosecutors. There are two main requirements – The Evidential Test and The Public Interest Test.

Prosecution cases are passed to an in-house Litigation Lawyer. If the case is to be passed to the Police for them to investigate, the case is referred to the Director of Law and Governance.

## Evidential Test

The prosecuting authority must be satisfied that there is sufficient evidence to provide a ‘realistic prospect of conviction’ on each charge. Consideration should be given to what the defendant’s defence may be and how it is likely to affect the prospects of conviction.

A realistic prospect of conviction is an objective test based solely upon the prosecuting authority’s assessment of the evidence and any information that the authority has about the defence that the subject of the allegation may put forward. The authority must then decide whether, if properly directed in accordance with law, a jury (or magistrate) is more likely to convict than acquit a defendant of the charge(s) against them.

When deciding if there is sufficient evidence to prosecute the authority will consider:

- Can the evidence be used in court?
- Is it likely that the evidence will be excluded by the court? (For example, is it likely it may be excluded due to the way that it was obtained?)
- Is the evidence hearsay? If so, is the court likely to allow it to be represented under any of the exceptions which permit such evidence to given in court?
- Does the evidence relate to the bad character of the suspect? If so, is the court likely to allow it to be presented?
- Is the evidence reliable?
- Does the suspect have a creditable explanation for their actions?
- Is there evidence which might support or detract from the reliability of a confession? Is its reliability affected by factors such as the suspect’s level of understanding?
- Is the identification of the suspect likely to be questioned?
- Are there concerns over the accuracy, reliability or credibility of any of the evidence of any witness?

## Public Interest Test

When the prosecuting authority has deemed that the case has sufficient evidence to provide a realistic prospect of conviction it must then consider if it is in the ‘public interest’ for the legal action to progress. Every case is different and many will have mitigating aspects which will influence the authority’s decision to either take legal action or refrain from instigating legal proceedings.

The public interest test requires prosecutors to consider wider factors tending for or against prosecution, for example the relative seriousness of the offence. Some common public interest factors tending against prosecution may be:

- The customer’s mental or physical health would deter the authority from taking further action;
- The customer has repaid the discount / exemption in its entirety (balanced with the seriousness of the offence);
- It can be established that part or all of the original discount / exemption was awarded in error. It is established whether it is an official error at the start of an investigation – if it was official error then we would not undertake an interview under caution. If part of it was official error but part was customer fraud then consideration would be given to prosecuting the fraudulent element depending upon the amount;
- The investigation process contains unexplained long delays;
- The customer’s family circumstances or adverse recent events may deter the authority from taking the person to court.

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# Blue Badges, Parking Permits and Visitor Parking Permits:

# Sanction and Prosecution Policy

PETERBOROUGH CITY COUNCIL

## Blue Badges

Peterborough City Council provides parking concessions to people who have been issued with a Disabled Parking Badge, under the national Blue Badge scheme. Blue Badges are issued in accordance with the Department for Transport Guidance, to people with a permanent and substantial disability that impacts on their mobility.

The scheme provides a significant financial benefit when compared with paid for parking. Due to this financial benefit, Peterborough City Council does experience an element of fraud within the scheme which we will investigate. The investigation of Blue Badge misuse and fraud is a serious matter and as such, may result in the sanctioning of those persons, who have abused the Blue Badge scheme to gain a financial advantage.

By adopting and enforcing this Policy, Peterborough City Council makes the statement that it will not accept any abuse of the Blue Badge scheme. This will act as a deterrent against Blue Badge misuse and fraud. In making decisions as to whether criminal proceedings should be brought against individuals, Peterborough City Council will always consider whether there is sufficient evidence for there to be a reasonable prospect of conviction, if the matter was taken to Court and will also consider if it is in the public interest.

The Disabled Persons' Parking Badge Scheme ("the Scheme") was introduced in 1972, under Section 21 of the Chronically Sick and Disabled Persons Act 1970. The Scheme provides a national arrangement of on-street parking concessions and car parks for severely disabled people. The disabled persons Blue Badge is recognised throughout the European Union.

It is the responsibility of Peterborough City Council to ensure that only people satisfying the required criteria are issued with a Blue Badge. Individuals sign a declaration on the application form stating that the information provided is correct. In addition, individuals can automatically qualify for a Blue Badge if they have higher rate mobility for Disability Living Allowance or Personal Independence Payments and they will be required to provide a copy of the award letter as proof.

## Fraud and Misuse of a Blue Badge

There are several ways that a Blue Badge can be used fraudulently or misused:

- Using a Blue Badge that has expired or is no longer valid;
- Misuse of a valid Blue Badge by a non-badge holder;
- Using a Blue Badge that has been reported as lost or stolen;
- Using a forged, copied / scanned or amended Blue Badge;
- Using a Blue Badge that is obtained through submission of false or misleading information on application; or
- Using a Blue Badge when the holder is no longer eligible as the medical condition or mobility has improved.

Where an investigation reveals that the misuse of a Blue Badge appears to have occurred due to a mistake then the badge holder will be provided with details of the correct use and other sanctions will be considered if appropriate.

## Blue Badge holders have a duty to return a badge if:

- The badge expires;
- The badge holder is no longer eligible;
- It is a replacement badge for one that is lost or stolen and the original is found / recovered (in this case the original badge should be returned so that it can be officially destroyed);
- The badge is so damaged / faded that the details are not clear;
- Where the badge holder dies, it is the responsibility of the next of kin to return the badge.

## Resident and Visitor Parking Permits

A resident parking permit allows residents to park their vehicles in a resident's bay in the street or zone near to where they live. However, a permit does not guarantee that a parking space will always be available. To ensure the scheme is as fair as possible permits are issued at the discretion of the Council. There may be restrictions in certain areas / streets / zones.

Visitor parking permits provide access to residential parking bays, subject to their availability. It is necessary for anybody using a visitor parking permit, to park a vehicle, to be visiting a person who resides within the restricted parking area.

## Legislation

The Council may pursue criminal proceedings under the following legislation:

- Road Traffic Regulation Act 1984 section 117
- Fraud Act 2006 – Sections 1, 2, 3, 6 or 7

## Prosecution

When considering the suitability of a case for prosecution, PCC will apply two tests, the evidential test and the public interest test (see above)

### Circumstances where it may be deemed to be in the public interest to prosecute

The following is not an exhaustive list and each case will be judged on its own merits:

- The fraud or misuse was calculated and proven to be deliberate;
- The person has previously committed other similar fraud offences;
- There has been a breach of trust;
- The case involved collusion or conspiracy;
- The person was the ringleader or has organised or initiated the Blue Badge fraud;
- A warning letter has previously been issued to the person for previous misuse of a Blue Badge; or
- Where the person fails to attend an interview under caution we may proceed to prosecution.

### Circumstances where it may be deemed not to be in the public interest to prosecute

The following is not an exhaustive list and each case will be judged on its own merits:

- The age or physical or mental health of a person is such that the additional stress incurred by a prosecution would incur an unacceptable risk;
- Where the person suffers chronic ill health, this will normally be supported by independent medical evidence, where appropriate;
- For the purposes of this policy a person's age will be considered along with the other relevant information when deciding whether to apply a sanction; or
- There has been an inexcusable time delay, which may prejudice the case.

## Interviews under Caution

A person will be invited to attend an interview under caution in all cases where the evidence has been collected that suggests an offence has been committed and sanction action should be considered in line with this policy. This will allow the person to provide explanations for their actions and provide Peterborough City Council with information relevant to both the evidential and public interest tests referred to above.

If a person chooses not to attend an interview under caution or declines to answer questions regarding the alleged offence, then Peterborough City Council will decide on the evidence available the most appropriate course of action which includes referral for prosecution.

In all cases which involve employees of the Council, investigations will also follow the Councils Code of Conduct which could lead to appropriate disciplinary action.

## Warning Letters

In circumstances where there is sufficient evidence, but it is not in the public interest to prosecute, Peterborough City Council will issue a warning letter. Such circumstances may include:

- Where the offence was committed by mistake; or
- Where the person committing the offence would be eligible for a blue badge in their own right if they applied

This is not an exhaustive list and each case will be judged on its own merits.

## Publicity

The Council intends to positively promote this policy as well as the outcome of any prosecutions, which will deter others from fraudulent activity.

# Annex 1

## Definition of Fraud

Fraud is a wrongful or criminal deception intended to result in financial or person gain:

- Makes a false statement;
- Produces a false document; and / or
- Fails to promptly notify of a relevant change in circumstances which the person knows will affect the discount / exemption / relief / support they are entitled to / or are in receipt of.

## Culture

The Council has a Compliance Team which is part of Internal Audit within the Resources Department. The team consists of two investigating officers and is line managed by the Chief Internal Auditor.

Cases of suspected fraud can be referred to the team by e-mail (**fraud@peterborough.gov.uk**) they can also be made on-line via the Council's website. They can also be made by letter. In a similar vein this can be used for reporting of any other suspected fraud. Employee investigations are also covered by the team and follow the Employees Code of Conduct and the Disciplinary Policy. There is a dedicated fraud hotline **01733 452250** which can be used by either staff members or the general public. Outside office hours there is an answerphone service attached to this number.

## Prevention, Detection and Investigation

The Team will investigate allegations of fraud to a criminal standard, i.e. evidence is collated and alleged offenders formally interviewed in accordance with the Police & Criminal Evidence Act 1984 / the Criminal Procedure and Investigations Act 1996. A case will only be deemed suitable for prosecution if it meets the requirements of the Code for Crown Prosecutors. There are two main requirements – The Evidential Test and The Public Interest Test.

Prosecution cases are passed to an in-house Litigation Lawyer. If it case is to be passed to the Police for them to investigate, the case is referred to the Director of Law and Governance.

## Evidential Test

The prosecuting authority must be satisfied that there is sufficient evidence to provide a 'realistic prospect of conviction' on each charge. Consideration should be given to what the defendant's defence may be and how it is likely to affect the prospects of conviction.

A realistic prospect of conviction is an objective test based solely upon the prosecuting authority's assessment of the evidence and any information that the authority has about the defence that the subject of the allegation may put forward. The authority must then decide whether, if properly directed in accordance with law, a jury (or magistrate) is more likely to convict than acquit a defendant of the charge(s) against them. When deciding if there is sufficient evidence to prosecute the authority will consider:

- Can the evidence be used in court?
- Is it likely that the evidence will be excluded by the court? (For example, is it likely it may be excluded due to the way that it was obtained?)

- Is the evidence hearsay? If so, is the court likely to allow it to be represented under any of the exceptions which permit such evidence to given in court?
- Does the evidence relate to the bad character of the suspect? If so, is the court likely to allow it to be presented?
- Is the evidence reliable?
- Does the suspect have a creditable explanation for their actions?
- Is there evidence which might support or detract from the reliability of a confession? Is its reliability affected by factors such as the suspect's level of understanding?
- Is the identification of the suspect likely to be questioned?
- Are there concerns over the accuracy, reliability or credibility of any of the evidence of any witness?

## Public Interest Test

When the prosecuting authority has deemed that the case has sufficient evidence to provide a realistic prospect of conviction it must then consider if it is in the 'public interest' for the legal action to progress. Every case is different and many will have mitigating aspects which will influence the authority's decision to either take legal action or refrain from instigating legal proceedings.

The public interest test requires prosecutors to consider wider factors tending for or against prosecution, for example the relative seriousness of the offence. Each case will be considered on its own merits by common public interest factors tending against prosecution may be:

- The customer's mental or physical health would deter the authority from taking further action.
- The investigation process contains unexplained long delays.
- The customer's family circumstances or adverse recent events may deter the authority from taking the person to court.

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| AIUDIT COMMITTEE | AGENDA ITEM No. 7 |
|---|---|
| **21 FEBRUARY 2022** | PUBLIC REPORT |

| | | |
|---|---|---|
| Report of: | Fiona McMillan, Director of Law and Governance and Monitoring Officer | |
| Cabinet Member(s) responsible: | Councillor Fitzgerald, Leader of the Council | |
| Contact Officer(s): | Dan Kalley, Senior Democratic Services Officer | Tel. 296334 |

**AUDIT COMMITTEE START TIME 2022/23**

| RECOMMENDATIONS | |
|---|---|
| **FROM:** *Director of Law and Governance* | **Deadline date: March 2022** |

It is recommended that the Audit Committee:

1. Agree and recommend to Council the start time for all Audit Committee meetings for the Municipal Year 2022-23.

## 1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee meeting following the Full Council decision on 24 July 2019 to allow Committees to decide their own start times for the Municipal Year 2020-21.

## 2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to allow the Audit Committee to discuss and agree the start times for meetings from the beginning of the Municipal Year 2022-23. The draft schedule of meetings will be agreed at Full Council on either 22 January or 4 March 2020.

2.2 This report is for the Audit Committee to consider under Council Standing Order section 4.4.1

The timings of normal committee meetings will be agreed by the committee for the next municipal year in January of the preceding municipal year (or as near to this time as possible).

## 3. TIMESCALES

| | | | |
|---|---|---|---|
| Is this a Major Policy Item/Statutory Plan? | **NO** | If yes, date for Cabinet meeting | |

## 4. BACKGROUND AND KEY ISSUES

4.1 At the Constitution and Ethics Committee on 8 July 2019 the Committee agreed by majority to recommend to Council that all Committees can agree their start times for the Municipal Year 2020-21. This was again agreed by majority at the Full Council meeting on 24 July 2019.

4.2 The Council standing orders have been updated to reflect this decision and gives Committees the opportunity to decide their own start time.

4.3 In order for the start times to be incorporated into the draft meeting schedule it is important for the Committee to make a decision on this before the January Full Council meeting. This is the only opportunity for the Committee to make this decision as the next meeting is after the January Council meeting.

4.4 Council standing orders allow the Committee to agree its start time every Municipal Year, thereby allowing the Committee to change the start times if it is felt that the start time was not suitable or working.

4.5 The Committee will need to decide the best start time and will need to weigh up attendance at meetings and the impact on the Council and members of the public.

4.6 The Committee has for the past two years met at 5pm. For the municipal year 2020/21 all meetings were held virtually due to the ongoing Pandemic and due to the uncertainty over this meeting times for 2021/22 have been kept at the same time.

4.7 At the last meeting on 29 November the committee agreed to defer the decision on the timings of the meeting to allow input from the newly appointed Independent Members of the Committee.

**5. CONSULTATION**

5.1 Consultation on the start times for the committee is being presented to members at this meeting along with any suggestions with regards to meeting frequency. Any recommendations will be presented to Full Council as part of the meeting schedule report.

**6. ANTICIPATED OUTCOMES OR IMPACT**

6.1 It is anticipated that the Committee will agree a start time for meetings for the Municipal Year 2022-23 and this will be proposed as part of the draft meeting schedule.

**7. REASON FOR THE RECOMMENDATION**

7.1 The recommendation allows the Audit Committee to debate the start time of the meeting and make recommendations following debate.

**8. ALTERNATIVE OPTIONS CONSIDERED**

8.1 N/A

**9. IMPLICATIONS**

**Financial Implications**

9.1 There are none.

**Legal Implications**

9.2 There are none.

**Equalities Implications**

9.3 There are none.

**10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 Minutes of the Constitution and Ethics Committee 8 July 2019
Report to Full Council 24 July 2019

## 11. APPENDICES

11.1 None.

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| AUDIT COMMITTEE | AGENDA ITEM No. 8 |
|---|---|
| **21 FEBRUARY 2022** | PUBLIC REPORT |

| | | |
|---|---|---|
| Report of: | Cecilie Booth, Interim Corporate Director Resources | |
| Cabinet Member(s) responsible: | Cllr Andy Coles, Cabinet Member for Finance | |
| Contact Officer(s): | Cecilie Booth, Interim Corporate Director Resources | Tel. 452520 |

| **USE OF CONSULTANTS – UPDATE REPORT** |
|---|

| RECOMMENDATIONS | |
|---|---|
| **FROM:** Interim Corporate Director Resources | **Deadline date:** *N/A* |

It is recommended that Audit Committee:

1. consider the update report on the Use of Consultants for the 2021/22 period for the first ten months of the financial year (April 2021 - January 2022).
2. Agree that future monitoring is undertaken within the normal budgetary control reporting process, and brought back to Audit Committee only if requested.

**1. ORIGIN OF REPORT**

1.1 This report is submitted to Audit Committee following a referral from Sustainable Growth Committee on 6 March 2012

**2. PURPOSE AND REASON FOR REPORT**

2.1 The purpose of this report is to update Audit Committee as to the level of spend on external Consultants.

The report is presented to enable review of the consultancy and interim policy adopted on 26 March 2012.

2.2 This report is for Audit Committee to consider under its Terms of Reference No.

- 2.2.1.11 To review any issue referred to it by the Chief Executive or a Director, or any Council body; and
- 2.2.1.15 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

## 3. TIMESCALES

| | | | |
|---|---|---|---|
| Is this a Major Policy Item/Statutory Plan? | **NO** | If yes, date for Cabinet meeting | n/a |

## 4. BACKGROUND AND KEY ISSUES

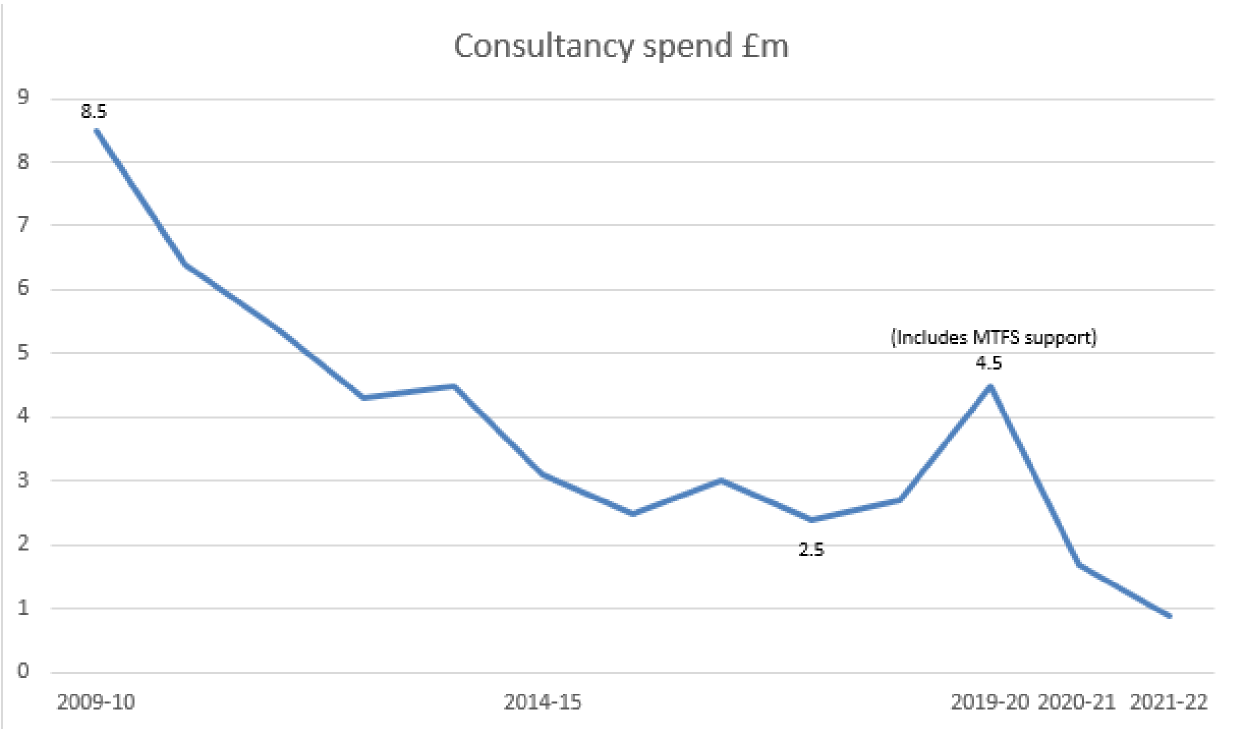
4.1 In March 2010, the Sustainable Growth Scrutiny Committee requested a review into Peterborough City Council's use of consultants. A cross-party review group was established to undertake this work on behalf of the Sustainable Growth Scrutiny Committee.

4.2 The report from the Consultancy Review Group was issued in March 2011. Scrutiny also recommended that on-going monitoring of the use of consultants should fall to Audit Committee. Audit Committee considered this role at their meeting of 26 March 2012.

4.3 A further report, outlining the information requested, was discussed at the meeting of 5 November 2012. Further updates have been considered at subsequent meetings, continuing the regular reporting to Audit Committee.

4.4 The expenditure for the last ten full years is shown below.

| | **Total £m** |
|---|---|
| 2011-12 | 5.4 |
| 2012-13 | 4.3 |
| 2013-14 | 4.5 |
| 2014-15 | 3.1 |
| 2015-16 | 2.5 |
| 2016-17 | 3.0 |
| 2017-18 | 2.4 |
| 2018-19 | 2.7 |
| 2019-20 | 4.5 |
| 2020-21 | 1.7 |
| 2021-22 (first 10 months) | 0.8 |



4.5 The chart above shows the reducing trend of expenditure on consultancy, with an upswing during 2019/20 primarily resulting from the external support for the Council's financial improvement programme. The final outturn for 2020-21 shows costs of £1.7m, and cost from April 2021 to January 2022 are £0.74m. Costs for the current financial year are detailed in Appendix 1.

4.6 The Council also employs Agency staff through a number of Contracts. The spend for the past 5 financial years on Agency has been:

- 2016/17 - £6.3m
- 2017/18 - £6.5m
- 2018/19 - £8.8m
- 2019/20 - £6.4m
- 2020/21 - £3.6m
- 2021/22 - £2.9m (first ten months)

4.7 Given the reduction in expenditure over the period, and in light of the financial controls in place, it is suggested that regular reporting of this specific spend detail to Audit Committee may no longer be the priority it once was. It is proposed that unless specifically requested, this will be the last routine report of this nature. Regular budgetary monitoring information will of course continue to be available through the budgetary control reports to Cabinet and Council.

## 5. CONSULTATION

5.1 Audit Committee considered options for how it wished to monitor use of consultants in the future at their meeting of 26 March 2012. Subsequent discussions at the meetings referred to have refined the information it wishes to monitor.

## 6. ANTICIPATED OUTCOMES OR IMPACT

6.1 That Audit Committee considers the update report on the use of consultants.

## 7. REASON FOR THE RECOMMENDATION

7.1 The recommendations are in line with the recommendations of Scrutiny, and the view of Audit Committee in undertaking this role.

## 8. ALTERNATIVE OPTIONS CONSIDERED

8.1 Audit Committee considered options for how they wish to monitor use of consultants in the future at their meeting of 26 March 2012.

## 9. IMPLICATIONS

### Financial Implications

9.1 The report sets out the costs of consultants and agency staff.

### Legal Implications

9.2 There are no legal implications arising from this report.

### Equalities Implications

9.3 There are no equalities implications arising from this report.

### Carbon Implications

9.4 There are no carbon implications arising from this report.

## 10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- Consultancy Review Report, March 2011;
- Report to Sustainable Growth Scrutiny Committee, 8 November 2011;
- Report to Sustainable Growth Scrutiny Committee, 6 March 2012;
- Reports to Cabinet and Audit Committee 26 March 2012;
- Reports to Audit Committee of 5 November 2012; 4 February 2013;
- Report to Audit Committee of 4 November 2013;
- Report to Audit Committee of 3 November 2014 and supplementary report to Audit Committee of 2 February 2015;
- Report to Audit Committee of 9 November 2015
- Report to Audit Committee of 22 November 2016
- Reports to Audit Committee of 19 November 2018; 11 February 2019
- Reports to Audit Committee of 15 July 2019; 16 September 2019; 18 November 2019; 27 January 2020
- Reports to Audit Committee 14 September 2020; 16 November 2020; 25 January 2021
- Report to Audit Committee 13 September 2021; 29 November 2021

## 11. APPENDICES

11.1 Appendix 1 - list of companies used during the period 1 April 2021 to 31 January 2022 with summary of purpose of engagement.

**Appendix 1 - List of companies with Summary**
**2021/22 ( April – 31 January 2022)**

| Supplier Name | Initiative | Amount |
|---|---|---|
| Airey Consultancy Services Ltd | CTR Annual Update Service | 1,895.00 |
| Allen Lane | HRA Accountant | 36,309.03 |
| Cambridge City Council | Housing sub-regional co-ordinator role | 9,948.00 |
| Cambridgeshire County Council | IT support (359k); School Standards (10k); ASC statutory returns (4k) | 372,644.73 |
| CIPFA Business Ltd | Improvement Plan: Forensic Service Reviews (91k); Interim S151 (4k) | 95,195.76 |
| Coram Voice (Formerly Voice- Child In Care) | Children's Social Care Investigations | 13,467.30 |
| Fenland District Council | Management costs for the CCTV shared service | 21,343.69 |
| Firth Consultants Ltd | Investigation into land contamination | 4,930.00 |
| Grant Thornton UK LLP | Financial Improvement Programme, Lean Cost Structure | 10,680.00 |
| Idox Software Ltd | Technical consultancy for Uniform (planning) system upgrade | 3,750.00 |
| Inform CPI Ltd | RV Finder | 6,500.00 |
| Kings Hedges Educational Federation | Secondment to School improvement team | 38,709.72 |
| Liz Holmes Consultancy | Education Training consultancy | 1,920.00 |
| Mark Stephen Land Management | Soil Testing | 1,665.00 |
| Market Curators Ltd | Planning, Analysis and Establishment of Market | 50,544.50 |
| Penny O´Shea | Barnack Neighbourhood Plan examination | 3,799.80 |
| Resource Split Cambridgeshire County Council | ICT staff resources | 12,296.94 |
| Saffer Cooper Limited | Homes England IMS | 990.00 |
| Sanham Agricultural Planning Ltd | Planning Application consultancy | 932.40 |
| Savills (UK) Ltd | HRA Business Planner retainer service | 8,000.00 |
| Sharpe Pritchard LLP | Legal Services support (Planning) | 2,250.00 |
| Shelton Development Services Ltd | Housing grant bid support | 1,105.00 |
| TerraQuest Solutions Ltd | Validation and Case Evaluation of Planning Applications | 6,474.00 |
| The Sports Consultancy | Feasibility study on New Leisure Development for Werrington | 20,650.00 |
| Valuation Office Agency | Viability Advice for Planning Application | 324.74 |

| | | |
|---|---|---|
| Vero HR Ltd | HR Support | 1,539.40 |
| ZELLIS UK LIMITED | Resourcelink (HR/Payroll) system Cloud migration | 16,547.80 |
| | | |
| **2021/22 Total for April 2021-January 2022** | | **£744,421.81** |

| AUDIT COMMITTEE | AGENDA ITEM No. 9 |
|---|---|
| **21 FEBRUARY 2022** | PUBLIC REPORT |

| Report of: | Fiona McMillan, Director of Law and Governance | |
|---|---|---|
| Contact Officer(s): | Pippa Turvey, Democratic and Constitutional Services Manager | Tel. 452460 |

# DECISIONS MADE BY THE SHAREHOLDER CABINET COMMITTEE

| RECOMMENDATIONS | |
|---|---|
| **FROM:** *Shareholder Cabinet Committee* | **Deadline date:** *N/A* |
| It is recommended that the Audit Committee note the decisions made by the Shareholder Cabinet Committee as set out in the report. | |

## 1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following in line with the constitutional requirement for it to consider the performance of the Council's companies alongside comments from the Shareholder Cabinet Committee.

## 2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to ensure that the Audit Committee is updated on the work of the Shareholder Cabinet Committee in relation the Council's companies.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.2.12, *"To consider reports in relation to the performance of the Council's companies, alongside comments from the Shareholder Cabinet Committee."*

## 3. TIMESCALES

| Is this a Major Policy Item/Statutory Plan? | **NO** | If yes, date for Cabinet meeting | **N/A** |
|---|---|---|---|

## 4. BACKGROUND AND KEY ISSUES

**Shareholder Cabinet Committee – 13 September 2021**

4.1 **Opportunity Peterborough**

The Shareholder Cabinet Committee considered the report and RESOLVED to note the achievements and impact of Opportunity Peterborough with regards to support for the local economy and jobs creation.

4.2 **Internal Audit Work to Support the Shareholder Cabinet Committee**

The Shareholder Cabinet Committee considered the report and RESOLVED to note works undertaken by the Internal Audit service to support the terms of reference of the Committee.

4.3 **Amendments to the Mayor of Peterborough's Charity Fund Constitution and Associated Memorandum of Understanding**

The Shareholder Cabinet Committee considered the report and RESOLVED:

1. To note the amendments to the Mayor of Peterborough's Charity Fund's Constitution (Appendix 1 to the report).
2. To note the contents of the Memorandum of Understanding (Appendix 2 to the report).

4.4 **University Funding and Finance Interim Update**

The Shareholder Cabinet Committee considered the report and RESOLVED note that a paper will be taken to Cabinet on October 25th 2021 with recommendations for approval on various university project matters including:

1) Repurposing the pre-existing £2m PCC contribution to the university programme in the MTFS from a contribution to a new parkway access to enabling infrastructure;
2) Entering the Getting Building Fund Grant Agreement with the Cambridgeshire and Peterborough Combined Authority to deliver parking capacity to support phases 1 and 2 of the university;
3) Entering a lease with PropCo 1 for car park spaces on the regional pool car park and
4) In the event of Levelling Up Fund (LUF) bid success, entering the grant agreement and making arrangements to transfer funding to PropCo1 to deliver phase 3 of the university.

4.5 **City Culture Peterborough**

The Shareholder Cabinet Committee considered the report and RESOLVED to note the progress and review of the services that City Culture Peterborough manage on behalf of Peterborough City Council.

## 5. CONSULTATION

5.1 None taken, as the report is to note.

## 6. ANTICIPATED OUTCOMES OR IMPACT

6.1 That the Audit Committee note the report.

## 7. REASON FOR THE RECOMMENDATION

7.1 To ensure that the Audit Committee is aware and familiar with the recent decisions made by the Shareholder Cabinet Committee.

## 8. ALTERNATIVE OPTIONS CONSIDERED

8.1 To not provide the information to the Audit Committee – this would not align with the requirements set out within the Council's constitution.

## 9. IMPLICATIONS

9.1 As this report is for the Audit Committee to note there are no financial, legal, equalities, or carbon impact implications to consider

## 10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 Shareholder Cabinet Committee Minutes:

- 13 September 2021

## 11. APPENDICES

11.1 None.

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| | |
|---|---|
| **AUDIT COMMITTEE** | AGENDA ITEM No. 12 |
| **21 FEBRUARY 2022** | PUBLIC REPORT |

| | | |
|---|---|---|
| Report of: | Chair of Audit Committee | |
| Cabinet Member(s) responsible: | Councillor Coles, Cabinet Member for Finance | |
| Contact Officer(s): | Dan Kalley, Senior Democratic Services Officer | Tel. 296 334 |

## WORK PROGRAMME 2021/22

| R E C O M M E N D A T I O N S |
|---|
| It is recommended that the Audit Committee:<br><br>1. Notes and agrees the Work Programme for the municipal year 2021/22. |

## 1. ORIGIN OF REPORT

1.1 This is a standard report to the Audit Committee which forms part of its agreed work programme. This report provides details of the Draft Work Programme for the following municipal year.

## 2. PURPOSE AND REASON FOR REPORT

2.1 The Work Programme is based on previous year's agendas. The programme can be refreshed throughout the year in consultation with senior officers and the Committee membership to ensure that it remains relevant and up to date. In addition, any delays in reporting issues are recorded so that they do not drop off the committee agenda.

2.2 Training for members on specific aspects of the Audit Committee agenda are available throughout the year and will be arranged on request and will take place on a separate day to that of the committee meeting.

## 3. IMPLICATIONS

**Financial Implications**

3.1 There are none

**Legal Implications**

3.2 There are none

**Equalities Implications**

3.3 There are none

## 4. APPENDICES

4.1 Appendix A - Work Programme 2021/22

## APPENDIX A

| DATE: 29 JULY 2021 - Complete | | | |
|---|---|---|---|
| | | **Section / Lead** | **Description** |
| | Annual Governance Statement | Finance<br>Steve Crabtree | To consider and endorse the development of the Annual Governance Statement as included in the accounts. |
| | Internal Audit: Annual Audit Opinion | Internal Audit<br>Steve Crabtree | To receive, consider and endorse the annual Internal Audit Opinion for the year ended 31 March 2021. |
| | Investigations Team Annual Report 2020 / 2021 | Internal Audit<br>Steve Crabtree | To receive, consider and endorse the annual report on the investigation of fraud and irregularities for the year ended 31 March 2021. |
| | Insurance: Annual Report 2020 / 2021 | Internal Audit<br>Steve Crabtree | To receive, consider and endorse the annual report on the delivery of Insurance Services for the year ended 31 March 2021. |
| | Budget Monitoring Outturn 2020 / 2021 | Finance<br>Pete Carpenter | To receive, consider and endorse the Capital and Treasury outturn 2020/21 |
| | Annual Governance Statement | Finance<br>Pete Carpenter | To receive the final Statement of Accounts for the year ended 31 March 2021 incorporating the Annual Governance Statement together with the annual report to those charged with governance following their scrutiny by External Audit. |
| | Audit Committee Effectiveness | Internal Audit<br>Steve Crabtree | To receive and consider the self assessment of the effectiveness of the Audit Committee |
| | RIPA update | Governance<br>Ben Stevenson | To receive an update for Committee to note. |
| | **INFORMATION AND OTHER ITEMS** | | |
| | Use of Consultants | Finance<br>Pete Carpenter | To receive an update on the Use of Consultants across the organisation |
| | Approved Write-Offs Exceeding £10,000 | Pete Carpenter / Chris Yates | To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000. |
| | Draft Work Programme 2021 / 2022 | Democratic Services<br>Dan Kalley | |

| DATE: 13 SEPTEMBER 2021 - Complete | | | |
|---|---|---|---|
| | | **Section / Lead** | **Description** |
| | Risk Management: Strategic Risks | Governance<br>Pete Carpenter | To receive details of the strategic risks impacting on the Council and the mitigating actions to address these. |
| | Use of Consultants | Finance<br>Pete Carpenter | To receive an update on the use of Consultants |
| | External Audit: Annual Audit Letter | Ernst and Young | To receive and approve the External Annual Audit Letter identified as part of their audit works |
| | RIPA Update | Governance<br>Ben Stevenson | |
| | Shareholder Cabinet Committee decisions | Pippa Turvey/Fiona McMillan<br>Governance | To note the decisions and recommendations from the Shareholder Cabinet Committee |
| | **INFORMATION AND OTHER ITEMS** | | |
| | Approved Write-Offs Exceeding £10,000 - None | Finance<br>Pete Carpenter | To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000. |
| | Feedback report | Democratic Services<br>Dan Kalley | |
| | Work Programme 2020 / 2021 | Democratic Services<br>Dan Kalley | |

| DATE: 29 NOVEMBER 2021 - Complete | | | |
|---|---|---|---|
| | | **Section / Lead** | **Description** |
| | Audit Results Report – Year Ended 31st March 2021 | Ernst and Young | |
| | Internal Audit: Mid Year Progress Report | Internal Audit<br>Steve Crabtree | To receive an update on progress against the Annual Audit Plan together with details of any concerns |

| | | | |
|---|---|---|---|
| | Treasury Management Strategy | Finance<br>Pete Carpenter | Half year review as per requirements |
| | PSAA Opted-in Authority | Finance<br>Pete Carpenter | |
| | Audit Committee start times 2022/23 | Dan Kalley<br>Democratic Services | Committee to agree it's start times for the municipal year 2022-23 |
| | **INFORMATION AND OTHER ITEMS** | | |
| | Use of Consultants | Finance<br>Pete Carpenter | To receive an update on the Use of Consultants across the organisation |
| | Use of Regulation of Investigatory Powers Act 2000 (RIPA) | Governance<br>Ben Stevenson | To receive an update on the use of RIPA during the financial year reporting activity when required. |
| | Approved Write-Offs Exceeding £10,000 | Pete Carpenter | To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000. |
| | Feedback report | Democratic Services<br>Dan Kalley | |
| | Work Programme 2019 / 2020 | Democratic Services<br>Dan Kalley | |
| | | | |

**DATE: 21 FEBRUARY 2022**

| | | Section / Lead | Description |
|---|---|---|---|
| | Internal Audit: Approach to Audit Planning | Internal Audit<br>Steve Crabtree | To receive a report on the approach to Audit Planning |
| | National Fraud Initiative: Investigating Allegations of Fraud | Internal Audit<br>Steve Crabtree | To receive a report setting out the latest outcomes in relation to tackling fraud and corruption through the National Fraud Initiative and future activities to protect the public purse |
| | Audit Committee start time 2022/23 | Dan Kalley<br>Democratic Services | For committee to recommend its start time for 2022/23 |

| | | | |
|---|---|---|---|
| | Use of Consultants | Finance/HR<br>Nick Hutchins | To receive an update on the use of consultants and agency staff |
| | Treasury Management Strategy | Finance<br>Kirsty Nutton/Cecilie Booth | |
| | **INFORMATION AND OTHER ITEMS** | | |
| | Use of Regulation of Investigatory Powers Act 2000 (RIPA) | Governance<br>Ben Stevenson | To receive an update on the use of RIPA during the financial year reporting activity when required. |
| | Shareholder Cabinet Committee decisions | Pippa Turvey<br>Democratic Services | To receive an update as to the decisions taken by Shareholder Cabinet Committee |
| | Approved Write-Offs Exceeding £10,000 | Finance<br>Kirsty Nutton/Cecilie Booth | To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000. |
| | Feedback report | Democratic Services<br>Dan Kalley | |
| | Work Programme 2022 / 2023 | Democratic Services<br>Dan Kalley | |

| **DATE: 21 MARCH 2022** | | | |
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| | | **Section / Lead** | **Description** |
| | Annual Statement of Accounts | EY & Finance | To receive the annual statement of accounts and the end of year final report from EY |
| | Draft Annual Audit Committee Report | Democratic Service/Legal/Finance | To receive the Draft Annual Audit Committee Report prior to submission to Council |
| | Internal Audit: Draft Internal Audit Plan 2022 / 2023 | Internal Audit<br>Steve Crabtree | To receive and approve the Internal Audit Plan 2022 / 2023 |
| | Risk Management: Strategic Risks | Governance<br>Kirsty Nutton/Cecilie Booth | To receive an update on the strategic risks for the Council |
| | **INFORMATION AND OTHER ITEMS** | | |
| | Use of Consultants | Finance<br>Nick Hutchins | To receive an update on the Use of Consultants across the organisation |

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| | Use of Regulation of Investigatory Powers Act 2000 (RIPA) | Governance<br>Ben Stevenson | To receive an update on the use of RIPA during the financial year reporting activity when required. |
| | Approved Write-Offs Exceeding £10,000 | Finance<br>Kirsty Nutton/Cecilie Booth | To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000. |
| | Feedback report | Democratic Services<br>Dan Kalley | |