CARLISLE
CITY COUNCIL
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AGENDA

Audit Committee

Friday, 10 December 2021 AT 10:00
In the Cathedral Room, Civic Centre, Carlisle, CA3 8QG

APOLOGIES FOR ABSENCE

To receive apologies for absence and notification of substitutions

DECLARATIONS OF INTEREST

Members are invited to declare any disclosable pecuniary interests, other registrable interests and any interests, relating to any items on the agenda at this stage.

PUBLIC AND PRESS

To agree that the items of business within Part A of the agenda should be dealt with in public and that the items of business within Part B of the agenda should be dealt with in private.

MINUTES OF PREVIOUS MEETINGS **5 - 6**

To note that Council, on 9 November 2021, received and adopted the Minutes of the meeting held on 24 September 2021. The Minutes will be signed by the Chair.
[Copy minutes in Minute Book Volume 48(3)]

The Chair will move the minutes of the special meeting held on 11 November 2021 as a correct record. The only part of the minutes that may be discussed is their accuracy.
(Copy minutes herewith).

PART A

To be considered when the Public and Press are present

A.1 **MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL** **7 - 14**

The Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 7 October 2021 are submitted for information.
(Copy Minutes herewith)

A.2 **VALUE FOR MONEY UPDATE**

Grant Thornton to provide a verbal update on 2020/21 Value For Money.

A.3 **INTERNAL AUDIT PROGRESS 2021/22 (OCTOBER TO NOVEMBER)** **15 - 32**

The Corporate Director of Finance and Resources to submit a report providing an overview of the work carried out by Internal Audit between October and November of 2021/22. The report also includes information on progress against the agreed audit plan, performance indicators, previous audit recommendations and amendments to the Internal Audit Plan.
(Copy Report RD.57/21 herewith)

The undernoted Final Reports are submitted for consideration:

A.3 (i) **INTERNAL AUDIT REPORT - CORPORATE INTERNAL CONTROLS** **33 - 48**

(Copy Report RD.59/21 herewith)

A.3 (ii) **INTERNAL AUDIT REPORT - ENVIRONMENTAL STRATEGY** **49 - 66**

(Copy Report RD.60/21 herewith)

A.3 (iii) **INTERNAL AUDIT REPORT - DISABLED FACILITY GRANTS** **67 - 82**

(Copy Report RD.61/21 herewith)

A.3 (iv) **INTERNAL AUDIT REPORT - NEIGHBOURHOOD SERVICES (CULTURE)** **83 - 104**

(Copy Report RD.62/21 herewith)

A.4 **DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2022/23** **105 - 142**

The Corporate Director of Finance and Resources to submit a report setting out the Council's Treasury Management Strategy Statement for 2022/23 in accordance with the CIPFA Code of Practice on Treasury Management.
(Copy Report RD.53/21 herewith)

A.5 **TREASURY MANAGEMENT QUARTER 2 2021/22 AND FORECASTS 2022/23 TO 2026/27** **143 - 158**

The Corporate Director of Finance and Resources to submit a report providing the regular quarterly summary of Treasury Management Transactions, together with budgetary projections for 2022/23 – 2026/27. The matter was considered by the Executive and the Business and Transformation Scrutiny Panel on 22 November and 7 December 2021 respectively.
(Copy Report RD.49/21 herewith and Minute Excerpts herewith/to follow)

A.6 **STATEMENT OF ACCOUNTS 2021/22 UPDATE** **159 - 176**

The Corporate Director of Finance and Resources to submit a report regarding the 2021/22 Final Accounts process with a summary of the key issues arising from the previous year's process and how these issues have been addressed. The report also includes the draft accounting policies that will be used in the closedown of the 2021/22 accounts.
(Copy Report RD.56/21 herewith)

A.7 **LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 – APPOINTMENT OF EXTERNAL AUDITORS** **177 - 184**

The Corporate Director of Finance and Resources to summarise the arrangements for the appointment of external auditors for the five-year period 2023/24 to 2027/28.
(Copy Report RD.63/21 herewith)

PART B

To be considered when the Public and Press are excluded from the meeting

B.1 <u>ANNUAL REVIEW OF COUNTER FRAUD ARRANGEMENTS 2020-21</u>

This report is not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as the reports contain exempt information relating to the financial or business affairs of any particular person (including the authority holding that information)

The Corporate Director of Finance and Resources to submit a report providing an overview of counter-fraud arrangements.
(Copy Report RD.58/21 herewith)

Enquiries, requests for reports, background papers etc to:
committeeservices@carlisle.gov.uk

CARLISLE CITY COUNCIL
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Audit Committee

Date: Thursday, 11 November 2021 **Time:** 10:00

Venue: Council Chamber

Present: Councillor Mrs Ann McKerrell, Councillor Keith Meller, Councillor Mrs Linda Mitchell, Councillor Ms Lucy Patrick, Councillor Mrs Valerie Tarbitt

Also Present: Key Audit Partner / Director of Finance, Grant Thornton
Councillor Ellis: Finance, Governance and Resources Portfolio Holder

Officers: Corporate Director of Governance and Regulatory Services
Financial Services Manager (Deputy S.151)

AUC.54/21 APOLOGIES FOR ABSENCE

Apologies for absence had been submitted on behalf of Councillor Mrs Pamela Birks and the Corporate Director of Finance and Resources.

AUC.55/21 DECLARATIONS OF INTEREST

There were no declarations of interest affecting the business to be transacted at the meeting.

AUC.56/21 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.57/21 EXTERNAL AUDIT FINDINGS REPORT

The Key Audit Partner presented the External Audit Findings Report. In relation to the Council's Value For Money (VFM) arrangements and the Key Audit Partner noted that there was a degree of work to be undertaken to complete this aspect of the audit which was subject to a number of challenging deadlines, it was anticipated that the work would be finalised by January 2022; the External Auditor had not had to exercise any of its additional statutory duties in respect of this part of the audit.

The Key Audit Partner summarised the section of the report relating to Valuation of Property, Plant, Equipment and Investment Property, and advised that a significant improvement had been seen in the valuations for which he commended the Council. There had been a material emphasis of matter including in the report regarding Land and Building Valuations material valuation uncertainty, however, the External Auditor's assessment was that the Council's management processes were appropriate.

The Financial Statements audit was complete and it was anticipated that work would be signed off the following day. Recommendations from the External Auditor were set out in Appendix A to the report with follow up action(s) detailed in Appendix B. The Key Audit Partner described the Council's overall audit position as good and he advised that an unqualified opinion had been issued; he extended his thanks to Officers in their assistance with the audit in what had been a challenging time.

A Member commented that there were a number of positives in the report, she was pleased that the important work relating to Valuation of Property, Plant, Equipment and Investment Property was resolved. She welcomed the unqualified opinion from the Key Audit Partner and thanked all those involved in the work to deliver the audit.

RESOLVED - That the Audit Committee welcomed the unqualified external audit opinion and looked forward to receiving the Value For Money audit opinion in due course.

AUC.58/21 STATEMENT OF ACCOUNTS 2020/21

The Financial Services Manager (Deputy S.151) reported (RD.45/210) that the audit process for the Council's Statement of Accounts 2020/21 had been delayed due to the lateness of the completion of the 2019/20 accounts. The audit of the Statement of Accounts for 2020/21 was substantially complete with the Auditors' Audit Findings Report (ISA260) having been considered earlier in the meeting. Following approval of that report, the External Auditors would issue their formal opinion and the audit process for 2020/21 would conclude. However, in accordance with Auditing Standards, a Letter of Representation (a copy of which was appended to the report) must also be considered and approved by the Audit Committee prior to the Audit Opinion being provided. Once approved by the Committee it would be signed by the Corporate Director of Finance and Resources on behalf of the City Council.

The Financial Services Manager noted that the audit had been conducted in a period of challenging circumstances for the team, he thanked the Key Audit Partner for his assistance in the process.

In conclusion, the Financial Services Manager requested that the Committee approve the Statement of Accounts 2020/21 including the Annual Governance Statement.

The Committee thanked the team for its work in the preparation and completion of the Statement of Accounts 2020/21.

RESOLVED - That the 2020/21 Statement of Accounts, including the Annual Governance Statement, be approved.

AUC.59/21 LETTER OF REPRESENTATION 2020/21

The Financial Services Manager (Deputy S.151) reported (RD.44/21) submitted the Letter of Representation 2020/21 which set out the adjustments made to the accounts and confirmed the Council's fulfilment of its auditing obligations. Members were asked to approve the Letter of Representation 2020/21.

RESOLVED – That the Audit Committee approved the Letter of Representation for 2020/21.

The Meeting ended at: 10:25

Business & Transformation Scrutiny Panel

Date: Thursday, 07 October 2021 **Time:** 16:00

Venue: Council Chamber

Item A.1

Chair: Councillor James Bainbridge

Present: Councillor Ruth Alcroft, Councillor James Bainbridge, Councillor Mrs Marilyn Bowman, Councillor Mrs Linda Mitchell, Councillor Peter Sunter

Councillor Mrs Ann McKerrell (for Councillor Michael Mitchelson), Councillor Pamela Birks (for Councillor Dr Les Tickner) (until 17:15)

Also Present: Councillor Ellis, Finance, Governance and Resources Portfolio Holder

Officers: Deputy Chief Executive
Corporate Director of Finance and Resources
Lead ICT Officer x2

BTSP.70/21 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillor Trevor Allison, Councillor Michael Michelson, Councillor Dr Les Tickner and the Town Clerk and Chief Executive.

BTSP.71/21 DECLARATIONS OF INTEREST

No declarations of interest were submitted

BTSP.72/21 PUBLIC AND PRESS

RESOLVED – It was agreed that the items of business in Part A be dealt with in public and Part B be dealt with in private.

BTSP.73/21 MINUTES OF PREVIOUS MEETINGS

Referring to minute BTSP.65/21 a Member asked for clarification with regard to the swimming pool removal. The Finance, Governance and resources Portfolio Holder confirmed that the 1970s pool would be demolished and the second pool would be decommissioned.

RESOLVED – 1) It was noted that Council, at its meeting on 14 September 2021, received and adopted the minutes of the meeting held on 15 July 2021. The Chair signed the minutes.

2) That the minutes of the meeting held on 26 August 2021 be agreed as a correct record

BTSP.74/21 CALL-IN OF DECISIONS

There were no items which had been the subject of call-in.

BTSP.75/21 REVENUE BUDGET OVERVIEW AND MONITORING REPORT - APRIL TO JUNE 2021

The Corporate Director of Finance and Resources submitted report RD.32/21 the purpose of which was to provide an overview of the Council's overall budgetary position for the period April to June 2021 for revenue schemes only, together with details of the impact of COVID-19 on the revenue budget.

The Corporate Director of Finance and Resources highlighted, in particular, some of the significant service expenditure and income variances identified at paragraph 2.4. Section 3 recorded that the Council's financial position was affected by a number of external factors which would have a financial impact during the course of the year and ultimately at the year-end. The Council’s financial position would continue to be closely monitored and the likely year end position would be reported more fully in a future monitoring report. It would be important to maintain a prudent approach so as to ensure a sustainable position for future years and to avoid any significant variance at the year end.

The Executive had considered the matter at their meeting on 31 August 2021 (EX.95/21 referred) and resolved:
"That the Executive:
1. noted the budgetary performance position of the Council to June 2021;
2. noted the action by the Corporate Director of Finance and Resources to write-off bad debts as detailed in paragraph 6 of Report RD.32/21;
3. noted the release of reserves as set out in the table at paragraph 2.2, and noted the virements approved as detailed in Appendix A of Report RD.32/21. "

In considering the report the Panel raised the following comments and questions:

- The budget did not allow for the significant increase in energy costs, how would this be managed?

The Corporate Director of Finance and Resources responded that any increase would be dealt with from existing budgets, if this was not possible it would become an additional use of the revenue reserve.

- A Member highlighted the risks set out in the report and asked that inflation and energy price increases be included in the future.

- The Panel asked for an update on the number of rent reviews that were outstanding at Kingstown Industrial Estate.

- Was there a risk that rising inflation rates could impact the Council's planned borrowing?

The Corporate Director of Finance and Resources confirmed there was a risk that borrowing rates could increase, however, the Council had to consider its cash holdings before any borrowing could take place. The matter was being closely monitored.

- Were there any identifiable trends in the overspend and underspend in the budget?

The Corporate Director of Finance and Resources explained that there were no identifiable trends. There were big variances in the budget as a result of high street recovery and car parking. They would be monitored and included in the 2022/23 budget, if necessary.

RESOLVED - 1) That the Revenue Budget Overview and Monitoring Report - April to June 2021 (RD.32/21) be noted.

2) That the Property Services Manager provide the Panel with an update on the number of outstanding rent reviews at Kingstown Industrial Estate.

BTSP.76/21 CAPITAL BUDGET OVERVIEW AND MONITORING REPORT - APRIL TO JUNE 2021

The Corporate Director of Finance and Resources submitted report RD.33/21 providing an overview of the budgetary position of the City Council's capital programme for the period April to June 2021.

The position statement recorded that, as at the end of June 2021, expenditure of £3,691,459 had been incurred on the Council's core capital programme. When considered against the profiled budget of £3,906,461 that equated to an underspend of £215,002. The unspent balance remaining of the revised annual budget of £27,669,200 was £23,977,741.

A review of the 2021/22 capital programme would be undertaken to identify accurate project profiles for the remainder of the financial year and any potential slippage into future years.

A number of schemes were included in the capital programme for 2021/22 that required reports to be presented to the Executive for the release of funding before the project could go ahead.

The Executive had considered the matter at their meeting on 31 August 2021 (EX.96/21) referred) and resolved:
"That the Executive:
1. noted and had commented upon the budgetary position and performance aspects of the capital programme for the period April to June 2021.
2. noted adjustments to the 2021/22 capital programme as detailed in paragraph 2.1 of Report RD.33/21"

In considering the report Members raised the following comments and questions:

- Why had there been a delay in the works to Skew Bridge and would the delay impact the budget?

The Deputy Chief Executive explained that there had been some difficulty in sourcing the relevant materials, he did not envisage an impact on the budget. He agreed to circulate further information to the relevant Ward Councillors.

- The Panel asked that the delay in sourcing materials be added to the risks for project management in future reports.

- Referring to the Gateway 44 Project, a Member asked if the project was still within the £6.5m budget and did the Council still project a 13.7% return on capital?

The Corporate Director of Finance and Resources agreed to provide the Panel with a written response.

RESOLVED - 1) That the Capital Budget Overview and Monitoring Report - April to June 2021 (RD.33/21) be noted.

2) That the Corporate Director of Finance and Resources provides the Panel with information on the budget for the Gateway 44 Project and the projected return on capital.

BTSP.77/21 COMMERCIALISATION TASK AND FINISH GROUP

The Corporate Director of Finance and Resources presented a summary of the work undertaken by the Commercialisation Task and Finish Group and detailed the rationale for not progressing any further work on a detailed Commercialisation Strategy for Carlisle City Council (RD.43/21).

The Corporate Director of Finance and Resources reported that whilst the Group acknowledged the significant work already undertaken, they recognised that much more work was required to develop a strategy which, given Local Government Reorganisation (LGR), could potentially only have a very short lifespan. They recognised that LGR would be a period of great change for the Council with significant and various demands being placed on both Officer and Member resources. Therefore, they reached the conclusion that the Task and Finish Group should be concluded and in the light of the existing commercial activity already undertaken and LGR, the development of a Commercial Strategy for Carlisle City Council was not currently advisable.

The Corporate Director of Finance and Resources explained that the Council would use the work that had been undertaken to generate income in line with the Medium Term Financial Plan and its Financial Principles.

RESOLVED - 1) That report RD.43/21, Commercialisation task and Finish Group, be noted;

2) That the work of the Commercialisation Task and Finish Group end and a City Council Commercialisation Strategy not be developed.

BTSP.78/21 SANDS CENTRE PROJECT MONITORING REPORT

The Deputy Chief Executive presented an update on the current progress of the redevelopment of the Sands Centre site (CS.42/21).
The Deputy Chief Executive provided an update on the measures undertaken to manage or adapt the existing proposals to deal with:

a) Progress with the main contract works
b) A requirement to update existing infrastructure in the events space to manage public safety systems to meet with current legislation.
c) Working practices evolving from the management of the risks associated with the COVID -19 pandemic
d) Working practices evolving from the management of the Brexit Agreement arrangements

The Deputy Chief Executive summed up by informing the Council that the Sands Centre site had been inspected by Considerate Constructors and the Health and Safety Executive.

In considering the update Members raised the following comments and questions:

- A Member asked if the risk register score was ambitious given the issues with the supply chain.

The Deputy Chief Executive explained that the risks had been reduced where possible, but it would be continuously monitored and reported to Scrutiny.

- Would it be possible to publicly advertise the progress on the development and the projected opening date?

The Deputy Chief Executive confirmed that the Communications team were working on the promotional side of the development.

- How much time had been included in the contract for time flow?

The Deputy Chief Executive clarified that nine weeks had been included over the period of the contract. Although Covid 19 had not impacted the workforce as expected, the delay to the sourcing of materials had been problematic and the additional time built into the contract would prove beneficial to deal with delays.

- How did the NEC form of contract compare with other contracts and had it been successful?

The Deputy Chief Executive explained that it was too early in the process to give an assessment on the comparison of the contract, he outlined some of the advantages and disadvantages to the contract. He added that the notices process provided a good transparent record for everyone involved in the contract. In response to a further question the Deputy Chief Executive gave examples of Early Warning Notices, Compensation Event Notices and Project Manager instructions and what they meant within the project.

- A Member asked for an update on the roof.

The Deputy Chief Executive reported that the Events Centre roof had been subject to regular (approximately 6 monthly) assessments of conditions in line with the sector guidance. Those assessments had not resulted in any recommendations regarding the replacement of roof panels, however, each report has reiterated that the roof structure is close to the end of its design life. The Council will continue to closely monitor this aspect of the building.

- How did the Council make sure that local contractors were used wherever possible in the project?

The Deputy Chief Executive agreed to include the tracker that was used to monitor the use of local suppliers and contractors in the next report.

- How would the public be able to see the progress on the project, especially on completion?

The Deputy Chief Executive informed the Panel that a camera had been set up to provide a time lapse sequence of the project.

RESOLVED – That the Sands Centre Redevelopment Project update (CS.42/21) be noted.

BTSP.79/21 CIVIC CENTRE REINSTATEMENT AND DEVELOPMENT

The Deputy Chief Executive provided an update on the current progress of the reinstatement of the ground floor of the Civic Centre (CS.39/21).
The Deputy Chief Executive informed the Panel of the measures undertaken to manage or adapt the existing project proposals to deal with:

a) working practices as a result of the COVID -19 pandemic
b) a requirement to update existing infrastructure on the ground floor and basement to manage asbestos, legionella, safety systems, obsolete services, and fire safety in these areas, to support increased occupation of the ground floor and meet with current legislation.

The report also contained the arrangements for Phase 2 of the project including demolition of the former Council chamber and an extension to the Civic Centre public car park.

The Deputy Chief Executive placed on record his thanks to all the stakeholders who had been involved in the reinstatement work, with special thanks to the Client Side Project Manager, Construction Administrator and the Project Support Officer.

In considering the report Members raised the following comments and questions:

- Had there been any work undertaken to preserve the memory of the rotunda.
The Deputy Chief Executive confirmed that photographs had been taken and the mural that had been in the old Chamber had been dismantled to be repurposed, if possible, in the new Chamber.

- The Panel noted that the new Customer Services reception had retained a physical sign in process and asked if an electronic one had been considered.

The Deputy Chief Executive agreed to investigate the matter further.

- What was the 'new civic space'?

The Deputy Chief Executive explained that, as part of the public realm works, there would be a simple seated area that would have space for an opportunity to develop it in the future.

RESOLVED - That the Civic Centre Reinstatement and Development Project be received (CS.39/21).

BTSP.80/21 SQUAD WORKING

The Deputy Chief Executive presented a report setting out the Council's approach to Squad Working (CS.40/21).

The Deputy Chief Executive gave a detailed explanation of Squad Working as an opportunity for improved agile working across the Council. The report set out the roadmap for the implementation of Squad Working as well as potential risks and how they would be addressed.

The Panel had difficulty in understanding the process using the terminology in the report. The Deputy Chief Executive explained how Squad Working could be used along with some examples. He informed the Panel that there had been a good response from staff and all of the training sessions had been filled.

The Deputy Chief Executive informed the Panel that formal project management, audit and democratic process would continue to be used to be transparent, Squad Working would tie in with those processes.

The Deputy Chief Executive agreed to provide the Panel with a plain English briefing note and a further report updating the Panel on the progress made through Squad Working.

RESOLVED - 1) That the Panel note the progress made to date with regard to Squad Working (CS.40/21).

2) That the Deputy Chief Executive circulate a briefing note in plain English to the Panel.

3) That an update on Squad Working within the City Council be submitted to the Panel at a future meeting.

BTSP.81/21 EMERGING AGILE WORKING POLICY - FINDING OF STAFF SURVEY

The Deputy Chief Executive provided the findings of the staff survey along with information on developing approaches to agile working following the Covid-19 pandemic (CS.38/21).

The Deputy Chief Executive reported that the 2021 Staff Survey (Flexible Working Arrangements) had been conducted between 27 April and 10 May and had received 223 responses. Based on the survey SMT were keen to continue to support staff to work from home if they so wished taking into account service demand and delivery requirements, team dynamics and colleague preferences. It was recognised that some staff would feel anxious regarding a return to the workplace and various support mechanisms were in place.

The Panel welcomed the report and supported giving staff flexibility where possible. The Panel highlighted some issues which residents had reported to Ward Councillors and questioned how the Council would ensure that staff who were working from home were doing so in a safe and appropriate place which did not stop them from delivering the service.

The Deputy Chief Executive detailed the agile working policy which the Council already had in place and the health and safety practices that the Council had to ensure staff had the necessary equipment and space at home. Staff would have to discuss home working with their managers to ensure it was appropriate and safe to do so. He highlighted the priority on the delivery of service, if complaints were received then the matter would be reviewed.

RESOLVED - That the Emerging Agile Working Policy - Findings of Staff Survey report (CS.38/21) be noted.

BTSP.82/21 OVERVIEW REPORT

The Overview and Scrutiny Officer presented report OS.24/21 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel and the Panel’s Work Programme.
RESOLVED – That the Overview Report incorporating the Key Decision items relevant to the Business and Transformation Scrutiny Panel be noted (OS.24/21).

BTSP.83/21 PUBLIC AND PRESS

RESOLVED – That in accordance with Section 100A(4) of the Local Government Act 1972 the Public and Press were excluded from the meeting during consideration of the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in the paragraph number (as indicated in brackets against the minute) of Part 1 of Schedule 12A of the 1972 Local Government Act.

BTSP.84/21 ICT SERVICES PROJECT STATUS REPORT

(Public and Press excluded by virtue of paragraph 3)

The Lead ICT Officers submitted an update on the ICT Services Project Status (CE.11/21). The report had been updated to offer the Panel an up to date snapshot of the current status of the ICT Services projects along with recent project activity; RAG rating; issues and emerging risks; key activities for the next period and requests for change.

The Lead ICT Officers responded to Members questions. They set out the issues that they were dealing with in relation to infrastructure and recruitment.

The Panel discussed the Council's website and the issues with its age and suitability especially given the accessibility regulations. The Lead ICT Officers set out the work being carried out to deal with the website and the impact of Local Government Reorganisation on future decisions. They explained that there were no regular external checks carried out on the website, however, there were standards for web design and design principles set by government. They also explained that they were responsible for the technical elements of the website and relevant departments were responsible for the content.

The Panel discussed the risk register in some detail and the Lead ICT Officers gave detailed technical answers to questions and gave assurances where possible.

The Panel asked for an update on the current recruitment process for ICT roles along with details of the next steps should the process be unsuccessful.

RESOLVED – 1) That the Panel had scrutinised the ICT Services Project Status report (CE.11/21).

2) That an updated ICT Services Project Status report be submitted to the Panel in three months time.

3) That an update on the recruitment process be circulated to the Panel along with details of the next steps should the process be unsuccessful.

The Meeting ended at: 18:16

Carlisle City Council
Report to Audit Committee

Item A.3

Report details

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Report:	INTERNAL AUDIT PROGRESS 2021/22 (OCTOBER TO NOVEMBER)
Report of:	CORPORATE DIRECTOR FINANCE & RESOURCES
Report Number:	RD57/21

Purpose / Summary:

This report provides an overview of the work carried out by Internal Audit between October and November of 2021/22. The report also includes information on progress against the agreed audit plan, performance indicators, previous audit recommendations and amendments to the Internal Audit plan.

Recommendations:

The Committee is requested to

i) note the progress against the audit plan for 2021/22;
ii) receive the final audit assignments as outlined in paragraph 2.2;
iii) note the progress made on audit recommendations to date outlined in Appendix B.
iv) approve the proposed amendments to the Internal Audit Plan 2021/22 in Appendix C.

Tracking

Executive:	**Not applicable**
Scrutiny:	**Not applicable**
Council:	**Not applicable**

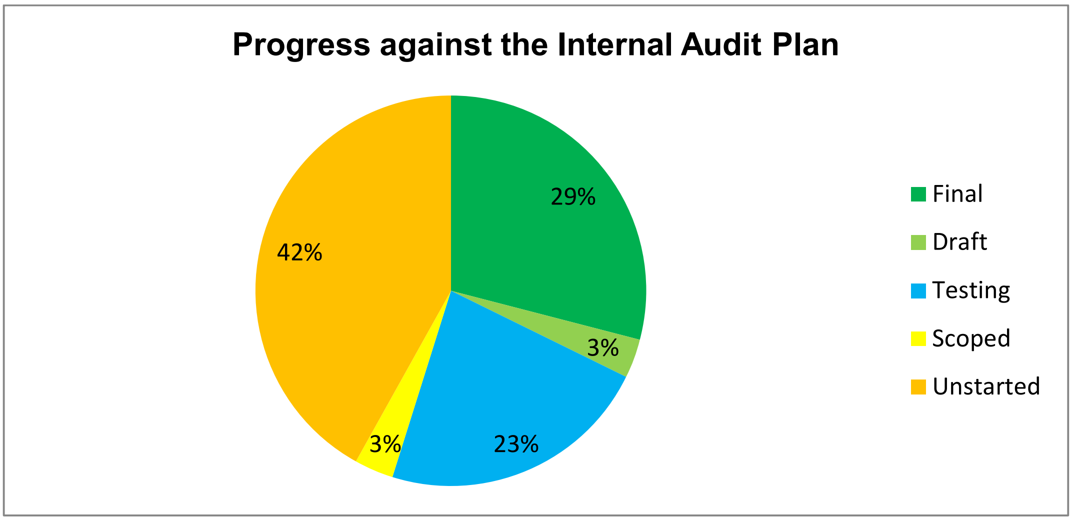
1. Background

1.1. Management is responsible for establishing effective systems of governance, risk management and internal controls. It is the responsibility of management to establish appropriate arrangements to confirm that their systems are working effectively, that all information within them is accurate and that they are free from fraud or error.

1.2. Internal Audit's role is to provide independent assurance to senior management and the Audit Committee over the adequacy and effectiveness of management's arrangements for governance, risk management and internal control.

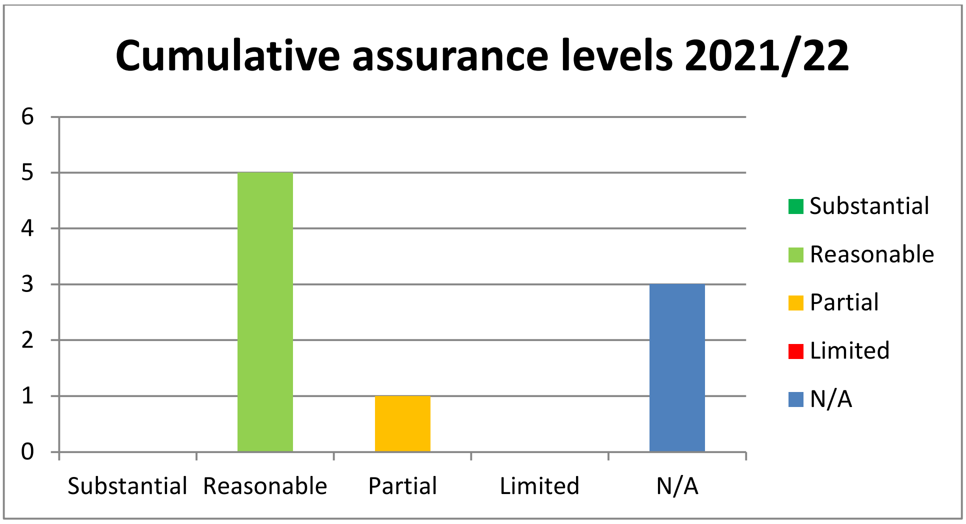
2. Progress Against Audit Plan

2.1 Progress against the 2021/22 audit plan is detailed at Appendix A. 32% of current planned reviews have been finalised to draft (40% of the draft revised plan) and 55% of audits are underway or finished).



2.2 5 planned pieces of work were completed in the period.

Review Area	Assurance Level
Annual fraud review	N/A
Corporate Internal Controls	Reasonable
Environmental Strategy	Reasonable
Disabled Facilities grants	Reasonable
Neighbourhood Services (Culture Review)	Partial



2.3 The Audit resource was also utilised in the period revising the draft audit plan (see section 5).

2.4 An Audit of Property Income was concluded in August 2021 and a draft report was issued to the Property Services Manager giving partial assurances. A meeting was held between Internal Audit and the Property Services Manager in September 2021 to discuss the findings. It was agreed that extra evidence could be provided to Internal Audit, increasing assurances over the internal controls in place within the audited area.

2.5 To date no further evidence has been provided and there has been very limited further engagement from the Client. The Client has indicated that additional workload pressures (providing assurances to external audit queries on asset valuations for the Statement of Accounts, and workloads supporting Local Government Reorganisation) and other capacity issues (vacancies and sickness) have left the team unable to provide a response to the draft report. Work is ongoing to agree the content of the report with the aim that it be reported to the next Audit Committee.

2.6 At the previous Audit Committee Internal Audit raised ongoing concerns relating to ICT controls, particularly around cyber-security. Part of planned mitigating actions to address these concerns was the filling of three vacancies within the ICT Services team. Unfortunately, the recruitment exercise was unsuccessful and the posts remain vacant. Management are currently reviewing options to obtain additional resource. Internal Audit are in an ongoing dialogue with the ICT Services management team to review ongoing actions to address concerns

3. Performance Indicators

3.1 To provide an effective internal audit service, there needs to be a measure of the performance it achieves. The table below shows progress against indicators agreed for 2021/22. risks faced by the authority are reviewed on an ongoing basis as part of risk management processes and are considered by Internal Audit as part of their routine planning processes

Indicator	Target (YTD)	Performance	Comments
Planned Audits Completed	68%	29%	Annual target 90%
Timely Draft Reports (within 3 months of fieldwork starting)	80%	62%	
Timely Final Reports (within 8 days of client response)	90%	100%	
Recommendations Agreed	95%	100%	100%
Assignments completed (within 10% of allocated resource)	60%	50%	
Positive feedback	90%	-	No responses to date
Chargeable time	80%	66%	
Recommendations implemented first time	80%	74%	

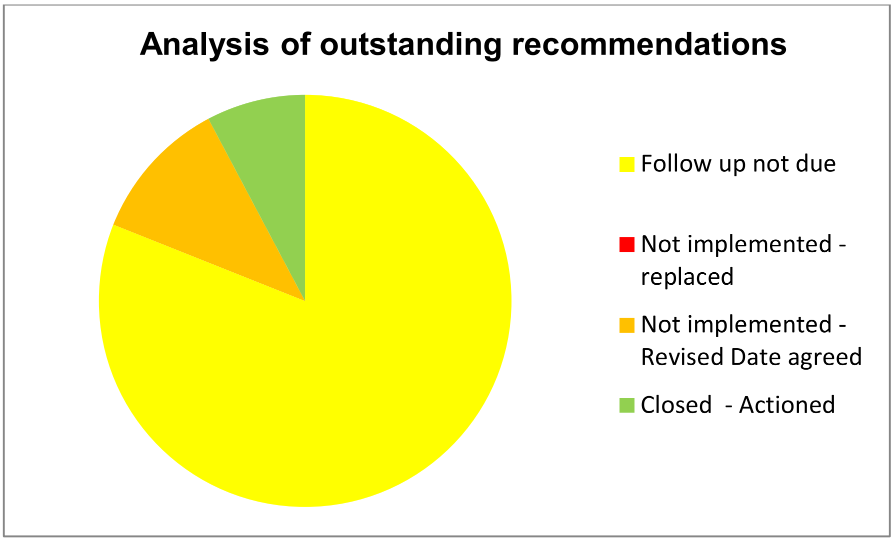
3.2 Progress on the plan has been impacted by the long-term sickness absence / phased return within the team. 29% of reviews have been finalised against a target to date of 68%. This increases to 40% if the draft revisions to the audit plan are improved (see section 5).

3.3 Progress is being monitored and if required Internal Audit will also seek to utilise additional resource to ensure suitable coverage is obtained to provide the annual audit opinion for 2021/22 (See section 5).

4. Audit Recommendations

4.1 **Appendix B** shows a summary position of outstanding audit recommendations and progress made against implementing these. Once the agreed implementation date has passed, internal audit will ask the responsible officer for an update of progress. The responses will then be reported to the next available Audit Committee meeting and, if implemented, will then be removed from the list so that only outstanding recommendations remain. Where the recommendations relate to a partial assurance audit, these will be subject to a formal follow up and will be reported back to Audit Committee separately. New recommendations will be added to the list once final reports are agreed.

4.2 9 recommendations out of 22 followed up were found to have been fully implemented (9 in line with original agreed timescales) and are now closed



5. Amendments to the Audit Plan / Audit Resources

5.1 The Committee is asked to Due to a the rapidly changing risk environment, combined with long-term sickness absence within the Internal Audit Team a review of the Internal Audit plan was undertaken, including consultation with Senior Management. A number of amendments are proposed to the Internal Audit plan (see **Appendix C**):

Fleet Management
Defer to 2022/23 as aspects already covered within Environmental Strategy review and sufficient coverage of Community Services Directorate in current year.

Job Evaluation
Remove as review will no longer add significant value, as job evaluation process will be reviewed and updated as part of Local Government Re-organisation.

Future High Street Fund
Reduce scope of audit from 20 to 15 days

Disabled Facility Grant
Reduced scope of audit from 20 to 10 days due to limited testing identified in scoping meeting.

Advice Agencies
Remove as assurances can be placed on recent external review of service.

Main Accounting system & Budget Monitoring
Reduce scope of audit from 20 to 15 days

Routine Follow Up of Audit Recommendations
Increase budget by 10 days - additional resource on engaging with managers to improve implementation and review risk exposure of actions deferred as a result of LGR.

Covid Grants
Increase scope of audit from 10 to 20 days due to additional testing identified in scoping meeting.

E-Purchasing (Ordering/Creditors)
Remove as project unlikely to be progressed as a result of Local Government Reorganisation.

Planning
Increase provision by 2 days to allow for additional time to adjust plans during the year.

Sickness
Increase budget to 75 days to reflect long-term absence within the team.

5.2 The proposed revisions ensure a realistic audit plan is in place that reflects ongoing resourcing issues within the team, while still ensuring adequate audit coverage to provide an annual opinion for 2021/22. Internal Audit are reviewing options available in relation to additional resource. Completion of the plan however, is also reliant on full engagement from Audit Clients

6. Risks

6.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed

7. Consultation

7.1 Not applicable.

8. Consultation

8.1 The Committee is requested to

i) note the progress against the audit plan for 2021/22;
ii) receive the final audit reports as outlined in paragraph 2.2;
iii) note the progress made on audit recommendations to date outlined in Appendix B.
iv) approve the proposed amendments to the Internal Audit Plan 2021/22 in Appendix C.

9. Contribution to the Carlisle Plan Priorities

6.1 To support the Council in maintaining an effective framework regarding the prevention, identification, investigation and recovery of fraudulent activity, which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper Ext: 7520

Appendices attached to report:

- Appendix A – Progress against Audit Plan and Timeline of audits
- Appendix B – Progress against previous Audit Recommendations
- Appendix C - Proposed

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider a summary of internal audit activity and summaries of specific internal audit reports. This report fulfils that requirement

Property Services - None

Finance – Contained within report

Equality -None

Information Governance- None

APPENDIX A

CARLISLE CITY COUNCIL
PROGRESS AGAINST REVISED AUDIT PLAN 2021/22

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
Financial Services	MFS	Internal Control Questionnaires - Non Audited Systems	2	2	Final	N/A	N/A	
Health & Well-being	VFM	Small grant payments (Community Services)	10	9	Final	Sep 21	Reasonable	
Council-wide	Governance	Good Governance Principles / Local Code of Conduct	5	3	Final	N/A	N/A	
Health & Well-being	Directorate	Community Centres	20	22	Final	Sep 21	Reasonable	
Council-Wide	Corporate	Environmental Strategy	20	22	Final			
Neighbourhood Services	Directorate	Neighbourhood Services (Culture Review)	15	27	Final			
Council-Wide	Counter-Fraud	Annual fraud review	5	5	Final			
Regulatory Services	Directorate	Disabled Facilities grants	20	11	Final			
Council-Wide	Corporate	Corporate Internal Controls	5	5	Final			
Property Services	Directorate	Property Income	15	20	Draft			
Council-Wide	Consultancy	Business Continuity & Emergency Planning	10	4	Testing			
Neighbourhood Services	Directorate	Recycling (Perf Info)	10	7	Testing			
Development Control	Directorate	Development Control (Complaints procedure)	10	2	Testing			
Community Services	Directorate	Sands Centre Redevelopment	20	18	Testing			
Organisation Development	Directorate	Workforce Development and Training (inc Workforce Strategy and e-learning)	20	17	Testing			
Revenues & Benefits	MFS	Council Tax	20	8	Testing			
Revenues and Benefits	Counter-Fraud	Covid Grants	10	9	Testing			

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
Financial Services	MFS	Financial Services Governance Arrangements	5	0	Scoped			
Council-Wide	Counter-Fraud	National Fraud Initiative	10	3	Testing			
Council-Wide	Corporate	Scheme of delegation	5	-				
Digital Services	Directorate	Cyber-Security	20	-				
Development Control	Directorate	Major projects - governance arrangements	20	-				
Property	Directorate	Building Maintenance	20	-				
Financial Services	MFS	Creditors (including cheque control)	15	-				
Financial Services	MFS	Main Accounting System & Budget Monitoring (inc MTFP)	20	-				
ICT	Follow Up	ICT Recommendations	5	-				
Financial Services	Counter-Fraud	Procurement review	10	-				
Neighbourhood Services	Directorate	Fleet Management (inc Strategy)	20	-				Propose deferral
Human Resources	Directorate	Job Evaluation	20	-				Propose removal
Homelessness Services	Directorate	Advice Agencies	15	-				Propose removal
Financial Services	Consultancy	E-Purchasing (Ordering/Creditors) (New System)	10	-				Propose Removal
		Follow-up contingency	20	15				
		Counter Fraud Contingency	10	3				
		Advice & Guidance Contingency	10	1				
		Contingency (2020.21)	41	56				
		Audit Committee	16	9				
		Planning & Management	53	46				

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
		OVERALL TOTAL	**557**	**324**				

Ass Code	Audit	Recommendation	Priority	Risk Exposure	Agreed action	Responsible Manager	Original Completion Date	Revised Completion Date (if applicable)	No.	Status
A1802	Smarter Service Delivery (Reasonable)	A process should be developed to archive and/or delete personal information held within both Salesforce and My Account, in line with suitable retention periods.	M	Council in possession of unnecessary personal information. Risk of breaching data protection legislation. Risk of fines and sanctions.	Scheduled deletion and disposal report tool is currently being configured. MyAccount specific privacy policy is being introduced with appropriate retention schedules applied.	Customer Services Manager	31 August 2018	31/11/21	6	Implementation of this recommendation has been continuously delayed due to ongoing resource shortages within ICT Services and is unlikely to be implemented until after LGR without significant investment. An assessment of risk exposure was issued to the relevant Senior Manager (Chief Executive) who has requested further analysis to determine costs of earlier implementation.
A1801	Information Governance (Reasonable)	Recommendation 5 – Assurances should be obtained that all officers without access to a network account have received appropriately targeted training regarding their obligations in relation to records management.	M	Staff unaware of regulatory requirements.	Managers with staff who do not have network access will be listed, provided with support and asked to confirm in writing that they have ensured their staff have received appropriate training and information.	Health and Wellbeing Manager	14 June 2019	01 September 2020	4	Training was scheduled for March 2020, but was postponed due to Covid-19 pandemic (minimal risk due to limited amount of personal records maintained by relevant officers). No response has been received from the responsible manager to provide assurance this action has now been implemented.
A1801	Information Governance (Reasonable)	Recommendation 9 – Further work is required to ensure the Council stores and disposes of records in line with what is stated in its retention schedules, including particular work required from an ICT perspective.	M	Council retains unnecessary information	The Council's ICT systems will be reviewed to enable and support the deletion of electronic data. A review of the retention schedules and disposal logs will be added to the Information Governance Inspection Checklist.	ICT Services Manager/ Information Governance Manager	02 August 2019	30 August 2021	1	Progress ongoing: The Responsible Managers have undertaken research and are drafting a report for SMT in relation to retention of back-ups. (with a view to commencing new processes from 22/23). The Information Governance Inspection Checklist has been updated as previously referenced. Further work is ongoing to improve records management through the Risual Office 365 project, but this is a significant exercise which is likely to be carried over to the new authority
A1801	Information Governance (Reasonable)	Recommendation 14 – The Council's Home-working guidance and self-assessment should be updated to reflect GDPR requirements	M	Data breach due to insecure working practices as part of home-working.	The Council's Home-working guidance and self-assessment will be updated to reflect GDPR requirements and re-issued for completion and sign off by managers of staff who work from home	Information Governance Manager / HR Manager	21 June 2019	30 August 2021	4	Agile working policy initially drafted early 2020 including working from home data-protection self-assessment; however impact of pandemic and resource shortages has resulted in delays in completion. It is proposed that preparation of a new policy is deferred due to LGR. Internal Audit will facilitate a review of risk exposure for Senior Management review and approval, including inclusion of any interim mitigating actions.
B1801	Allowances, Travel & Subsistence (Employees) Reasonable	Recommendation 8 – Consideration should be given to implementing an electronic claim form to improve the legibility, efficiency and internal controls of the travel payment process, including consideration of set mileage for common journeys.	M	Allowances and expenses are not claimed and paid within the Council's current rules and regulations.	This needs to be discussed & investigated further to see if it is time and cost effective. This will be looked in line the i-Trent review which is due to be undertaken in 2020.	Payroll & i-Trent Supervisor / HR Manager	30 April 2021	30 September 2021	1	Review was initially delayed due to vacant Head of Service Post. In light of LGR announcement it is now proposed this action is deferred and considered when considering processes to be adopted by the new authority. Internal audit to provide Senior Management with assessment of potential risk exposure faced in the interim period (Q4)
G2004	Income (Reasonable)	Recommendation 1 - Systems, processes and responsibilities should be formally established to ensure income related procedures in all Service Areas are suitable and monitored to provide assurance of compliance with requirements detailed within the Financial Procedure Rules document.	M	Inadequate governance leading to non-compliance with Financial Procedure Rule requirements resulting in inconsistent practices and inaccurate accounting information.	Assisted by Finance Officers, Service Managers should document service specific income guidance to include systems, processes and responsibilities in line with the Financial Procedure Rules	Financial Services Manager	30-Sep-21		1	Process now in place to set out Accountancy Services requirements and review all service-held procedures for completion on an annual basis. Closed.
G2004	Income (Reasonable)	Recommendation 2 – Arrangements, authorisation and limits for holding income within individual service areas should be formalised and documented.	M	Inadequate governance leading to non-compliance with Financial Procedure Rule requirements resulting in inconsistent practices and increased exposure to the risk of theft and fraud.	Scheme of Delegations to be updated to include arrangements, authorisation and limits for holding income.	Financial Services Manager	30-Sep-21	31 March 2021	1	Review of income collection post-pandemic found that other than car parking (established procedure) levels of banking are usually low value. However, input to be obtained from SMT regarding current delegated authority.

G2004	Income (Reasonable)	Recommendation 3 – PCI-DSS non-compliance should be subject to formal risk assessment activity to identify and facilitate implementation of required controls, action planning and sources of assurance (both short and long-term).	H	Failure to comply with Payment Card Industry (PCI) Security Standards leading to loss or compromised data and resulting in fines or sanctions.	A risk assessment be completed for PCI-DSS non-compliance and added to the Corporate Risk Register	Financial Services Manager	31-Dec-21		N/A	To be addressed through upgrade to Civica and upgrade of telephony system. Work ongoing to progress both (though potential resource issues on latter due to staff shortages within ICT Services).
F2001	Safe Recruitment (Reasonable)	Recommendation 1 – The process for administrating pre-employment medical examinations and collation of emergency contact information should be documented.	M	Inconsistent approach / lack of clarity on appropriate process.	Procedures to be updated to include pre-employment and emergency contact processes.	HR Advisers	30-Apr-21		1	New starter checklist for HR updated to reflect pre-employment and emergency contact details processes. Closed.
F2001	Safe Recruitment (Reasonable)	Recommendation 2 - An exercise should be undertaken to define the category of medical check received for individual posts, which should be agreed with Service Managers	M	Relevant medical conditions not identified due to irrelevant examination.	Propose HR develop a risk assessment form that managers can send on to OH. AC/SN to query current new starter process with OH and determine actions following this.	HR Team	30-Apr-21	31 January 2022	1	Procedure guidance updated to reflect 4 levels of pre-employment review category. Monitoring this is pending new software update to amend the OH referral process. Meeting with OH to be arranged in November 2021 to progress.
F2001	Safe Recruitment (Reasonable)	Recommendation 3– Employing managers should provide the information in the pre-employment medical questionnaire relating to risk exposures relevant to the role.	M	Fail to identify relevant risk exposure faced by the role.	Risk assessment for role to be attached to Post-Interview checklist (which manager completes). This can then be shared with OH when commencing new starter medical checks.	HR Team	30-Apr-21	31 January 2022	1	Procedure guidance updated to reflect 4 levels of pre-employment review category. Monitoring this is pending new software update to amend the OH referral process. Meeting with OH to be arranged in November 2021 to progress. Pre-interview checklist will need updating.
F2001	Safe Recruitment (Reasonable)	Recommendation 4 – The previous recommendation to implement a process to ensure agency and casual staff are subject to appropriate checks should a) incorporate collation of medical clearance and emergency contact details and b) be expanded to ensure the same checks are carried out for volunteers.	M	Fail to identify medical information or emergency contact details for individuals delivering services on behalf of the Council.	As of September 2020, casual staff now have a pre-employment medical assessment. / Casual onboarding documents to be updated with emergency contact details and details of medical clearance. Risk assessment will need attached as it does for all new employees (for the purpose of medical clearance). / Volunteers – need to look at current process and get a steer from DC re medical checks as previous managers have raised concerns about this deterring volunteers.	HR Team	31-Jul-21	31 December 2022	1	Information sharing procedures with relevant agencies is being worked on and will be complete by December 2021. For volunteers - request for information has been added to volunteer agreement re health/underlying medical conditions. Referrals can be made to OH where relevant and on request.
F2001	Safe Recruitment (Reasonable)	Recommendation 5 – An exercise should be undertaken to identify and record all existing volunteers within iTrent.	M	Fail to identify medical information or emergency contact details for individuals delivering services on behalf of the Council.	Initial collation exercise to be undertaken to identify and record all volunteers in iTrent. Detailed review of volunteer process due to be undertaken later in the year.	HR Adviser	30-Apr-21		1	Green spaces volunteers are now on iTrent including emergency information. Closed.
F2001	Safe Recruitment (Reasonable)	Recommendation 6 – A process is required to ensure health and safety induction forms are completed by line managers and retained on file.	M	Appropriate training and guidance not provided to new starters.	Seek to identify electronic process to replace current format, allowing for more controlled monitoring of the completion process.	Safety Health & Environmental Manager	30-Jun-21	01 April 2022	1	Health and Safety currently reviewing potential for digitised process to allow easier monitoring of completion.
F2001	Safe Recruitment (Reasonable)	Recommendation 7 - New starters should be given the opportunity to declare any special requirements required in relation to medical conditions as part of the new starter/induction process.	M	Fail to identify/mitigate against any pre-existing medical conditions.	This should be covered in the pre-employment medical checks that all new starters are now going through. A note to remind new employees of the opportunity to raise any pre-existing medical conditions will also be added to the Manager's induction checklist.	HR team / OD team	30-Apr-21		1	On review of process, management now feel there is reasonable opportunity and avenues for new employers to highlight any health issues or reasonable adjustments they may require. This responsibility on employees is emphasised in the new Attendance Management Policy . Closed.
F2001	Safe Recruitment (Reasonable)	Recommendation 8 – Council policies should be updated to encourage employees to inform the Council of any relevant emerging medical condition that impact on their ability to perform their role. Assurances should be provided to employees that information will be handled confidentially.	M	Fail to identify/mitigate against any emerging medical conditions.	Wording included in the draft Improving Attendance Policy, Employee responsibility section, to request they inform their manager if they develop a medical condition that could potentially impact their ability to carry out their role, or one that may require additional support within the workplace. The policy is covered by a confidentiality clause. Policy to be approved by SMT.	HR Advisers	28-Feb-21		1	Included under employee responsibilities in new Improving Attendance policy. Policy approved by employment panel and launched 22/9/21. Closed.
F2001	Safe Recruitment (Reasonable)	Recommendation 9 – A Data Protection Impact Assessment should be carried out to ensure changes to the pre-employment medical checking process continues to comply with data protection legislation.	M	Failure to comply with data protection legislation.	HR to work with Information Governance Manager to complete DPIA.	HR Adviser / Information Governance Manager	31-May-21	31 December 2021	1	Scheduled to be undertaken in November 2021. In conjunction with OH provider and as part of the transfer to the new system.
F2001	Safe Recruitment (Reasonable)	Recommendation 10 – An exercise should be taken to ensure emergency contact information is retained in iTrent for all employees and members.	M	Unable to contact emergency contacts.	Reminder emails go out to all staff to remind them to update their personal information and emergency contact details. Also suggest a skill gate declaration that they have updated their own and emergency contact details in i-Trent (which all staff can do via self-service).	HR Advisers & OD team	30-Apr-21	31 December 2021	1	Following discussion with OD team Skill gate suggestion is not likely to work. Once every 3 months an email is to go out to all staff to ask to review & update emergency contact details. Members emergency contact details to be saved on regular basis in a confidential area (SharePoint/locked drawer) for night staff to access should there be an emergency out of hours.

F2001	Safe Recruitment (Reasonable)	Recommendation 11 – the form for recruiting casual employees should be amended to request emergency contact details.	M	Unable to contact emergency contacts.	Update casual new starter form with section on emergency contact details.	HR team	31-Mar-21	31 December 2021	1	Payroll updating Casual form to include emergency contact details November 2021.
I2002	Driver Checks (Follow Up_ Reasonable	Recommendation 4 – A process should be in place to ensure all staff driving a pool car and hire car have an appropriate licence in place	H	Officers driving on Council business without appropriate licence and/or insurance	Access to the third-party licence checking bureau granted to SST so checks of pool vehicle users can be carried out. Drivers of hire vehicles have their licences checked routinely by Fleet. If drivers are not on the database, both parties will request confirmation from the driver's line manager that a licence check has been conducted satisfactorily	Fleet and Depot Manager in discussion with service support	01-May-21		N/A	Pool cars not in use yet. Review next quarter.
E2004	Homeless Accommodation Part 2 (Reasonable)	Recommendation 1 – Management to formally record supervision meetings with all staff every 6 – 8 weeks in line with service guidance.	M	Lack of documentary evidence to demonstrate that staff are fully supported in their role.	Structured, scheduled 1:1 sessions to be diarised and documented using formal template.	HAM / AHAM	Immediately		1	Template updated and schedule in place for formal one: ones for full team. Team updated on change to process. Closed.
E2004	Homeless Accommodation Part 2 (Reasonable)	Recommendation 2 – Amendment of service guidance and forms to reflect current practice, and document how completion of future arrival and departure checks will be verified.	M	Key checks documented in service guidance are not carried out and management may be unaware.	Review service guidance and forms; ensure that file check systems ensure this is verified.	HAM / AHAM	Immediately		1	Register of file checks now maintained and checking-in and case review forms both updated. Closed.
E2004	Homeless Accommodation Part 2 (Reasonable)	Recommendation 3 – Forms to be completed and retained for all third-party information requests.	M	Management cannot fully demonstrate authorised release of personal information to third parties.	Raise with staff in team meetings and add as regular agenda item / Amend current request form to include management decision and sign off. Establish management monitoring system.	HAM / AHAM	To update new recording system from 01 April 21		1	Evidence provided of staff being informed. New form updated to include management authorisation and register of requests maintained. Closed.
E2004	Homeless Accommodation Part 2 (Reasonable)	Recommendation 4 – Management to review service guidance requirement to record case reviews.	M	Quality of case management and resident welfare is not formally verified by Senior staff.	Simplify recording template and monitoring systems, and review service guidance.	AHAM / HPASM	Immediately		1	Guidance and templates updates. Dates of review monitored using spreadsheet. Closed.
G2006	Housing Benefits (Reasonable)	Recommendation 7 – Debts to be formally reviewed by management prior to authorisation. Documentary evidence of authorisation by Corporate Director to be retained.	H	Clear segregation of duties is not maintained. / Debts are not written off in line with the Financial Regulations.	Authorisation process and approval by Recovery Team Leader to be documented.	Recovery Team Leader	31st October 2021		1	Evidence of approval now retained on file with appropriate spreadsheets. Closed.
I2001	ICT Recommendations (N/A)	Recommendation 2 – The Data Sharing Agreements should be checked to ensure compliance with GDPR and should be signed by all parties to formalise the arrangement.	H	Failure to comply with legislation / Legal complications in the event of contractual dispute.	Information Governance Manager pursuing data protection agreements between all parties. There has been a delay on progressing due to limited engagement with partnership organisations. Progress anticipated at start of 2021/22. Once an Options Appraisal is available, the team will consider overall implications for the Partnership and obtain signed agreements where required.	Information Governance Manager / Revenues and Benefits Operation Manager	31-Dec-21		N/A	Recommendation unlikely to be implemented due to LGR, which will result in all three Councils merging as part of the new Council. Assessment of risk exposure to be prepared and presented to Senior Management.
I2001	ICT Recommendations (N/A)	Recommendation 3 – Cyber-security training provided should be reviewed on a regular basis to ensure it is up to date and includes relevant issues, including physical security of Council assets and (once updated) Council policies.	H	Successful cyber-attack on council's network as a result of preventable lack of awareness.	Currently identified updated NCSC cyber awareness training course and working with OD to implement through Skillgate. Working with OD to update other guidance documentation for staff so that OD can deliver through Skillgate	Workforce Development Manager & ICT Management team	30-Aug-21		N/A	No progress during period as awaiting additional resource. Recruitment exercise unsuccessful, so alternative options being considered. In the meantime ICT are consulting with Senior Management regarding assessing priority work.
I2001	ICT Recommendations (N/A)	Recommendation 4 – Completion of all mandatory cyber-security training should be monitored, with line managers required to follow up outstanding completion on a timely basis. This process should be supported corporately to ensure a consistent approach is adopted across the full Council	H	Successful cyber-attack on council's network as a result of preventable lack of awareness.	OD team to monitor Skillgate courses and follow up non compliance with SMT. Reminders to be issued for non completion. In addition OD will record development sessions and email with read receipt and provide one to one support as part of the OD development support to I.T	Workforce Development Manager	30-Aug-21		N/A	No progress during period as awaiting additional resource. Recruitment exercise unsuccessful, so alternative options being considered. In the meantime ICT are consulting with Senior Management regarding assessing priority work.
I2001	ICT Recommendations (N/A)	Recommendation 6 - Action should be taken to ensure all Members have access to suitable cyber-security training	H	Successful cyber-attack on council's network as a result of preventable lack of awareness.	Development session courses to be devised and e-mailed to all Members including ICT security (with read receipt to ensure all Members have received updates). One to one sessions with Members also to be developed.	Workforce Development Manager.	30-Aug-21		N/A	No progress during period as awaiting additional resource. Recruitment exercise unsuccessful, so alternative options being considered. In the meantime ICT are consulting with Senior Management regarding assessing priority work.
I2001	ICT Recommendations (N/A)	Recommendation 7 – The full suite of ICT policies should be reviewed and updated including those policies referred to in previous audit recommendations and benchmarked against best practice to ensure policies are complete. Once complete policies should be approved by Senior Management, communicated to all officers and stored in a location accessible to all network users.	H	Lack of guidance for network users increasing risk of error, misuse, successful cyber-attacks and viruses.	Currently working on updated ICT Policy and Data backup policies that will be presented to SMT for adoption	Head of Digital and Technology	31-Oct-21		N/A	No progress during period as awaiting additional resource. Recruitment exercise unsuccessful, so alternative options being considered. In the meantime ICT are consulting with Senior Management regarding assessing priority work.

I2001	ICT Recommendations (N/A)	Recommendation 15 – The Council should formalise plans for future assurances (internal and external) to be obtained for security of the network	H	Security issues unidentified and unresolved.	Long term plan is full testing of the IT Estate and currently working with the LGA on a pilot testing scheme for councils. Any issues identified as Critical or High are dealt with appropriately and all issues are recorded in an action plan. This plan will be made available to senior management, audit and data protection manager. Engagement of external providers for security monitoring is in place to provide further assurance	Head of Digital and technology	31-Dec-21		N/A	No progress during period as awaiting additional resource. Recruitment exercise unsuccessful, so alternative options being considered. In the meantime ICT are consulting with Senior Management regarding assessing priority work.
D2001	Community Centres (Reasonable)	**Recommendation 3** - To seek documented internal professional advice on legislative and regulative requirements to establish the most robust agreements for the management of these Community Centres	**H**	Unclear funding arrangements, and reputational risk to The Authority	Contact legal service for documented advice on the legislative and regulative requirements of Community Centre funding agreements for 2022/23 financial year.	Healthy City Team Manager	30/01/2022		N/A	Healthy City team have approached Legal Services for advice, though no response received to date.
D2001	Community Centres (Reasonable)	**Recommendation 4** – Reinstate Annual Agreements with Community Centres	**H**	Unclear funding arrangements, and reputational risk to The Authority	Reinstate annual agreements.	Healthy City Team Manager	01/04/2022		N/A	Necessity for meeting with Community Centre managers identified, but requires advice from Legal services before recommendation can be progressed.
H2101	Third Party Grant Payments - VFM (Reasonable)	Recommendation 1 – Review business continuity arrangements for management of third sector funding.	H	Third sector organisations do not achieve best value for the Authority.	Business continuity arrangements to be reviewed and documented so that Communities and Contracts Officer role can be re-allocated to trained staff at short notice	Healthy City Team Manager	30/09/2021		N/A	Review of BCP reported as undertaken, but evidence not provided so unable to close.

Formal Audit follow up scheduled	
Management Statement scheduled to request evidence of implementation	
Recommendation not actioned - revised timescales for implementation agreed (or rec replaced)	
Follow up scheduled for recommendation previously identified as unactioned	
Recommendation reviewed and not confirmed as actioned (no response/revised timescales have passed)	

Appendix C – Proposed amendments to the 2021/22 Internal Audit Plan

Category	Audit Area	Original Days	Q1 Revisions Days	Q3 Revisions Days	Comments
Corporate Reviews	Business Continuity & Emergency Planning	20	0	0	Moved to Consultancy (Q1)
	Environmental Strategy	20	20	20	
	Scheme of delegation	5	5	5	
	Corporate Governance Controls	0	5	5	
Community Services	Sands Centre Redevelopment	20	20	20	
	Street Cleaning -operations	20	0	0	Deferred - sufficient coverage of service area in 2021/22 plan (Q1).
	Recycling (Perf Info)	10	10	10	
	Fleet Management (inc Strategy)	20	20	0	Propose deferral - sufficient coverage of service area in plan.
	Job Evaluation	20	20	0	Review will no longer add significant value due to Local Government Re-organisation.
	Workforce Development and Training (inc Workforce Strategy and e-learning)	20	20	20	
	Community Centres	0	20	20	C/F from 2020/21
	Neighbourhood Services (Culture review)	0	15	15	C/F from 2020/21
Corporate Support	Cyber-Security	20	20	20	
Economic Development	Development Control (Complaints procedure)	10	10	10	
	Major projects - governance arrangements	20	20	15	Reduce scope to 15 days
Governance & Regulatory Services	Property Income	0	15	15	C/F from 2020/21
	Building Maintenance	20	20	20	
	Disabled Facilities grants	20	20	10	Reduced scope
	Advice Agencies	15	15	0	Reliance on external review
Main Financial Systems	Internal Control Questionnaires - Non Audited Systems	2	2	2	
	Financial Services Governance Arrangements	5	5	5	
	Council Tax	20	20	20	
	Creditors (including cheque control)	15	15	15	
	Main Accounting System & Budget Monitoring (inc MTFP)	20	20	15	Reduced scope
Governance	Good Governance Principles / Local Code of Conduct	5	5	5	
Follow Ups	Contingency / Routine Follow Up of Audit Recommendations	20	20	30	Increased resource to add further value by encouraging implementation and reviewing risk exposure
	Absence Management	5	0	0	Limited added value until new process is approved and established. Unlikely to be until 2022/23
	ICT O/S Recommendations	0	5	5	Need for further follow up identified.

Appendix C – Proposed amendments to the 2021/22 Internal Audit Plan

Category	Audit Area	Original	Q1 Revisions	Q3 Revisions	Comments
		Days	Days	Days	
Counter Fraud	Contingency	20	10	10	NFI testing
	Annual fraud review	5	5	5	
	Procurement review	10	10	10	
	NFI	0	10	10	As above
	Covid-19 Grant Payments	0	10	20	Increased scope
Advice & Consultancy	Contingency	10	10	10	
	Project Management	10	0	0	Deferred as unlikely to take place in 2020/21.
	E-Purchasing (Ordering/Creditors) (New System)	10	10	0	No longer priority project due to LGR
	Business Continuity & Emergency Planning	0	10	10	Moved from Corporate reviews.
Contingency	Contingency	83	36	36	3 reviews c/f
VFM & Efficiency Reviews	Small grant payments (Community Services)	10	10	10	
Audit Committee	Audit Committees - Preparing reports, briefings, attending committee etc.	16	16	16	
Planning and Management	General Team Management	20	20	20	
	Team Admin	10	10	10	
	Annual review and set up of new documentation	5	5	5	
	Continuous Improvement	10	10	10	
	Planning (2022/23)	5	5	7	Additional resource required for planning amendments
	Risk Management Sub Group	3	3	3	
TOTAL PRODUCTIVE DAYS		579	557	494	
Admin Codes	Annual Leave	79	79	79	
	Bank Holidays	21	21	21	
	Sickness	13	35	75	Long-term absence within the team
	Training	15	15	15	
TOTAL DAYS		707	707	684	

Carlisle City Council
Report to Audit Committee

Item
A.3 (i)

Report details

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Corporate Internal Controls
Report of:	Corporate Director Finance & Resources
Report Number:	RD59/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of Corporate Internal Controls.

Recommendations:

The Committee is requested to

(i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

1.1. An audit of Corporate Internal Controls (covering appraisals, e-learning and the intranet) was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides reasonable assurances and includes 3 medium-graded recommendations.

2. Risks

2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

3.1 Not applicable

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to

i) receive the final audit report outlined in paragraph 1.1.

5. Contribution to the Carlisle Plan Priorities

5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper Ext: 7280

Appendices attached to report:

- **Internal Audit Report – Corporate Internal Controls – Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

Audit of Corporate Internal Controls (Appraisals, E-Learning, Intranet)

Draft Report Issued: **11 November 2021**
Director Draft Issued: **12 November 2021**
Final Report Issued: **23 November 2021**

Audit Report Distribution

Client Lead:	Workforce Development Manager
Chief Officer:	Chief Executive Deputy Chief Executive Corporate Director Governance & Regulatory Services Corporate Director Finance & Resources Corporate Director Economic Development
Others:	Head of Policy and Performance Infrastructure & Service Desk Manager
Audit Committee:	The Audit Committee, which is due to be held on 10th December 2021 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

1.1. This report summarises the findings from the audit of Corporate Internal Controls (Appraisals, E-Learning, Intranet). This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.

1.2 Due to the number of recommendations being made in internal audit reviews relating to limited uptake of annual appraisals and mandatory e-learning (though it is noted there has been significant progress made relating to compliance with mandatory training prior to this audit) it was agreed that an audit of the associated processes would add greater value being conducted at a corporate level. Due to Internal Audit concerns about intranet content, this was also included within the scope of the review.

1.3 Internal Audit propose performing a brief annual audit of corporate controls, which will add value to the annual audit opinion, good governance principles and annual governance statement. Internal Audit will also review whether further central controls could be included in any annual corporate review.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Client Lead for this review was the Workforce Development Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Failure to achieve business objectives due to insufficient embedding of agreed corporate governance controls

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Corporate Internal Controls provide **Reasonable assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	2
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1
3. **Information -** reliability and integrity of financial and operational information (N/A)		
4. **Security** - safeguarding of assets (N/A)	-	-
5. **Value** – effectiveness and efficiency of operations and programmes (N/A)	-	-
Total Number of Recommendations	**-**	**3**

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 **Findings Summary (good practice / areas for improvement):**
An appropriate and concise appraisal process is established. Recent updates to the process have been introduced to ensure more one to one appraisals are performed and that completion of appraisals is monitored. Suitable guidance and training has been provided to managers, who are expected to complete appraisals by January 2022.

The Council has a robust e-learning system in place, that ensures all officers receive appropriate mandatory training, including key risk areas such as information governance and cyber security.

A bench-marking exercise with other authorities would provide further assurances that the Council has suitable training in place and that compliance levels are suitable. Additionally, the current coding structure to allocate mandatory modules would benefit from a review and update.

Compliance with mandatory training is relatively high; however, there is a need to analysis further and identify those areas of the Council where improved engagement is required.

Historically there has been limited progress in engaging Members in e-learning modules. However, further initiatives from Organisational Development have improved engagement, though as with officers there is still room for further improvement.

Comment from Deputy Chief Executive

Well done to the Organisational Development Team for managing and maintaining an effective and robust approach to e-learning and appraisals. These three medium graded recommendations will assist the team and Council to further improve our work in this area.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 The City Council has an established appraisal process for all employees. Following a corporate survey and consultation exercise with relevant stakeholders the process has been recently reviewed and updated to address the following

- Limited development requests or requests for training information being provided to Organisational Development.
- Limited one to one appraisals being delivered rather than team appraisals, meaning staff may not have an opportunity to fully engage in the appraisal process.

5.1.2 The process was also reviewed and streamlined. Proposed changes were reported to both SMT and the Transformation Board prior to approval.

5.1.3 Changes to the process were presented to managers at October 2021's management briefing, followed by a corporate communication providing guidance and instructions on how to follow the new process. Managers have been asked to conduct appraisals between October 2021 and January 2022. Where appraisals have already been recently performed managers have been asked to revisit and ensure all new requirements have been covered.

5.1.4 Guidance is also available to Managers within a dedicated SharePoint site, which includes a record of appraisals undertaken that managers are required to complete. Access to the SharePoint and the record of completion were both up to date and access controlled.

5.1.5 Guidance is concise and appropriate. It is advised that guidance documentation includes relevant meta-data, particular a review date to ensure timely updates are performed.

5.1.6 Organisational Development also arranged additional training for managers and staff to attend in relation to the appraisal process, only a small number of managers attended.

5.1.7 The Council utilises the software provider Skillsgate to deliver a programme of mandatory e-learning for all Council officers with a network account. Those officers without an account also have the option to access the facility using their private e-mail accounts, while mitigating controls are in place to ensure officers without access receive key training on relevant areas (such as information governance) through alternative channels such as toolbox talks.

5.1.8 There are currently up to sixteen mandatory courses for officers (depending on position). These were determined by an initial consultation and ongoing review of the risk environment and appear reasonable.

5.1.9 Given the proposed Local Government Reorganisation a benchmarking exercise would also be beneficial to ensure a consistent approach is adopted by the new authority. It is advised that a benchmarking exercise with other Cumbrian authorities should be carried out of mandatory e-learning to provide assurances that the Council's current process is complete and effective.

5.1.10 Modules are compiled by Skillsgate and reviewed by a responsible/experienced officer within the Council to tailor content to include specific City Council information. Skillsgate also update modules on a regular basis. Ad-hoc checking of modules b Council officers also takes place, with Organisational Development approaching responsible officers when they identify relevant changes (such as the new Attendance Management Policy); however, there is no routine process to check modules are up to date on a regular basis. Internal Audit has previously raised concerns that the current cyber-security training module is out of date.

Recommendation 1 – A process should be established to ensure responsible officers check all course content on a regular basis (annually) to verify it is still up to date and relevant.

5.1.11 Regular updates are issued reminding staff to complete mandatory e-learning, including automatic e-mails from Skillsgate and regular reminders from Organisational Development. Additionally, completion of e-learning has been incorporated into the new appraisal process and Organisational Development have provided briefings and guidance to Managers on how to monitor completion of mandatory training.

5.1.12 Employees are assigned a code within Skillsgate based on their role, which will assign appropriate modules (for example, only managers are required to undertake attendance management training). A review of coding application indicated the process is generally appropriate, but some minor issues were noted:

- A number of the coding categories are identical and a ratification exercise should be carried out to reduce the number in place.
- It is not clear why certain positions are assigned training on professional boundaries, whereas other positions that would be expected to undertake this course have not been assigned the training.
- Not all officers with network access have been given access to cyber-security training (this is essential for any officer with network access).

Recommendation 2 – A review of the coding structure and assignment of modules within Skillsgate should be undertaken to maximise efficient and consistent allocation of modules.

5.1.13 Historically all Members were given access to Skillsgate. However, due to limited usage Members were given the option of rescinding the account to save Council the additional license costs.

5.1.14 Organisational Development have continued to pursue alternative strategies to ensure Members receive appropriate training, including preparing presentations to give prior to Council meetings and short support videos.

5.1.15 There is an outstanding audit recommendation that all Members undertake cyber-security training, as Members are considered a high risk area due to the larger volume of external e-mails they receive. Internal Audit continue to advocate mandatory training is required in this area, but note progress has been made with over 70% members accessing a short training video provided by Organisational Development.

5.1.16 The Council has an intranet in place which includes access to key documents (such as policies), links to corporate systems and other useful information.

5.1.17 The Council has recognised the intranet is out of date and contains irrelevant and out of date information and has previously started projects to replace the current system. Due to vacancies within ICT Services this project was put on hold.

5.1.18 However, a project has recently been approved and initial steps have been taken to review content for the new site including embedding appropriate records management controls to prevent duplicate and out of date information appearing on the new intranet. Responsibility for keeping the intranet up to date has been appropriately assigned.

5.1.19 The project is in its early stages/ Progress will be reviewed in more detail during the next review of Corporate Internal Controls (Q1 2021/22).

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 Completion of appraisals is to be monitored via completion of a spreadsheet within the appraisal SharePoint site. The spreadsheet was found to accurately reflect the Council's workforce and is updated based on starter and leaver information received by the department.

5.2.2 As at the end of October, 62 appraisals have been delivered. While this only represents a small portion of the Council' workforce, it should be noted that managers have until January 2022 to complete. It is noted the majority of the Council's Senior Management Team have delivered their appraisals, setting a positive example and allowing the appraisal process to be delivered down the management chain.

5.2.3 Several reminders have been issued by Organisational Development regarding completion of appraisals. The completeness of the new process will be assessed as part of the next annual review of corporate internal controls (Q1 2022/23).

5.2.4 Consideration is being given to including a KPI to measure take up of appraisals. Internal Audit support this approach as it will ensure progress is monitored at a senior level within the authority (as part of the established Performance reporting framework).

5.2.5 Completion of mandatory e-learning modules is recorded within Skillsgate, including completion of refresher training at set time periods (usually three years). Compliance with mandatory training is generally high (with most modules showing completion rates above 80%. Completion rates for mandatory training should be considered as part of the advised benchmarking exercise (5.1.9).

5.2.6 There is still a significant minority of Council officers that have not completed training. Further analysis undertaken identifies that while the majority of non-compliance relates to individuals recently registered for new or refresher training, there are still officers who have not undertaken mandatory training over a significant time period (up to 3 years).

5.2.7 Responsibility for completing training rests with employee's line managers, but it is clear that some managers do not ensure staff complete training on a timely basis.

Recommendation 3 – Regular analysis of non-compliance with mandatory training should be undertaken to identify areas of the Council that are not engaging with the mandatory training programme.

5.2.8 Skillsgate also offers a wide range of other non-mandatory courses – these are communicated to staff via regular communication. Take up of non-mandatory courses is significant and it is clear officers utilise the training available.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1 – A process should be established to ensure responsible officers check all course content on a regular basis (annually) to verify it is still up to date and relevant.	M	Training out of date and does not cover latest requirements (including legal or legislative changes)	Process to be put in place to check compliance of regulatory modules with appropriate lead officer	Workforce Development Manager	February 2022
Recommendation 2 – A review of the coding structure and assignment of modules within Skillsgate should be undertaken to maximise efficient and consistent allocation of modules.	M	Officers do not get assigned relevant training.	OD to review current structure for ease of use, accuracy and efficient use.	Workforce Development Manager	January 2022
Recommendation 3 – Regular analysis of non compliance with mandatory training should be undertaken to identify areas of the Council that are not engaging with the mandatory training programme.	M	Officers exposed to risks due to not undertaking mandatory training.	OD currently provide reports to SMT these will be delivered more frequently (quarterly) with additional request for support highlighting risk. Reports to be shared with HR advisor to include within their regular meetings with managers.	Workforce Development Manager	January 2022

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.5	It is advised that guidance documentation includes relevant meta-data, particular a review date to ensure timely updates are performed.
5.1.9	It is advised that a benchmarking exercise with other Cumbrian authorities should be carried out of mandatory e-learning to provide assurances that the Council's current process is complete and effective.
5.2.4	Consideration is being given to including a KPI to measure take up of appraisals. Internal Audit support this approach as it will ensure progress is monitored at a senior level within the authority (as part of the established Performance reporting framework).

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Item A.3 (ii)

Report details

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Environmental Strategy
Report of:	Corporate Director Finance & Resources
Report Number:	RD60/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of the Environmental Strategy.

Recommendations:

The Committee is requested to

(i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. **Background**
   1.1. An audit of the Environmental Strategy was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides reasonable assurances and includes 7 medium-graded recommendations.
2. **Risks**
   2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. **Consultation**
   3.1 Not applicable

4. **Conclusion and reasons for recommendations**
   4.1 The Committee is requested to
   i) receive the final audit report outlined in paragraph 1.1.

5. **Contribution to the Carlisle Plan Priorities**
   5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper Ext: 7280

Appendices attached to report:

- **Internal Audit Report – Environmental Strategy – Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

CARLISLE CITY COUNCIL

www.carlisle.gov.uk

Audit of Environment Strategy

Draft Report Issued: **25 August 2021**
Director Draft Issued: **9th September 2021**
Final Report Issued: **14th October 2021**

Audit Report Distribution

Client Lead:	Policy and Communications Manager
Chief Officer:	Director of Economic Development Chief Executive Deputy Chief Executive
Others:	
Audit Committee:	The Audit Committee, which is due to be held on 10th December 2021 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

1.1. This report summarises the findings from the audit of Environment Strategy. This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.

1.2 In March 2019 the Council passed a motion to declare a Climate Change Emergency and in April 2019, the Council adopted the Joint Public Health Strategy which includes the key aim to 'Become a carbon neutral Council and to mitigate the likely impact of existing climate change'.

1.3 In June 2019 The Climate Change Act 2008 was amended to require UK net carbon emissions to be net zero by 2050. In April 2021 it was announced that the UK government will set in law by the end of June 2021 a 78% target reduction in emissions compared to 1990 levels, by 2035. The Local Environment (Climate Change) Strategy (LECCS) and supporting draft action plan draws together the work undertaken by members, officers and partners since the Council's resolution in March 2019. The Strategy was agreed by Executive in February 2021 with an aim of reducing carbon emissions at Carlisle City Council and the Carlisle District which it serves to net zero by 2037. LECCS was approved by Council in March 2021 and given prominence as part of the Constitution's Article 4.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Client Lead for this review was the Policy and Communications Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Cost/ benefit of achieving net carbon target has not been fully considered using appropriate estimates and data sources or aligned to the MTFP
- Failure to incorporate and/ or align to local and national strategies and plans leads to potential litigation and loss of Council reputation
- Stakeholder expectations are unclear, and communications planning is underdeveloped

- Roles and responsibilities for delivery of key outcomes have not been clarified
- SMART actions and key performance indicators to measure delivery are not subject to regular review and reporting
- Net carbon target may not be met by actions detailed in the Environment strategy.

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Environment Strategy provide **reasonable assurance**.
Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	3
2. **Information -** reliability and integrity of financial and operational information (see section 5.2)	-	1
3. **Value** – effectiveness and efficiency of operations and programmes (see section 5.3)	-	3
Total Number of Recommendations	**-**	**7**

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 **Findings Summary (good practice / areas for improvement):**

The Council and its partners face a significant challenge in reaching net zero carbon emissions by 2037. Further timely development of both LECCS and partnership arrangements will be necessary to demonstrate that it is possible to achieve the 2037 net zero carbon emissions target with the available resources.

Quantifying planned carbon reduction impact and estimated cost of LECCS actions will help determine consistency with targets set and resources available.

Prioritising both current actions and new key climate change initiatives with a significant carbon reduction impact, will increase the likelihood of a positive outcome.

Regular reporting of key carbon emissions indicators will demonstrate that the Council is on track to meet the net zero target.

Management may wish to further consider the pros and cons of Council and UK government net zero targets, alongside future positive and negative implications on the Medium -Term Financial Plan (MTFP).

Strategic and key decision pre-approval by management will help ensure alignment to achieving net zero carbon emissions.

Alignment of Council actions to the wider Zero Carbon Cumbria Partnership (ZCCP) requires further clarification.

Streamlining LECCS content will further highlight the substance of key carbon reduction messages.

Management pre-approval of LECCS actions with SMART criteria will increase the likelihood of successful outcomes.

Finalising and implementing the communication plan with stakeholder analysis will help the Council maintain a positive influence, keeping partners engaged and accurately informed in a timely manner.

Comment from the Director of Economic Development:

I welcome this report as it ensures that we have the right processes in place.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 There are 5 overarching LECCS strategic objectives with the aim of reducing carbon emissions at Carlisle City Council and the wider Carlisle district to net zero by 2037.

A number of the 118 planned LECCS actions to support the objectives, although positive, may not have a significant carbon reduction impact on achieving the target. For example, there is an action to arrange healthier buffets at the Council with low carbon menus.

To put this into further perspective, LECCS details 5 projects underway that will 'significantly' reduce carbon emissions from Council activities. The carbon reduction estimate for 3 of these projects has been estimated at 194 tonnes per annum.

This reduction per annum only represents 5.9% of the total annual carbon emissions baseline from Council activities (3,275 tonnes) and 0.003% of the total annual carbon emissions baseline in Cumbria (total 7,185,000 tonnes).

Additional new climate change initiatives are planned from October 2021 onwards, supported by robust business cases and cost/ benefit analysis. These initiatives are likely to require major investment and have a significant carbon reduction impact.

It is recommended that as the LECCS action plan is further developed, prioritisation is given to monitoring and reporting on the cost and carbon reduction impact of significant current actions and new key climate change initiatives.

Recommendation 1 – Prioritise LECCS actions with a significant planned carbon reduction impact on reaching the net zero target.

5.1.2 In April 2019, the Council adopted the Joint Public Health Strategy with the key aim, 'To become a "carbon neutral" County and to mitigate the likely impact of existing climate change'.

In June 2019, the UK became the first major economy in the world to pass laws to end its contribution to global warming by 2050. The target will require the UK to bring all greenhouse gas emissions to net zero by 2050, compared with the previous target of at least 80% reduction from 1990 levels. In April 2021 the UK government announced that it will set the world's most ambitious climate change target into law to reduce emissions by 78% by 2035 from a 1990 base year.

The carbon emissions target for Council activity is to become net zero by 2037 from a 2018/19 base year, which appears significantly more challenging.

LECCS details that, 'The Council is committed to becoming carbon neutral in the future and there may be a requirement for significant investment in achieving this goal'. The report to Council on 2nd March 2021, detailed that, 'The Council's commitment to becoming carbon neutral and the delivery of the objectives of the Climate Change Policy will involve financial implications on the MTFP; both positive and negative'.

It is advised that the pros and cons of both the Council and UK Government net zero carbon emissions targets are further considered alongside all future positive and negative financial implications on the MTFP.

5.1.3 The LECCS Foreword details that all strategic decisions should be in line with achieving net zero carbon emissions at the earliest possible date.
Strategic decisions in scope and how they are considered 'in line' with achieving net zero carbon emissions, requires further clarity.
If strategic decisions are reserved for plans and strategies within the policy framework (Article 4 of the Constitution) only, consideration should be given to how other key decisions given prominence in LECCS (Asset Management Plan, Fleet Strategy etc), are also assessed for alignment.
It is recommended that management put an arrangement in place to pre-approve strategic and key decision alignment to net zero carbon emissions, prior to consideration and approval by key governance groups.

Recommendation 2 – Put an arrangement in place to pre-approve strategic and key decision alignment to net zero carbon emissions.

5.1.4 The Council is a member of the ZCCP which is a cross-sector partnership made up of more than 70 committed organisations, aiming to achieve a net zero target for Cumbria by 2037.
The ZCCP will receive funding of £2.5m over 5 years from the National Lottery Climate Action Fund.
An updated ZCCP draft memorandum of understanding (May 2021) details that the planned arrangements for monitoring/ evaluation, identifying leadership for developing action across key topics and establishing a programme of action by key partners, are still to be finalised.
The Council has developed a number of positive actions to tackle carbon emissions in the wider Carlisle district, although It has not been possible to fully determine how the carbon reduction impact of these actions align to the wider ZCCP programme of action to achieve the 2037 net zero target.

Recommendation 3 – Further clarify with ZCCP how the Council's actions align to wider partnership programme of action.

5.1.5 A significant amount of work has been undertaken by Council officers in collating a detailed, 37-page LECCS document. In a document of this size, there is an inherent danger that the substance of key messages can become diluted. It is advised that when LECCS is further developed, consideration is given to streamlining the content with the prioritisation of key carbon reduction messages.

5.2 Information – reliability and integrity of financial and operational information

5.2.1 The likelihood of successful actions will be significantly increased when documented in a specific, measurable, assignable, realistic and time-bound (SMART) manner.
Management pre-approval of SMART criteria is recommended to help ensure all actions are:

- assigned to a responsible manager
- measurable in terms of carbon reduction impact
- time-bound to a specific month/ year.

Recommendation 4 – Management to pre-approve SMART criteria for LECCS actions.

5.3 Value – effectiveness and efficiency of operations and programmes

5.3.1 LECCS details that, 'The City Council will lead by example with a clear strategy and a dynamic action plan that is consistent with the targets set and the resources available'.
To determine consistency, further development of LECCS actions will be necessary to quantify planned carbon reduction impact and estimated cost.

Recommendation 5 – LECCS action plan to further demonstrate consistency with the targets set and the resources available.

5.3.2 Regularly reporting the actual carbon reduction impact of successful actions is necessary to demonstrate that the Council is on track to meet the net zero target.
At the time of the audit a single carbon reduction performance indicator is planned for inclusion in the 2021/22 end of year performance report to Executive, for carbon emissions from Council activities. It is recommended that reporting is expanded to include carbon reduction of all key contributors to net carbon emissions from Council activities: Diesel, petrol, gas, electricity and offset carbon emissions. It is also recommended that current performance is reported, with narrative on omissions. Following determination of how Council actions align to wider partnership programme of actions (rec 3), performance indicators should be further developed with partners to measure the carbon reduction impact of Council performance against the Cumbria baseline.

Recommendation 6 – Further develop regular reporting on actual carbon reduction impact.

5.3.3 The LECCS foreword details that, 'The key to the success of our strategy, reaching net zero, will depend upon a coordinated and comprehensive programme of communication and engagement to encourage behavioural change by residents and businesses as well as the Council.' The LECCS roadmap details that the communications and engagement plan will be drafted between December 2020 and June 2021.

The management advisory group met on 23rd November 2020 to discuss the LECCS and the framework for action planning. One of the two points highlighted by the group was, 'Communication and engagement as a clear workstream, to be developed as a separate accompanying plan.' Learning identified from the response to the Covid-19 Pandemic will be transferred to the communication and engagement of LECCS.

Work began in June 2021 with students at the University of Northumbria on the development of a marketing and communication plan to support the delivery of the action plan.

There is significant stakeholder interest in Cumbria carbon reduction. It is advised that the work on communications and engagement also includes analysis and management of stakeholder power and interest. Managing stakeholders in this way will help to ensure that the Council maintains its positive influence, keeping partners engaged and accurately informed in a timely manner.

Recommendation 7 - Set a timetable for completion of communication and engagement planning.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1 – Prioritise LECCS actions with a significant planned carbon reduction impact on reaching the net zero target.	M	LECCS action plan is not efficient and effective.	Review action plan to clearly identify actions that have a significant planned carbon reduction impact on reaching the net zero target.	Policy and Communications Manager	December 2021
Recommendation 2 – Put an arrangement in place to pre-approve strategic and key decision alignment to net zero carbon emissions.	M	Wider strategic and key decisions not aligned to LECCS.	Confirm which decisions are in scope, define how they should be aligned to LECCS and ensure they are pre-approved for alignment, prior to governance group approval.	Corporate Director, Policy and Communications Manager	December 2021
Recommendation 3 – Further clarify with ZCCP how the Council's actions align to wider partnership programme of action.	M	Lack of clarity on Council's role in wider partnership.	Clarify with ZCCP how the Council's actions align to wider partnership actions in meeting the net zero target. The ZCCP Manager will be attending the Health & Wellbeing Scrutiny Panel in October, the Council's role will be made clear in the report to the Panel.	Policy and Communications Manager	November 2021

Recommendation 4 – Management to pre-approve SMART criteria for LECCS actions.	M	Likelihood of successful actions without SMART criteria is significantly reduced.	Following review of action plan (Rec 1), significant actions will be pre-approved by management for SMART criteria.	Policy and Communications Manager	December 2021
Recommendation 5 – LECCS action plan to further demonstrate consistency with the targets set and the resources available.	M	Carbon reduction impact is not sufficient to meet net zero target and resources are not available.	Review LECCS to ensure there is: • a clear link between the carbon reduction impact of significant Council actions and the ability to meet the net zero target. • a broad cost estimate of all significant actions required to meet the net zero target.	Policy and Communications Manager	December 2021
Recommendation 6 – Further develop regular reporting on actual carbon reduction impact.	M	Successful actions do not have the desired carbon reduction impact.	Quarterly performance report will be produced for Executive and Scrutiny, detailing the current total consumption of major contributors to meeting net zero target (diesel, petrol, gas, electricity and offset carbon emissions), under the format that is agreed following the review of the action plan (Rec. 1).	Policy and Communications Manager	December 2021

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 7 - Set a timetable for completion of communication and engagement planning.	M	Loss of Council reputation and partner engagement.	Finalise communication and planning alongside a new action plan (Rec.1).	Policy and Communications Manager	January 2022

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.2	Pros and cons of both the Council and UK Government net zero carbon emissions targets should be further considered alongside all future positive and negative financial implications on the MTFP.
5.1.5	As LECCS is further developed, consideration should be given to streamlining the content with prioritisation of key carbon reduction messages.
5.3.3	Management may wish to consider analysis and management of stakeholder power and interest as part of the communications and engagement work.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Item A.3 (iii)

Report details

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Disabled Facility Grants
Report of:	Corporate Director Finance & Resources
Report Number:	RD61/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of Disabled Facility Grants.

Recommendations:

The Committee is requested to

(i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. **Background**
    1.1. An audit of Disabled Facility Grants was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides reasonable assurances and includes 3 medium-graded recommendations.
2. **Risks**
    2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. **Consultation**
    3.1 Not applicable

4. **Conclusion and reasons for recommendations**
    4.1 The Committee is requested to
    i) receive the final audit report outlined in paragraph 1.1.

5. **Contribution to the Carlisle Plan Priorities**
    5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper Ext: 7280

Appendices attached to report:

- **Internal Audit Report – Disabled Facility Grants – Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

Audit of Disabled Facilities Grants

Draft Report Issued: 11th November 2021
Director Draft Issued: 25th November 2021
Final Report Issued: 25th November 2021

Audit Report Distribution

Client Lead:	Regulatory Services Manager
Chief Officer:	Corporate Director of Governance and Regulatory Services Chief Executive
Others:	Principal Health and Housing Officer Home Improvement Agency Team Leader
Audit Committee:	The Audit Committee, which is due to be held on 10.12.21 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

1.1. This report summarises the findings from the audit of Disabled Facilities Grants (DFGs). This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.

1.2. The provisions governing mandatory DFGs are contained in the Housing Grants, Construction and Regeneration Act 1996; as amended by the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002, which extended mandatory DFGs eligibility to those occupying park homes and houseboats. The Council also makes use of the powers provided under the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 to broaden the scope of DFGs, offering alternative forms of discretionary grants for disabled, elderly, low income and other vulnerable residents in the Carlisle district.

1.3. DFGs are administered by two separate teams within Regulatory Services. The Housing and Pollution Team administer mandatory (and some linked) discretionary DFGs. The Home Improvement Agency separately administers further alternative discretionary grants.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.

2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Client Lead for this review was Regulatory Services Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Disabled facilities grants' verification process is not robust, leading to ineligible or fraudulent applications

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Disabled Facilities Grants provide **reasonable assurance**. *Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.*

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	-
2. **Information -** reliability and integrity of financial and operational information (see section 5.2)	-	3
3. **Value** – effectiveness and efficiency of operations and programmes (see section 5.3)	-	-
Total Number of Recommendations	**-**	**3**

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 **Findings Summary (good practice / areas for improvement):**

DFGs are administered to a good standard in both teams with supervisory review helping to ensure accuracy and completeness.

No significant issues relating to the administration of grants or the determination of eligibility criteria for grant applications were found during audit testing.

The Housing and Pollution Team is pro-actively moving towards digital delivery and minimising the use of paperwork.

Procedures for both teams are regularly reviewed and updated. An opportunity exists to further strengthen procedures; documenting the link between eligibility criteria for each grant category, evidence deemed acceptable and completion of the check list. Procedure transparency will be further enhanced with additional detail on supervisory checks undertaken.

Regularly engaging Housing and Pollution Team members in the development of staff procedures will help ensure they remain aligned to current practice.

An arrangement is required to determine that the 15% sample check of Housing and Pollution Team grant applications has been consistently met.

Comment from the Corporate Director of Governance and Regulatory Services:

Thank you for the audit and particular thank to those officers in delivering the very important DFG service.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 The Housing and Pollution Team is pro-actively moving towards digital delivery and minimising the use of paperwork. It is advised that before moving to a fully digital service, management seek assurance that there are no remaining legal or regulatory requirements for specific paper documents to be retained.

5.2 Information – reliability and integrity of financial and operational information

5.2.1 The Carlisle City Council Housing Renewal Assistance (HRA) policy details the extent of mandatory and discretionary DFGs assistance available to local residents, and the relevant legislation. To further enhance transparency, consideration should be given to including detail of grant administration allocation between Regulatory Services teams. The current policy is dated 2018 and a reviewed and updated policy is due to be presented at Full Council on the 4th January 2022.

5.2.2 Housing and Pollution Team procedures for mandatory, independent living, relocation and renovation grants are in place and regularly reviewed, although they may benefit from further update for digital delivery. For example, removal of current reference to historic paper file sheet (check list).

5.2.3 There is an inherent danger with comprehensive staff procedures of this size (20 pages) that key messages become diluted and management may wish to consider further streamlining of the content.

5.2.4 Housing and Pollution Team officers document process completion dates on an electronic checklist in Case Manager (software), as a guide to administering grant applications. This standard checklist is used for all grants although grant eligibility criteria can differ between grant categories. Further strengthening the documented procedural link between eligibility criteria (aligned to legislative requirements) for each grant category, evidence deemed acceptable and completion of the electronic check list, is recommended. Transparency will be further enhanced by fully documenting the extent of supervisory checks undertaken.

5.2.5 Recommendation 1 – Review and update Housing and Pollution Team grant procedures for digital delivery.

5.2.6 Housing and Pollution Team grants are sample checked (15%) for accuracy and completeness. Completion of the sample check is noted electronically on individual applications. Verifying all applications which have been sample checked historically is not straightforward, increasing the difficulty in determining if the 15% target is consistently met.

5.2.7 **Recommendation 2 – Put an arrangement in place to demonstrate that 15% of Housing and Pollution Team grant applications are consistently sample checked.**

5.2.8 The percentage of grants sample checked in the Housing and Pollution Team (15%) is relatively low and management may wish to consider a further supplementary review to determine if digital checklists are completed in line with staff guidance (5.2.4). This is considered a time-effective review because potential issues may be identified without the need for a detailed Case Manager evidence check.

5.2.9 During audit testing it was noted that some Housing and Pollution Team officers had not seen or read the staff procedures for a considerable length of time. It is advised that team members are kept fully engaged in the regular development and testing of DFGs staff procedures, helping to ensure narrative remains aligned to current practice.

5.2.10 A Housing and Pollution Team spreadsheet entitled, 'Framework master 2019-20' details key information and dates for mandatory grant applications. The spreadsheet is maintained to a satisfactory standard, although occasional application data is missing and there are examples of unused column headers. Case Manager is being pro-actively developed to remove the requirement to maintain this spreadsheet (and a separate finance spreadsheet), although this may not have progressed with a key partner in a timely manner. It is advised that an interim arrangement is put in place to review unused column headers and ensure that the framework master spreadsheet is consistently maintained to a high standard.

5.2.11 Home Improvement Agency grant procedures for safe and warm, energy efficiency and dementia grants are in place and regularly reviewed. Clarification of acceptable evidence for each category of grant will further enhance the procedures. For example, during audit testing for a dementia grant, receipt of council tax reduction due to significant impairment was accepted as evidence of dementia diagnosis. This judgement was made using officer knowledge and experience, although acceptable alternative evidence is not explicit in the procedures.

5.2.12 Home Improvement Agency officers complete a paper file sheet (check list) as a guide to administering grant applications. This standard checklist is used for all grants although eligibility criteria can differ between grant categories. Strengthening the documented procedural link between eligibility criteria for each grant category, evidence deemed acceptable and completion of the paper file (check list), is recommended.

5.2.13 Officers regularly meet with the Home Improvement Agency team leader to verify and evidence eligibility criteria for all grant applications, and completion of the check is noted on individual applications in Case Manager. Transparency will be further enhanced by fully documenting the extent of supervisory checks undertaken.

5.2.14 Recommendation 3 – Review and update the Home Improvement Agency grant procedures.

5.3 Value – effectiveness and efficiency of operations and programmes

5.3.1 Approval notices for Home Improvement Agency grants are passed to one of several managers with delegated authority to sign. The signatories are not fully involved in the supervisory checks for eligibility criteria so approval is largely based on trust, introducing a level of risk exposure. It is advised that management further consider if approval notices should be delegated to the Home Improvement Agency Team Leader to sign, or if they wish to continue accepting the current level of risk exposure.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1 – Review and update Housing and Pollution Team grant procedures for digital delivery.	M	Reduced level of direction on how management wish officers to administer grants.	Review and update the staff guidance to demonstrate for each type of grant, a clear link between: • eligibility criteria to be met • evidence that will be accepted for each of the eligibility criteria • items on the electronic check list. Detail in staff guidance, what supervisory checks have been undertaken for each grant application to determine they are complete and eligibility criteria has been met.	Principal Health and Housing Officer	March 2022 March 2022
Recommendation 2 – Put an arrangement in place to demonstrate that 15% of Housing and Pollution Team grant applications are consistently sample checked.	M	Management unable to identify grants that are not administered to a satisfactory level.	Explore how to create an electronic audit record with system operator, to demonstrate which grants have had a supervisor review. If this is not possible, ensure that another arrangement is put in place to demonstrate which grants were selected for a supervisory check.	Principal Health and Housing Officer	April 2022 April 2022

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 3 – Review and update the Home Improvement Agency grant procedures.	M	Reduced level of direction on how management wish officers to administer grants.	Review and update the staff guidance to demonstrate for each type of grant, a clear link between: • eligibility criteria to be met • evidence that will be accepted for each of the eligibility criteria • items on the paper file (check list). Detail in staff guidance, what supervisory checks have been undertaken for each grant application to determine they are complete and eligibility criteria has been met.	Home Improvement Agency Team Leader	December 2021 December 2021

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.1	Before the Housing and Pollution Team moves to a fully digital service, seek assurance that there are no remaining legal or regulatory requirements for any specific paper documents to be retained.
5.2.1	Detail allocation of grant administration between teams to further enhance HRA policy transparency.
5.2.3	Streamline the content of Housing and Pollution Team grant procedures.
5.2.8	Introduce a supplementary review to determine if Housing and Pollution Team digital checklists are completed in line with staff guidance.
5.2.9	Keep Housing and Pollution team members fully engaged in the regular development and testing of staff procedures.
5.2.10	Review unused column headers and ensure that the framework master spreadsheet is consistently maintained to a high standard.
5.3.1	Consider if delegated authority for approval notices should be assigned to the Home Improvement Agency Team Leader.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Item A.3 (iv)

Report details

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Neighbourhood Services (Culture)
Report of:	Corporate Director Finance & Resources
Report Number:	RD62/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of culture within Neighbourhood Services.

Recommendations:

The Committee is requested to

(i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. **Background**
   1.1. An audit of culture within Neighbourhood Services was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. This was the first culture review undertaken by Internal Audit. The audit (Appendix A) provides partial assurances and includes 1 high-graded and 6 medium-graded recommendations.
2. **Risks**
   2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. **Consultation**
   3.1 Not applicable

4. **Conclusion and reasons for recommendations**
   4.1 The Committee is requested to
   i) receive the final audit report outlined in paragraph 1.1.

5. **Contribution to the Carlisle Plan Priorities**
   5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper Ext: 7280

Appendices attached to report:

- **Internal Audit Report – Neighbourhood Services (Culture) – Appendix A**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement
Property Services - None
Finance – Contained within report
Equality - None
Information Governance- None

Audit of culture: Neighbourhood Services (Waste Services and Street Cleaning)

Draft Report Issued: **08 November 2021**
Director Draft Issued: **08 November 2021**
Final Report Issued: **25 November 2021**

Audit Report Distribution

Client Lead:	Neighbourhood Services Manager
Chief Officer:	Deputy Chief Executive Chief Executive
Others:	HR Manager Workforce Development Manager HR & Payroll Manager GMB Regional Organiser GMB Union Representative Carlisle City Council (x2)
Audit Committee:	The Audit Committee, which is due to be held on 10 December will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

1.1. This report summarises the findings from the culture review of Neighbourhood Services (Waste Services and Street Cleaning). This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.

1.2 During 2019/20 two grievances gave rise to concerns regarding wider relationships between management and operational staff and the investigation report recommended a review to identify positive actions to improve relationships. A subsequent further grievance (covering manifold allegations) reaffirmed these concerns. The review was delayed by the global pandemic and took place between July and October 2021.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation’s governance, operations and information systems.

2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Client Lead for this review was the Neighbourhood Services Manager and the agreed scope was to provide independent assurance over management’s arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Cultural issues impacting on ability to deliver business objectives

2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

2.5 It should be recognised that the audit findings are based on anecdotal evidence presented from both management and operational staff through surveys and interviews. It would take significant resource to investigate the various items raised and this falls outside the scope of this audit, which focused on management, operational staff and union representatives relationships and perceptions of each other.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix D** for definitions).

3.2 From the work undertaken to conduct survey and interviews with a cross section of staff across the service we conclude that the current working practice and relationships within Neighbourhood Services (Culture) provide **partial assurances.**[1]

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix E**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	1	6
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (N/A)	-	-
3. **Information -** reliability and integrity of financial and operational information (N/A)		
4. **Security** - safeguarding of assets (N/A)	-	-
5. **Value** – effectiveness and efficiency of operations and programmes (N/A)	-	-
Total Number of Recommendations	**1**	**6**

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix B. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix C for management information.

4.3 **Findings Summary (good practice / areas for improvement):**
While there is an assurance rating of partial, it should be emphasised that Neighbourhood Services is a high performing department, exceeding collection targets consistently. The whole team has worked hard throughout the lockdown and should be given credit for their achievements under difficult circumstances.

[1] It should be noted the audit opinion provided as part of this review is more subjective than a standard audit as findings are based on interview, rather than documentary evidence.

This review focused purely on relationships and wider cultural issues within the waste services and street cleaning operational teams and opinions obtained during the review identified dissatisfaction and a divide between management and at least some operational staff, which has potentially contributed towards increased absence (although the pandemic has also created issues both within and outside the workplace for all staff including family bereavements and significant health issues).

There is acceptance there is an urgent need to address these issues and a high graded recommendation has been made that a relationship management strategy is required to improve culture within the workplace. It is essential all parties are consulted as part of devising the strategy to ensure all needs are considered. It is also suggested a third-party mediator is involved to aid the process. The Council's Organisational Development department have expressed willingness to support the process as mediator. It is also recommended the strategy is monitored and updated on a regular basis, to maintain ongoing relationships and resolve new issues as they emerge.

One of the key issues is an entrenched division between management and at least some operational staff and it is suggested that a charter of agreed behaviour is put in place to help improve current relationships.

In addition to this there is a need to review how information is communicated in a way where staff feel more valued and informed; a communication strategy should be prepared in consultation with operational staff to ensure their needs can be understood and met.

Further developments are also needed to ensure workloads continue to be fair across the workforce to support the return to fixed hours from April 2022. It is recommended that current routes are reviewed to ensure they are balanced and achievable, as they have been affected by both an increase in housing within Carlisle and a change in habits as a result of the pandemic.

Lastly, there is a need for Union representatives to work with Human Resources to ensure a consistent approach is taken when handling staff enquiries, with a review to reducing the workload for both parties by encouraging closer involvement with line managers.

Comment from the Deputy Chief Executive

This report represents a staging point in an important series of actions designed to improve workplace culture, communications and relationships in Neighbourhood Services. This area of Council business provides an important service to residents and consistently performs at a high level; however, it is recognised that more work is required to ensure clear, balanced communication and fair and consistent management of teams and individuals. It is also recognised that effective relationships require open, honest and transparent interactions between all parties and commitment to the proposed recommendations will be required from management, staff and unions.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 An initial scoping exercise was undertaken between Internal Audit, Neighbourhood Services Management, the Deputy Chief Executive and representatives from GMB Union to agree the approach to delivering this review.

5.1.2 It was agreed that all employees within Neighbourhood Services (Waste Services and Street Cleaning) would be given the opportunity to express their views on workplace culture via completion of a brief confidential survey. The survey included various statements staff were asked to state whether they agreed with or not (1 – Strongly Disagreed – 5 Strongly Agree).

5.1.3 The survey was returned confidentially via a ballot box. 40% operational staff completed the survey (this represents a slightly higher rate of return within Neighbourhood Services than for other (Council-wide) surveys).

5.1.4 Survey results were mixed; while some positive responses were received, generally more negative returns were received, particularly in relation to employee's perception of management. The most negative responses came from Waste Services and Loaders were generally more negative than Drivers. Full survey results are summarised at Appendix A.

5.1.5 Survey results were discussed in formal interviews with all managers, Human Resources and Union representatives. In addition, operational staff were given the opportunity to volunteer for interviews to discuss the survey in more detail; interviews were held with two drivers and four loaders. No volunteers were received within Street Cleaning.

5.1.6 Further data was analysed alongside survey results, including corporate complaints, staff turnover, staff absence and previous corporate survey results.

5.1.7 Corporate complaints relating to Waste Services have increased significantly (from 6 in 20/21 to 11 for the first 5 months of 21/22). However, this is mainly due to teething issues as a result of a staff rotation exercise, increased use of agency staff and significant ongoing pressures due to the pandemic, resulting in a temporary increase in missed collections.

5.1.8 Absence has increased significantly, nearly doubling from 488 lost days in 2016/17 to 756 in 2017/18 and steadily increasing to over 1300 lost days in 2020/21, with the majority of absence in the last three years relating to stress and depression.

5.1.9 The majority of absence relates to a small number of long-term absences and is not necessarily work-related and also partly relates to additional pressure on staff as a result of the pandemic (both within the workplace and within private lives) the steady increase may also be potentially symptomatic of staff dissatisfaction.

5.1.10 A detailed analysis of issues arising was presented to client leads (Neighbourhood Services Manager, Deputy Chief Executive and all Union representatives) in detail in October 2021. These are summarised below:

5.1.11 There are developing relationship issues emerging, with a division between management and (at least some) operational staff. Both demonstrated entrenched and defensive viewpoints. Evidence from Human Resources and Investigating Officers also indicated a breakdown in communication and relationships within Waste Services and Street Cleaning.

5.1.12 Management have expressed a view that the dissatisfaction is due to a handful of individuals. While there is evidence to support the existence of self-confessed trouble-makers within the service (with evidence of aggressive or inappropriate behaviour within the workplace and during this review) the extent of dissatisfaction demonstrated in the survey results indicates a dissatisfaction and frustration within the service. It should be noted interviews were held with a number of staff that submitted negative returns who revealed they had not previously complained about the service.

5.1.13 Some responses from management were defensive, looking to deflect issues raised, though overall the team acknowledge and accept there are issues to resolve. It is essential that management recognise and attempt to improve current relationships with staff to prevent a further widening of dissatisfaction. Where, as management believe, certain claims made are disingenuous there is a need to ensure clear communication is in place to help mitigate against work-place gossiping and rumours.

5.1.14 Similarly, operational staff did not recognise significant pressures faced by the management team, both personally and within the workplace. Some individuals were outright dismissive of all management actions without suitable justification for doing so.

5.1.15 Everyone working within the service needs to address the current relationship issues and develop mutual respect. Management should be able to provide clear, rationalised instructions and operational staff should feel they are listened to and appreciated.

5.1.16 It is important that all parties are consulted as part of improvement plans to ensure all needs are met. It is suggested that an external mediator is involved in this process to help ensure all categories of employees' needs are considered. The Council's Organisational Development Team has previously provided successful coaching services to staff and expressed willingness to be involved in further exercises.

5.1.17 A common theme among all categories is that everyone wants an easier life and to be able to deliver their workload in an efficient and clear manner. Improving relationships is key to making this happen.

5.1.18 Managers have received mental health training from Organisational Development, which will potentially help with understanding staff needs and pressures.

Recommendation 1 - A relationship management plan should be devised, focusing on improving relationships and understanding between management, operational staff and union representatives. Implementation of the strategy would benefit from an external mediator with the appropriate skills and knowledge to support the exercise.

5.1.19 Comments received during the interview process expressed cynicism as to whether this audit review would make any difference. To maximise the potential for success, it is essential relationships are monitored on an ongoing basis, enabling management to assess the success of the strategy and identify new and emerging issues as they arise.

Recommendation 2 - A process should be put in place to monitor the ongoing success of the relationship management plan. The plan should be revised in accordance with the outcome of ongoing monitoring.

5.1.20 One key area of concern is that some operational staff do not feel listened to or respected; many expressing a view that management are disinterested in their welfare and do not handle queries or concerns effectively, for example staff feel they are not consulted about changes to operations. Operational staff also felt there was an us vs them divide and feel there has been inconsistency in how staff have been treated.

5.1.21 Management are of the view they do their best in terms of looking after staff welfare and interview evidence suggests that management's intentions are genuine. However, there is a perception that management can demonstrate negative behaviours or attitude that leaves an impression they do not care as much as they have expressed they do so.

5.1.22 As referred to above, while some operational staff have stated genuine dissatisfaction, the behaviour and attitude of some individuals does not support a reflective and mutually respected work environment either.

5.1.23 There is a need to ensure all parties involved (management, operational staff and Union representatives) have some agreed principles of acceptable behaviour, to support improvements in working relationships.

Recommendation 3 - The relationship management plan should include a charter of acceptable behaviour between management, operational staff and union representatives. The charter should be subject to suitable consultation from all three stakeholders and agreed by all parties

5.1.24 It may also be advisable for Waste Services management to benchmark their approach with other neighbouring authorities to help understand what approaches are effective in similar work environments.

5.1.25 One of the most frequently raised inconsistencies relates to inequality in finishing time, with some routes taking longer than others. Some staff currently refuse to support their colleagues and finish for the day once their own workload is completed, adding further pressure on those staff that remain behind.

5.1.26 This has been exacerbated by the volume of new houses being built in the district, particularly as most new housing estates pose additional pressures (such as having to reverse out of cul-de-sacs). Workloads have also increased because of the pandemic, with household refuse and recycling both rising. It is thought that this will be permanent, as more individuals are now choosing to work and socialise at home.

5.1.27 Management have also introduced a rotation of rounds requiring all teams to work on all routes, this is a key health and safety intervention to manage the potential for repetitive strain injury. This has caused some consternation within the service, with many finding it hard to familiarise themselves with new routes. Maps and on-line guidance are provided for all vehicles, but it is recognised these do not address certain idiosyncrasies on each route, such as concealed entrances to properties, which is a factor in the increase in complaints from residents.

5.1.28 However, it is hoped this will improve resilience in the long-term and management feel a turning point has now been reached, as staff are becoming familiar with the routes. It is recognised that resilience is essential to service provision and the introduction of staff rotation will strengthen this and is an appropriate and justified management decision.

5.1.29 Frustration was also expressed that new staff, particularly agency staff could further slow down teams and minor issues with vehicles also contributed towards the delays (although there is a management view that maintenance of vehicles by staff and reporting of issues could also be improved).

5.1.30 The Council has lost a number of HGV drivers recently, with links to national shortages of drivers, placing further pressure on the service.

5.1.31 Staff from the Waste Services team voted overwhelmingly in a confidential ballot by the GMB Union to bring an end to the current Team Task and Finish model confirming staff support for this change.

5.1.32 The change will see staff return to a model of fixed hours that should address the current inequality in the service, where some staff leave work earlier when others complete a full day's work. The requirement to work as a team to achieve full zonal clearance each day remains. Due to pressures of the pandemic and changes in the HR team, this change will be implemented from April 2022.

Recommendation 4 - Current routes should be reviewed to improve equality between work-loads.

5.1.33 There is significant frustration over recycling, which is considered harder work than refuse and may be a factor behind increased absence. . There is ill-feeling that some individuals are exempt from undertaking this work (for medical reasons) and some staff feel they are kept on recycling shifts longer than agreed (10 days off / 10 days on). Management have worked closely with Health and Safety, external experts and the unions to adapt a safe procedure, but it is recognised that it is not popular with staff.

5.1.34 Communication between staff and management also scored poorly in the survey and further investigation indicated staff did not feel they were given appropriate information. The main approach for communication (Toolbox Talks) was also considered unsuitable (both in terms of their timing and the information provided).

5.1.35 In addition, both management and operational staff have expressed frustrations over the extent of rumours and gossip within the workplace, again indicative of a need to review and improve communication.

5.1.36 Organisational Development have undertaken work to ensure staff located at Bousteads Grassing receive relevant corporate updates and information to ensure staff are kept aware of relevant information to ensure they understand overall Council culture, including maintaining a presence within the site. Despite this, there remains concerns about the quality of communication. Human Resources are also planning to increase their presence within the site.

Recommendation 5 - Management should create a communication plan to focus on improving the consistency and completeness of information provided to operational staff (the process should include consultation with staff)

5.1.37 There was a feeling that any grievance or disciplinary investigations currently take too long to resolve, resulting in additional stress for the staff affected. Evidence indicates this has contributed towards increased sickness absence.

5.1.38 It was identified that it would be beneficial to review the investigation process, to ensure it is efficient as possible; for example, if an individual has admitted to what they have been accused of the process could potentially be shorter, as less evidence is required (though the processes need to ensure sufficient evidence is obtained from a legal perspective).

Recommendation 6 – The approach to grievances and disciplinaries should be reviewed to ensure it is timely and efficient.

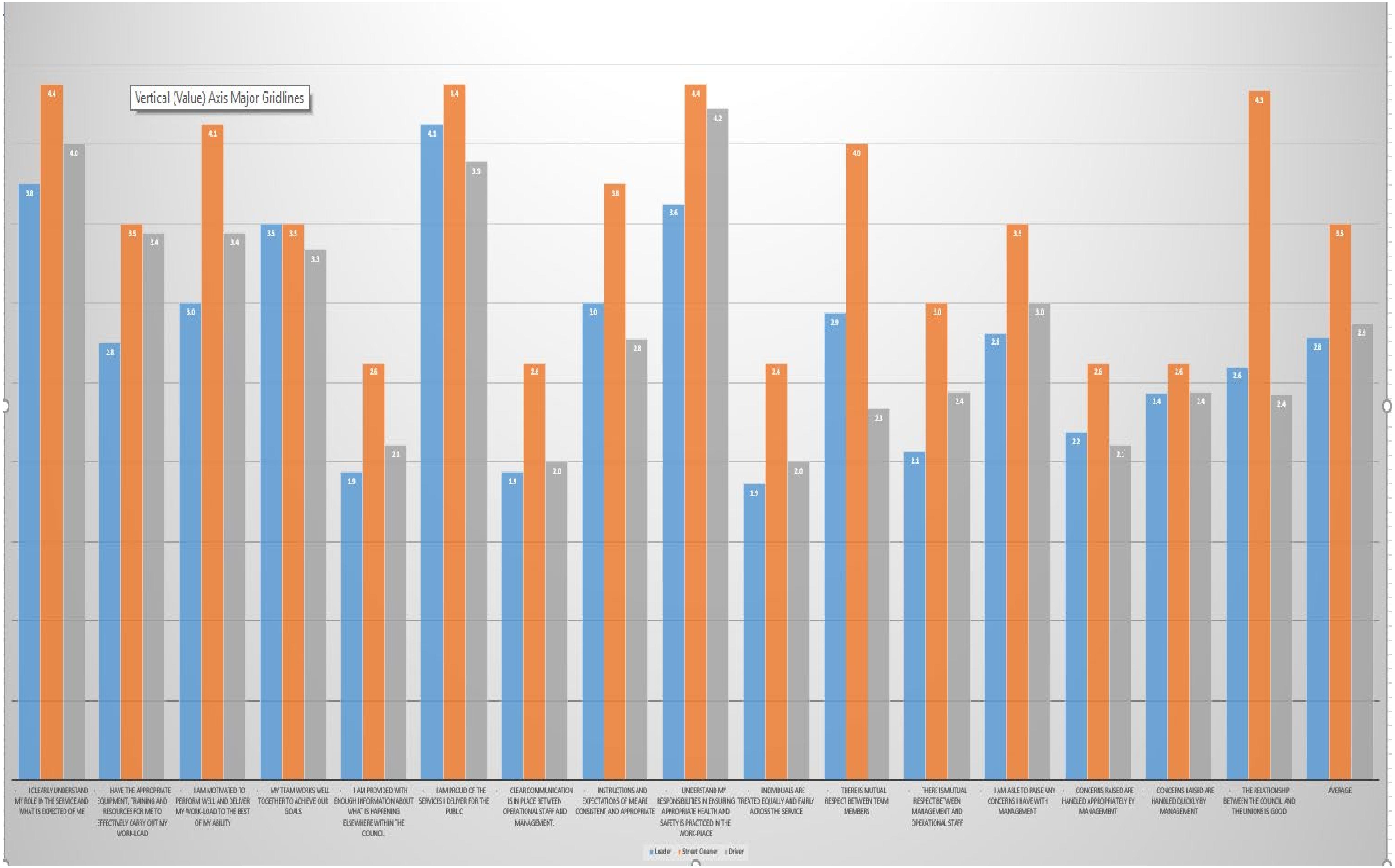
5.1.39 In recent years staff have been directly approaching Human Resources and the Unions with grievances, issues and queries, rather than approaching line managers as a starting point. Prior to a change of staff Human Resources historically encouraged this behaviour, by showing willingness to take on all enquiries received.

5.1.40 This has resulted in an increased workload burden for Human Resources and Union representatives and is a source of frustration for all parties. Upon appointment, the new Human Resources Manager had identified this as an issue and encouraged officers to start taking issues to managers as a starting point.

5.1.41 Human Resources are also working with the Unions and Health and Safety in order to ensure a consistent approach is taken over complaints and grievances raised.

Recommendation 7 – Union representatives should work with Human Resources and Health and Safety to ensure a consistent approach is taken to handling grievances, complaints and queries.

Appendix A – Survey results (Average Scores – 1 = Strongly Disagree / 5 = Strongly Agree)



Appendix B – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1 - A relationship management plan should be devised, focusing on improving relationships and understanding between management, operational staff and union representatives. Implementation of the strategy would benefit from an external mediator with the appropriate skills and knowledge to support the exercise.	H	Loss of staff due to absence or vacating posts / low moral resulting in poor service delivery.			
Recommendation 2 - A process should be put in place to monitor the ongoing success of the relationship management plan. The plan should be revised in accordance with the outcome of ongoing monitoring.	M	Loss of staff due to absence or vacating posts / low moral resulting in poor service delivery.			

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 3 - The relationship management plan should include a charter of acceptable behaviour between management, operational staff and union representatives. The charter should be subject to suitable consultation from all three stakeholders and agreed by all parties	M	Loss of staff due to absence or vacating posts / low moral resulting in poor service delivery.	Sourcing of independent, or external, support to develop the strategy. Strategy to be developed through discussion with mixed group of officers, staff and union reps. This will involve seeking feedback, consulting with the wider team.	Neighbourhood Services Manager	01 April 2022
Recommendation 4 - Current routes should be reviewed to improve equality between work-loads.	M	Inequitable workloads	This will be developed through the ongoing discussions above.	Neighbourhood Services Manager	31 March 2023

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 5 - Management should create a communication plan to focus on improving the consistency and completeness of information provided to operational staff (the process should include consultation with staff)	M	Loss of staff due to absence or vacating posts / low moral resulting in poor service delivery.	Strategy to be developed through discussion with mixed group of officers, staff and union reps. This will involve seeking feedback, consulting with the wider team.	Neighbourhood Services Manager	30 April 2022
Recommendation 6 – The approach to grievances and disciplinaries should be reviewed to ensure it is timely and efficient.	M	Additional stress due to inefficient investigations	The HR team is now fully resourced and the new team is recognises the importance of and is committed to ensuring a proactive and timely approach to case management.	HR & Payroll Manager	Complete

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 7 – Union representatives should work with Human Resources and Health and Safety to ensure a consistent approach is taken to handling grievances, complaints and queries.	M	Inconsistent approach / additional workload for Union representatives.	The HR & Payroll Manager is working with colleagues and union representatives to draft a short protocol which sets out how various issues should be approached and what the expected process is for managing those issues. This will be reviewed on a regular basis at CJC to support continuation of issue resolution being managed in partnership	HR & Payroll Manager	15/12/2021

Appendix C – Advisory Comments

Ref	Advisory Comment
5.1.23	It may also be advisable for Waste Services management to benchmark their approach with other neighbouring authorities to help understand what approaches are effective in similar work environments.

Appendix D - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The control framework tested are suitable and complete are being consistently applied. Recommendations made relate to minor improvements or tightening of embedded control frameworks.
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded. Any high graded recommendations would only relate to a limited aspect of the control framework.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. High graded recommendations have been made that cover wide ranging aspects of the control environment.
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist.

Appendix E

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Carlisle City Council
Report to Audit Committee

Item A.4

Report details

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD.10/21
Policy and Budget Framework	Yes
Public / Private	Public
Title:	DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2022/23
Report of:	CORPORATE DIRECTOR OF FINANCE & RESOURCES
Report Number:	RD 53/21

Purpose / Summary:
This report sets out the Council's draft Treasury Management Strategy Statement for 2022/23, in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2022/23 are also incorporated as part of the Statement. So too are the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

Recommendations:
Members of the Audit Committee are asked to note and make comments on the proposed Treasury Management Strategy for 2022/23.

Tracking

Executive:	20 December 2021, 19 January 2022
Scrutiny:	BTSP 6 January 2022
Audit Committee:	10 December 2021
Council:	1 February 2022

Carlisle City Council
Report to Executive

Report details

Meeting Date:	20 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD.10/21
Policy and Budget Framework	Yes
Public / Private	Public
Title:	DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2022/23
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Report Number:	RD 53/21

Purpose / Summary:
This report sets out the Council's draft Treasury Management Strategy Statement for 2022/23, in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2022/23 are also incorporated as part of the Statement. So too are the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

Recommendations:
The Executive is asked to note the draft Treasury Management Strategy Statement for 2022/23, which incorporates the Investment Strategy and the MRP Strategy, together with the Prudential Indicators for 2022/23 as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D, and to seek comments from the Business and Transformation Scrutiny Panel in January 2022.

Tracking

Executive:	20 December 2021, 19 January 2022
Scrutiny:	BTSP 6 January 2022
Audit Committee:	10 December 2021
Council:	1 February 2022

1. BACKGROUND

1.1 The CIPFA Code of Practice on Treasury Management in Local Authorities was first issued in 1992 and updated in 1996, 2001, 2011 and 2017. The City Council formally adopted this Code in March 2002 and adopted the 2017 revision in February 2018.

1.2 CIPFA has consulted on revisions to the Treasury Management Code, and the Prudential Code, throughout 2021 and the new Codes are intended to be implemented by authorities for 2023/24 Treasury Management Strategies.

1.3 Under the requirements of the revised Code, the Council will receive each year the following reports:

- Annual strategy and plan in advance of the year
- A mid-year review
- Annual report after its close.

2. TREASURY MANAGEMENT STRATEGY STATEMENT

2.1 As required under the Code, the Treasury Management Strategy Statement (TMSS) for 2022/23, which also incorporates both the Investment Strategy for that year and the Minimum Revenue Strategy, is set out in **Appendix A**. The schedule of approved investment vehicles is contained in **Appendix B** and **Appendix C** includes a summary of current economic forecasts on interest rates that have been utilised in preparing the Strategy.

2.2 Also included within Appendix A are the **Prudential Indicators** that must be determined under the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements came into operation on 1 April 2004 under the provisions of the Local Government Act 2003. Part 1 of the Act allows a local authority to borrow money for any purpose that is within its control or for the purposes of the prudent management of its financial affairs. The main purpose for borrowing money is to fund capital expenditure although some short-term borrowing is permitted to cover temporary cash flow needs.

2.3 Since 1 April 2004 there has been no statutory limit to the amount that can be borrowed. There is, however, a requirement for full compliance with CIPFA's Prudential Code; the key objectives of which are to demonstrate that the proposed capital investment plans have been assessed by the Council as affordable, prudent and sustainable. Section 3(1) of the Act puts a duty on the Council to determine before the start of the financial year and keep under review the maximum amount that it can afford to borrow. This amount is called the **Authorised Limit** and is discussed in **Appendix A**.

2.4 The Prudential Indicators are monitored via the quarterly Treasury Management monitoring reports.

2.5 The council recognises its responsibilities in terms of climate change and environmental sustainability and that consideration of these responsibilities may form part of its Investment Portfolio; however, consideration must also be given to ensure the security of principal, portfolio liquidity and return on investment when making investment decisions. Work continues to review the Investment Strategy in line with these recognised responsibilities and this will involve ensuring that counterparties have a relevant environmental strategy that sets out their position on climate responsibilities.

3. RISKS

3.1 The Treasury Management function must ensure the security of Council funds at all times over the yield that is gained. It must also ensure it follows the key principles as outlined in the Treasury Management Code of Practice and the Prudential Code.

3.2 There is a risk that interest rates could change over the period of the Treasury Management Strategy Statement, particularly in respect of volatile economic situations, but close monitoring of the situation will be maintained, particularly if there are forecast changes to interest rates that could have an impact on borrowing decisions or reduce the availability of counterparties with which the Council can invest its funds.

4. CONSULTATION

4.1 The Council has appointed Link Asset Services Treasury Services as its Treasury Advisers and they have been involved in the Strategy and proposals contained within this report.

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

5.1 The Executive is asked to note the Treasury Management Strategy Statement for 2022/23, which incorporates the Investment Strategy and the MRP Strategy, together with the Prudential Indicators for 2022/23 as set out **in Appendix A**. and the Treasury Management Policy Statement as set out at **Appendix D.**

6. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

6.1 To ensure the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact details:

Contact Officer:	Steven Tickner	Ext:	7280

Appendices attached to report:
Appendix A – Treasury Management Strategy Statement
Appendix B – Approved Investment Instruments
Appendix C – Interest Rate Forecasts
Appendix D – Treasury Management Policy Statement

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:
Legal - The Council has a fiduciary duty to manage its resources effectively for the benefit of its area and the delivery of its services. Treasury Management is an important part of this function and it is appropriate that the Council has a strategy and takes account of the available specialist internal and external advice. The Treasury Management Strategy forms part of the Budget and Policy framework and, therefore, ultimately requires approval by Council.
Property Services -
Finance - contained within the report.
Equality - not applicable
Information Governance - There are no information governance issues in this report

Draft Treasury Management Strategy Statement

Draft Minimum Revenue Provision Policy Statement and Annual Investment Statement

Carlisle City Council

2022/23

1. INTRODUCTION

1.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future

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

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.

1.4 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.

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

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

1.7 Revised reporting has been required from 2019/20 due to revisions of the DLUHC Investment Guidance, the DLUHC Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital investment strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital investment strategy has been reported separately.

1.8 CIPFA have consulted on proposed changes to the Prudential Code and Treasury Management Codes throughout 2021 and intends to publish the final versions of the revisions by the end of 2021. Implementation of the revised Codes will be for the 2023/24 Treasury Management Strategy Statements.

1.9 The suggested strategy for 2022/23 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury consultants. The strategy covers the following issues:

- Treasury limits in force that will limit the treasury risk and activities of the Council;
- Prudential and Treasury Indicators;
- Current treasury position;
- Borrowing requirement;
- Prospects for interest rates;
- Borrowing strategy considerations;
- Debt rescheduling opportunities.
- Investment Strategy
- Minimum Revenue Provision Strategy
- Capital Investment Strategy

2. CAPITAL INVESTMENT STRATEGY

2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare a Capital Investment 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

2.2 The aim of the Capital Investment Strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 The Capital Investment Strategy is reported separately from the Treasury Management Strategy Statement alongside the Medium-Term Financial Plan with non-treasury investments being reported through this document. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Investment 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;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

2.4 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.

2.5 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 Investment Guidance and CIPFA Prudential Code have not been adhered to.

2.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Investment Strategy.

3. TREASURY LIMITS 2022/23 TO 2024/25

3.1 It is a statutory duty, under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the 'Affordable Borrowing Limit'.

3.2 The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit. This essentially requires it to ensure that total capital investment remains within sustainable limits and in particular, that the impact upon its future council tax levels is 'acceptable'. It is important to understand, however, that the Indicators themselves, which are set out in paragraph 6, do not have an inherently right or wrong answer. They are not intended as comparator information between different authorities but are designed to support and record local decision making.

4. USE OF TREASURY CONSULTANTS

4.1 The authority has, like most other authorities, employed treasury advisers for specialist advice and assistance for many years. In the case of this authority, this role has long been fulfilled by Link Asset Services.

4.2 Link Asset Services provide specialist advice on both borrowing and investment matters. They also supply other relevant information and hold regular client seminars which help provide up to date training in what is an important and continually changing field. That said, it is important to recognise that responsibility for all treasury matters lies solely with the City Council and this responsibility is not delegated to Link Asset Services or any other third party. The Council has regard to the advice and information supplied by Link Asset Services along with advice and information from a variety of other sources. Such advice is valued and the authority is in frequent contact with Link Asset Services but this does not lessen the ultimate responsibility of the City Council in dealing with treasury matters and taking relevant decisions.

5. CURRENT PORTFOLIO POSITION

The Council's treasury portfolio position at 26 November 2021 comprised:

Table 1		Principal £m	£m	Ave Rate %
Fixed Rate Funding	PWLB	13.0		
	Market	0.0	13.0	1.63
Variable Rate Funding	PWLB	0		
	Market	0	0	0.00
Other Long Term Liabilities			0	0.00
Gross Debt			**13.0**	**1.63**
Total Investments			**26.5**	**0.75**

6. PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2024/25

6.1 The Prudential and Treasury Indicators have been based on current projections for capital spending and resources in 2022/23 to 2024/25 (which may be subject to change during the budget process). The Council has ensured that future years' capital programmes have been set in accordance with the principles contained within the City Council's Capital Strategy and Asset Management Plan.

PRUDENTIAL INDICATOR AFFORDABILITY INDICATORS	2020/21 actual £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000	2024/25 estimate £000
Capital Expenditure	14,172	30,378	18,079	9,527	3,409
Ratio of financing costs to net revenue stream	1.19%	4.35%	7.04%	13.43%	12.51%
Net borrowing requirement in year (Internal & External)	3,408	21,023	10,334	974	(5,400)
Capital Financing Requirement as at 31 March	19,521	40,544	50,878	51,853	46,453
Annual change in Cap. Financing Requirement	(1,026)	21,023	10,334	974	(5,400)
Incremental impact of capital investment decisions Increase in council tax (band D) per annum (£)	2.97	18.19	8.85	0.83	(4.54)

6.2 The estimates of financing costs include both current capital commitments and the capital programme. In the case of this authority, it is assumed that any support from central government towards the costs of capital expenditure programmes in the next three years will be by means of a capital grant e.g. Disabled Facilities Grant.

6.3 <u>The Council's Borrowing Need (Capital Financing Requirement)</u>

6.3.1 The Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for from capital grants, capital receipts or revenue contributions, will increase the CFR as it will be funded from borrowing.

6.3.2 The CFR does not increase indefinitely. The Minimum Revenue Provision (MRP) is a statutory annual charge to the revenue budget which reduces the CFR in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

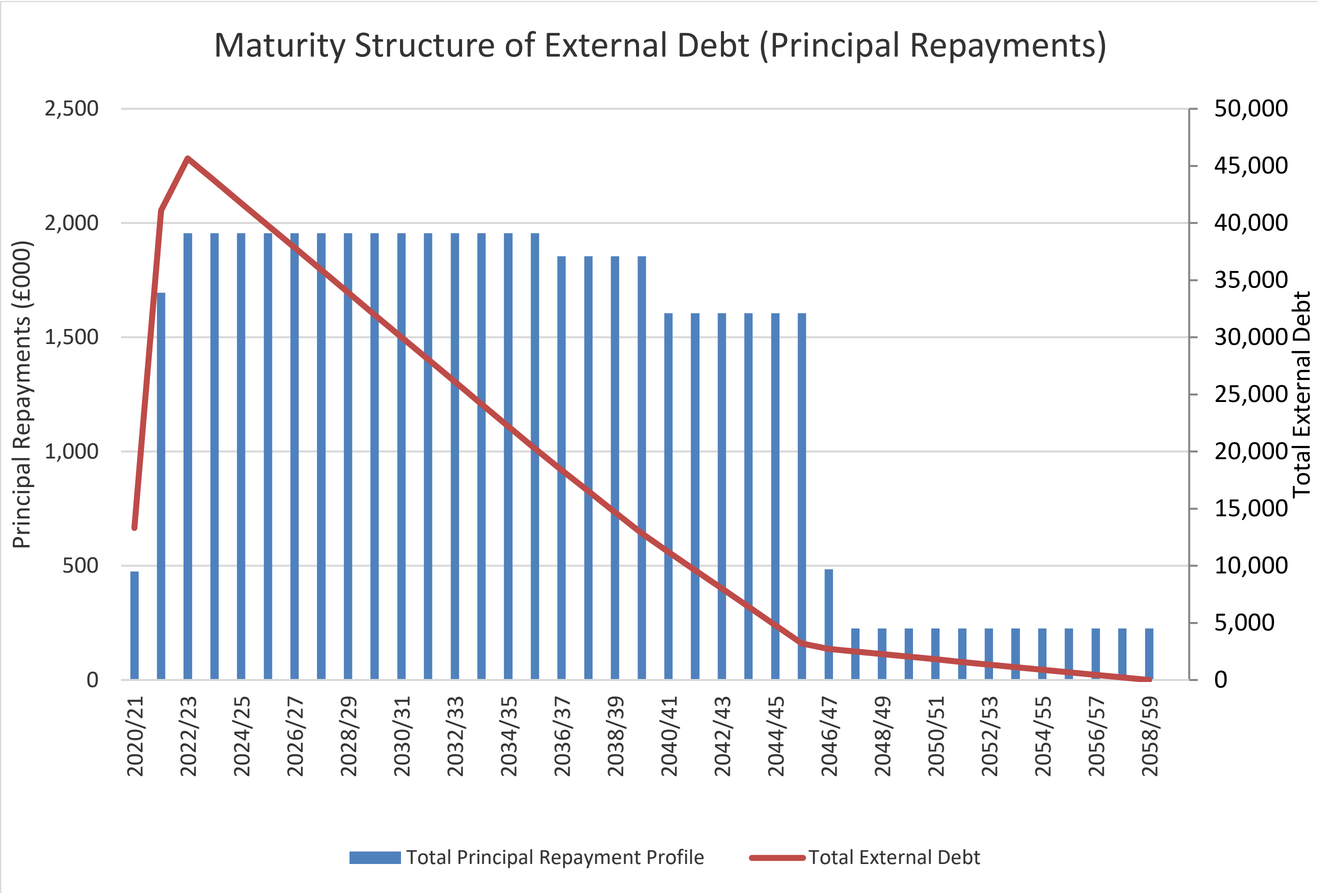
PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2020/21 actual £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000	2024/25 estimate £000
Authorised Limit for External Debt:					
- Borrowing	44,000	48,000	52,000	52,000	50,000
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	**44,100**	**48,100**	**52,100**	**52,100**	**50,100**
Operational Boundary for external debt:					
- Borrowing*	32,500	43,000	47,000	47,000	45,000
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	**32,600**	**43,100**	**47,100**	**47,100**	**45,100**
Upper Limit for fixed interest rate exposure:					
- Net principal re. Fixed rate borrowing/investments	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit for variable rate exposure					
- Net principal re. Variable rate borrowing/investments	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit for total principal sums invested for over 1 year	**50%**	**50%**	**50%**	**50%**	**50%**

Notes:

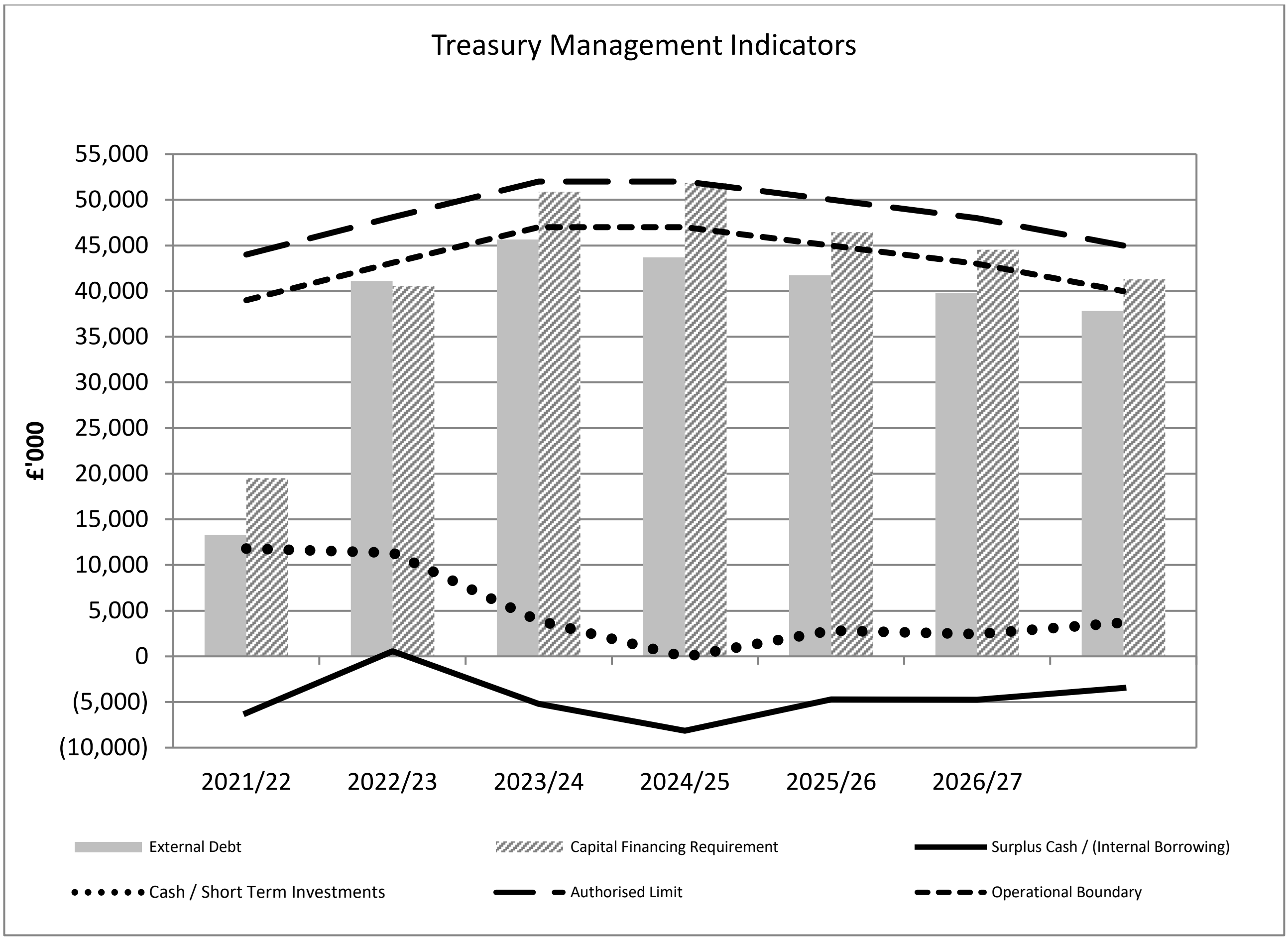
The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2020/21 actual £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000	2024/25 estimate £000
External Debt B/Fwd	**13,763**	**13,288**	**41,093**	**45,645**	**43,690**
New External Debt (Actual & Planned)	0	29,500	6,507	0	0
External Debt Repaid	(475)	(1,695)	(1,955)	(1,955)	(1,955)
External Debt C/fwd	**13,288**	**41,093**	**45,645**	**43,690**	**41,735**



6.3.3 The graph below shows the level of external debt currently forecast against the Capital Financing Requirement. This chart makes assumptions included in the Executive's budget regarding the use of external borrowing. However, funding of capital expenditure could change, for example, if additional assets are sold generating capital receipts or expenditure requirements change. Therefore, this chart could be subject to change in the future. This shows that external debt is not forecast to rise above the authorised limit over the next five years. However, this is predicated on the assumption that capital receipts can be generated that will be used to fund some of the capital expenditure requirements identified. Should these receipts not be achieved, then then the use of borrowing will need to be re-examined. The Medium-Term Financial Plan assumes that external borrowing will be undertaken to support expenditure on major capital schemes. These areas will be closely monitored prior to any further external borrowing being undertaken.

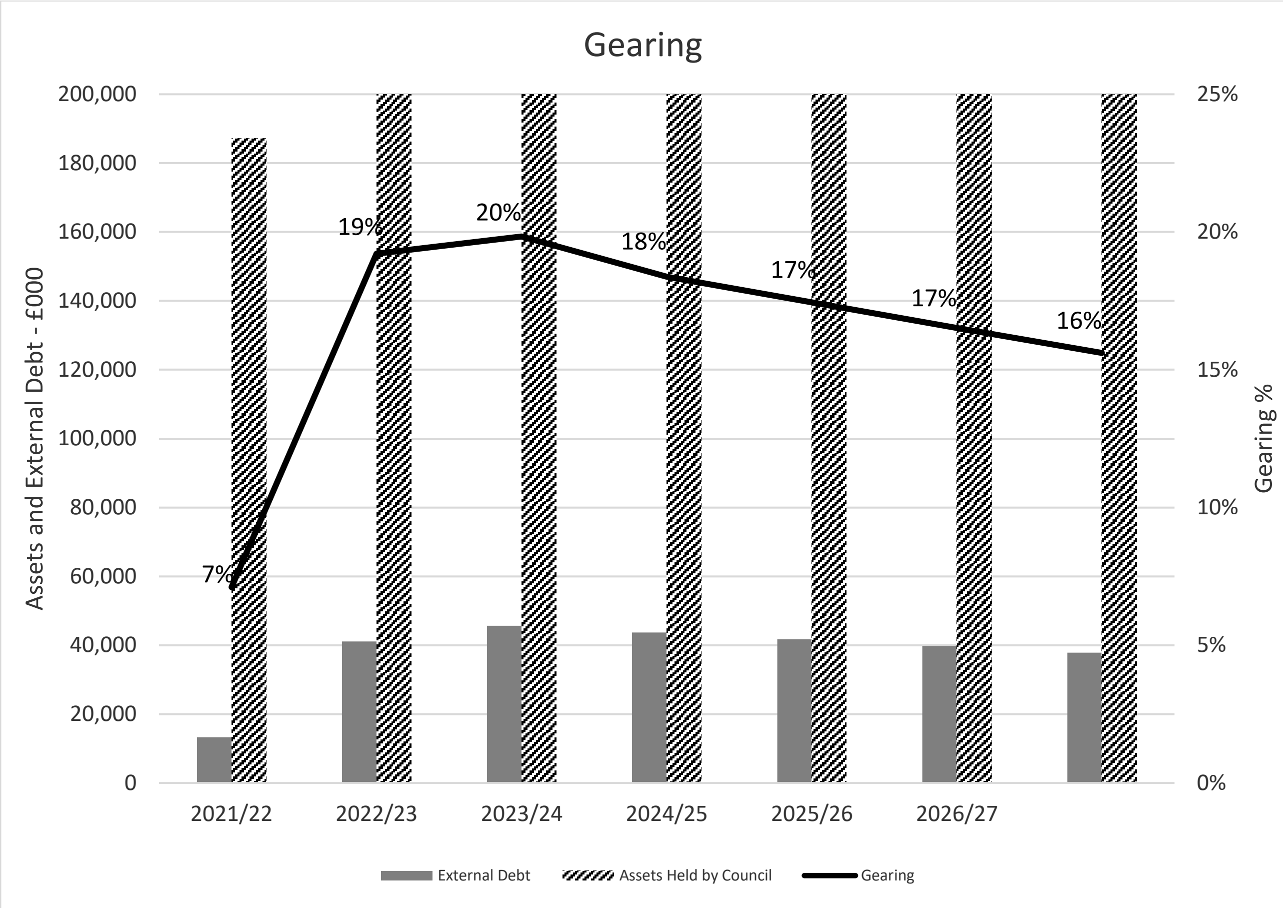


Maturity structure of any fixed rate borrowing during 2022/23	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

6.3.4 In respect of its external debt, it is recommended that the Council approves the authorised limits as outlined above for its total external debt, gross of investments, for the next three financial years. The limit separately identifies borrowing from other long-term liabilities such as finance leases. The Council will be asked to approve these limits and to delegate authority to the Corporate Director of Finance and Resources, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities in accordance with option appraisal and best value for money. Any such change would be reported to the next available Council meeting.

6.3.5 The authorised limit is consistent with the authority's current commitments, plans and proposals for capital expenditure and it's financing. **However, the overall authorised limit is not to be exceeded without prior Council approval.**

6.3.6 In setting the Authorised Limit consideration should be made to the chart below which demonstrates the level of indebtedness against the Council's overall asset base (i.e. its gearing).



6.3.7 The operational boundary is based upon the same estimates as the authorised limit but without the headroom included within the authorised limit to allow for unusual cash movements. As with the authorised limit, the Council is asked to delegate authority to the Corporate Director of Finance and Resources to effect movement between the separately agreed limits for borrowing and other long-term liabilities. The operational boundary can be exceeded in exceptional circumstances without prior Council approval providing that it remains within the authorised limit.

6.3.8 The City Council's current limits for maximum levels of fixed and variable rate funding are both 100% and this is as recommended by the treasury advisers.

7 PROSPECTS FOR INTEREST RATES

7.2.1 The Council has appointed Link Asset Services as its treasury adviser and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Link Asset Services view although it should be noted that there are some differing views among the various economic forecasters regarding the future pattern of these rates:

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Bank Rate	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%

7.2.2 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. As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in December 2021, a second increase to 0.50% in quarter 2 of 2022/23 and a third one to 0.75% in quarter 4 of 2022/23.

7.2.3 **Significant risks to the forecasts**

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- 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.
- Geo-political risks are widespread e.g., German general election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

7.3 Forecasts for Bank Rate

7.3.1 Link are not expecting Bank Rate to go up fast after the initial rate rise; their view is that the supply potential of the economy has not taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC’s 2% target after the spike up to 5%. Link are therefore forecasting five increases in Bank Rate over the forecast period to March 2025, ending at 1.25%.

However, we are far from confident that these forecasts will not need changing within a relatively short timeframe for the following reasons:-

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a major dilemma for the MPC in how to strike a balance between combating inflation and supporting economic growth.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit over the next year?
- Rising gas and electricity prices could also pose a potential threat to the supply chain through some energy intensive sections of industry having to close that are no longer economic to run while prices remain so high.
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages, plus increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation and excess demand in the economy compared to supply. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It is estimated that there were around 1 million people who came off furlough on 30th September; how many of those would not have had jobs on 1st October and would, therefore, have been available for filling labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns. However, some key labour shortages will be more difficult to fill due to the need for time to train and qualify.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

7.3.2 In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

7.3.3 It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could simply decide to take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. The MPC may also be concerned to protect its inflation fighting credentials and may view that such a small increase would do little to damage growth. There is therefore a significant risk that the first increase could be as early as December 2021. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

7.4 **Forecasts for PWLB rates and gilt and treasury yields**

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

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

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

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

7.5 **Gilt and treasury yields**

7.5.1 Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend up to $3.5trn on infrastructure and an 'American families' plan over the next decade. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had already been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour caused largely by an enduring fall in the labour participation rate, and supply bottle necks, is likely to stoke inflationary pressures more in the US than in other major western countries.
4. And the Fed was still providing monetary stimulus through monthly QE purchases.

7.5.2 These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries: this would imply that interest rates will eventually need to go up higher in the US than elsewhere. The September Federal Reserve (Fed) minutes revealed that the Fed is likely to decide at its next meeting to start tapering monthly QE purchases by the end of 2021, reducing the level of purchases each month until they cease around the middle of 2022. These purchases are currently acting as downward pressure on treasury yields and so that pressure will reduce as tapering progresses. As an average since 2011, there has been a 75% correlation between movements in 10-year treasury yields and 10-year gilt yields. This is a significant upward exposure to the forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

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

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

7.6.1 **Investment and borrowing rates**

7.6.1 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. 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.

7.6.2 On 25 November 2020, 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. The current margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

7.6.3 Link's long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio.

7.6.4 While this authority will not be able to avoid borrowing to finance new capital expenditure, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

8 BORROWING STRATEGY

8.1 The Link Asset Services forecast for the PWLB new borrowing rate (repayment at Maturity) is as follows:

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
5 Yr PWLB	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.90%
10Yr PWLB	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%
25Yr PWLB	2.10%	2.20%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.60%
50Yr PWLB	1.90%	2.00%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%

8.2 The Council is, as stated above, expecting to have to borrow externally between 2021 and 2023 to finance capital expenditure on assets. Approval was given as part of the Capital Investment Strategy approved in September 2016, for the Section 151 Officer to undertake external borrowing at a time it was felt to be most appropriate to be used for the repayment or refinancing of the £15million stock issue and/or to fund the capital programme where a borrowing requirement has been identified, taking into account forecasts for potential rises in interest rates and utilising any favourable borrowing rates. It is anticipated that although a combination of capital grants and internal resources will be used to meet most capital commitments in the new financial year there will be a requirement to borrow externally. Nevertheless, the use of external borrowing is planned for in future years. The Corporate Director of Finance and Resources will therefore continue to monitor the interest rate market as regards borrowing opportunities as well as in respect of investment policy.

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

- If it was felt that there was a significant risk of a sharp FALL in long term and short-term borrowing rates (e.g. due to a marked increase in the risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into shorter term borrowings will be considered.
- If it was felt that there was a significant risk of a much sharper RISE in long and short-term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

8.4 **<u>Policy on borrowing in advance of need</u>**

8.4.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. As part of the Capital Investment Strategy approved by Council in September 2016, approval in principle was given to the Council's S.151 Officer to borrowing in advance of need for the re-financing of the stock issue loan and/or to fund the capital programme where a borrowing requirement has been identified, if interest rates were favourable and would be cost effective over the term of any new loan.

8.5 **<u>External v. Internal Borrowing</u>**

8.5.1 This Council currently has differences between gross debt and net debt (after deducting cash balances). This is shown in the graphs at 6.2.2.

8.5.2 The general aim of this Treasury Management Strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments. However, measures taken in the last year have already reduced substantially the level of credit risk (see paragraph 10.2) so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

8.5.3 The next financial year will likely be one of continued low Bank Rates even though there may well be incremental increases from the current levels. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

8.5.4 Over the next three years, investment rates are expected to continue to be below long-term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

8.5.5 However, short term savings by avoiding new long-term external borrowing in 2022/23 will also be weighed against the potential for incurring additional long-term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher. By utilising internal cash balances consideration will also need to be given to the availability of cash to service the day-today cash flow of the Council. This could require the Council to undertake short-term borrowing to cover cash-flows.

8.5.6 Against this background caution will be adopted with the 2022/23 treasury operations. The Corporate Director of Finance and Resources will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision-making body at the next available opportunity.

9. DEBT RESCHEDULING

9.1 There is unlikely to be much scope for debt rescheduling in either the current financial year or in 2022/23.

10. INVESTMENT STRATEGY

10.1 Principles

10.1.1 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). Non-financial investments, essentially the purchase of income yielding assets (e.g. property), are covered in the Capital Investment Strategy.

10.1.2 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

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

10.1.4 The Council will also endeavour to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. Security of principal will always be the primary consideration. The risk appetite of this Council is low in order to give priority to security of its investments.

10.1.5 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means (Further details of limits and timescales for all approved investments are shown at **Appendix B**): -

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

- Credit ratings will be used as one means of assessing the credit quality of rated counterparties although it is recognised that reliance should not be placed on credit rating alone. The minimum short-term rating for a bank will be either F1 (Fitch) or P1 (Moody's). For a rated UK building society, a similar rating would be anticipated although the proposed criteria do give authority to the Corporate Director of Finance and Resources to approve, if considered appropriate, the addition of other building societies with both a F2 (Fitch) and a P2 rating (Moody's). This is still a high-quality credit rating but recognises the very strong record of the UK building society movement over many years in protecting the capital of all depositors. The Strategy already allows discretion to the Corporate Director of Finance and Resources to include as counterparties non-credit rated building societies whose assets total at least £1bn. Any such investment would be subject to an assessment of such a society as a suitable counterparty. There are, for example, good reasons why many building societies do not have a credit rating but there are other means of making an appropriate financial judgment.

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

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

- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix B under the categories of 'specified' and 'non-specified' investments.
  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

- **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.

- **Lending limits**, (amounts and maturity), for each counterparty are set. Total investments with any one counterparty or group currently will not exceed £10m to ensure a reasonable spread of investments in terms of counterparties. Investments with Money Market Funds and investments in overseas banks with a sovereign rating of not less than the UK sovereign rating will not exceed £4m.

- **Transaction limits** are set for each type of investment are set.

- This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**.

- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

- This authority has engaged **external consultants**, (see paragraph 4), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

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

- As a result of the change in accounting standards for 2019/20 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (The Ministry of Housing, Communities and Local Government [DLUHC], have recently issued a statutory override for Local Authorities so that the impact of IFRS9 does not affect a Council's General Fund. This override is currently in place for 5-years from 1st April 2018.)

- Due care will be taken to consider the country, group and sector exposure of the Council's investments. In addition:
  Country limits:
    - where the country of registration of an institution has an average credit rating (i.e. an average sovereign credit rating) equal to, or better than that of the UK; it will enable the Council to consider the placement of investments on the same basis applied for UK-registered institutions (i.e. subject to the overarching counterparty criteria as set out at **Appendix B**; and
    - where an institution meets the approved counterparty status* but the country of registration has an average credit rating below that of the UK; limit such investments in total to such rated non-UK countries to be no more than £2m of the portfolio.
      i.e. it meets the overarching counterparty criteria as set out at **Appendix B**.
    - sector limits will be monitored regularly for appropriateness.

10.1.6 Following approval in 2014/15, the Council now makes use of the CCLA Property Fund for longer term investments, and at present has invested £3m into this fund. The anticipated yield from this investment is assumed to be 4.00% in the MTFP.

10.1.7 Any investments with institutions that do not have a credit rating e.g. many smaller building societies or investments for periods over one year would be classed as non-specified investments**. However, it is important to stress that both the specified and non-specified investments in Appendix B are perfectly legal instruments in which the City Council may invest.** This includes for example many building societies as only the larger societies have an individual credit rating although there are other criteria by which a judgement can be made as to their credit quality.

10.2 Creditworthiness Policy

10.2.1 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

10.2.2 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore have consideration to using counterparties within the following durational bands:

Yellow	5 Years *
Dark Pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 Days
No Colour	Not to be used

**The Council does not usually invest for longer periods than 2-years, however if it were to it would follow the same creditworthiness policy provided by Link Asset Services*

10.2.3 The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

10.2.4 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

10.2.5 Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, information on any external support for banks to help support its decision-making process.

10.3 **<u>Investment Strategy</u>**

10.3.1 With bank base rate forecast for a first increase in Bank Rate in late 2021. However, the September 2021 Monetary Policy Committee (MPC) meeting minutes indicated that their concerns over the sudden recent rise in multiple inflationary pressures could well mean that an earlier increase in Bank Rate is now possible ahead of the start of the financial year covered by this Strategy. The view of Link Asset Services is that bank rate will be at the following levels:

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Bank Rate	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%

10.3.2 The Council has historically outperformed bank rates in its investment returns. Therefore, the suggested budgeted average investment earnings currently included in the MTFP projections are as follows:

	Investment Balances	CCLA Property Fund
2022/23	0.83%	4.00%
2023/24	1.08%	4.00%
2024/25	1.33%	4.00%

10.3.3 Clearly, these projections can only be best estimates at this stage and the risk is to the downside i.e. if the economic recovery is slower than expected, then interest rates are likely to rise more slowly. At this stage, the budget for 2022/23 has assumed an average yield of 0.83% on its investments (excluding CCLA Property Fund) in the next financial year. This allows for the fact that there are some higher value, longer term investments placed and there will be some shorter dated instant access investments placed. This forecast will, however, be reviewed further during the budget cycle. The anticipation of interest yielded from investing in the Property Fund is estimated at 4.00% in the MTFP.

10.3.4 In this situation, the authority will continue to try and seek value in its investments by placing them out for longer periods where possible e.g. six months to one year, to meet future cash flow needs, subject to retaining some sums for shorter periods to meet liquidity requirements and also to take advantage of any particular investment opportunities. Much of the basic framework of the authority's cash flows is already known for the next financial year and use will be made of this information in determining investment periods. The money market is monitored daily and use will be made of a plurality of sources of financial information in determining investment opportunities. All investments will be placed only with institutions that conform to the criteria set out in the Investment Strategy. However, should the council use internal cash balances to support the capital programme rather than undertaking external borrowings this will have a significant impact on the investment returns achieved, but will be offset by reduced costs of borrowing.

10.3.5 The investment income budget will, as ever, be carefully monitored in the coming financial year and reported to members via the regular Treasury Transactions reports.

10.4 **End of Year Investment Report**

In line with current practice, the Council will receive a report on its investment activity as part of the Annual Treasury Report at the end of the financial year. It should also be noted that best practice now requires a mid-year report on the treasury function. This has long been the practice within the City Council where quarterly reports are presented to the Executive. In addition, the Audit Committee has taken on the role of the 'strategic committee' that oversees treasury matters.

11. THE MINIMUM REVENUE PROVISION STRATEGY

11.1 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2022/23 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Furthermore, the Council revised its MRP Policy in 2017/18 to provide for MRP on a 3% straight Line basis going forward.

11.2 The Council is currently forecasting to undertake additional external borrowing in 2022/23 to facilitate the delivery of its capital programme. Current estimates include this borrowing on a principal and interest repayment basis. Any principal repaid would be a cash outflow for the Council and cash would be replenished through the charging of MRP from the General Fund to reduce the underlying borrowing requirement.

11.3 The Council is obliged to make proper provision for the repayment of its outstanding debt liabilities. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. land, buildings, vehicles etc. It would usually be impractical to charge the entirety of such expenditure, which is often funded by borrowing, to the revenue account in the year it was incurred. Instead, this is spread over a longer period to try and match the years over which these assets will benefit the community. The manner of spreading these costs is through the Minimum Revenue Provision (MRP). Until recently, the MRP was calculated according to detailed and complex regulations. It is now determined under Guidance.

11.4 The only statutory duty that a local authority has under the new MRP regime is *'to determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'*. The Guidance, which authorities must 'have regard to' provides four options for calculating the MRP. It is important to realise, however, that there is no obligation to follow any of these options and that it is up to each authority to decide upon the most appropriate method of making a prudent provision, having had regard to the Guidance.

11.5 Using the 3% Straight Line method for calculating the MRP charge more reflects an average life of Council assets of 33 years and since it has a mix of short life assets such as vehicles (typical life 5-10 years) and long-life assets such as land and buildings (typical life 40-50+ years) this is still deemed to be a prudent approach to take.

11.6 In 2021/22, the opening CFR was £19.521million.

11.7 In 2018/19 the Council implemented a recommendation from Link Asset Services to review its CFR for MRP purposes in relation to what is known as 'Adjustment A'. The purpose of Adjustment A was to ensure that the starting point for calculating MRP under the new system in 2004 did not significantly vary the level of liability that would have arisen had the previous system of capital controls remained unchanged.

11.8 The MRP review undertaken by (then) Capita Asset Services identified a misstatement in the basis of calculation of Adjustment A which indicated that the value originally assessed in 2004/05 to be understated. The Council's reassessed Adjustment A figure is £4.426 million. This misstatement related to the inclusion of revenue expenditure (premiums on the early repayment of debt) being included in the original Adjustment A calculation which the Code states should be excluded from the calculation.

11.9 Therefore when calculating MRP for future years, the actual Capital Financing requirement should be reduced by this Adjustment A figure and then MRP charged at 3% of the reduced figure.

11.10 The CFR and MRP charges currently included in the MTFP and budget projections are as follows (The MRP charge calculated for 2022/23 is chargeable in 2023/24 and so on):

	2022/23 £000	2023/24 £000	2024/25 £000
Opening CFR	19,521	40,544	50,878
Closing CFR	**40,544**	**50,878**	**52,192**
Adjustment A	4,426	4,426	4,426
Adjustment Assets Under Construction	19,165	0	0
CFR for MRP Purposes	**16,953**	**46,452**	**47,766**
MRP Charge @ 3%	**509**	**1,394**	**1,433**
Adjustments to MRP for historical Overpayments	(241)	(241)	(241)
Actual MRP charge	**268**	**1,153**	**1,192**
Voluntary MRP	0	0	0
Actual MRP charge	**268**	**1,153**	**1,192**

11.11 MRP is a statutory requirement for local authorities to charge to their revenue account for each financial year a prudent amount for the principal cost of their debt in that financial year. It impacts upon the CFR, one of the Council's prudential indicators.

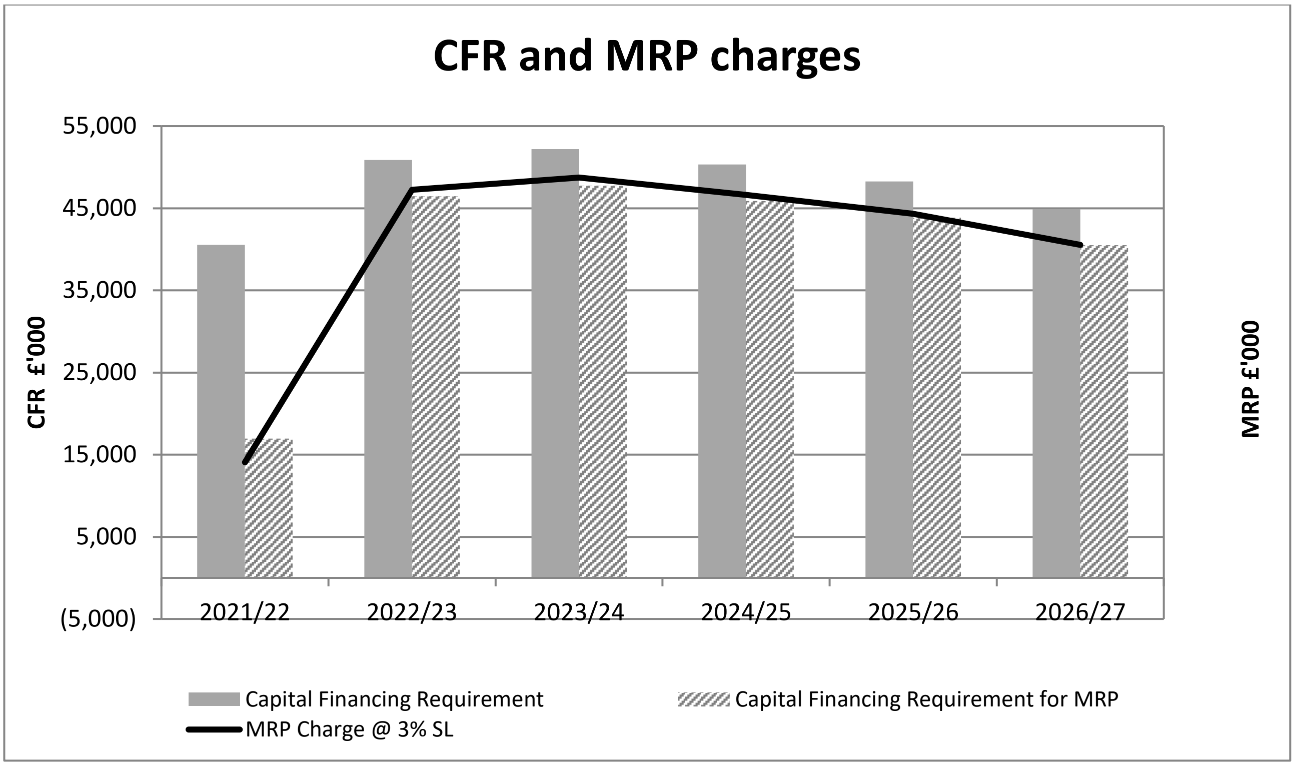
11.12 The CFR is a measure of the Council's underlying debt liability, resulting from historic capital expenditure which has been financed from borrowing. Amending the MRP as proposed will lead to an increase in the short to medium term CFR compared to current projections. This is because the MRP reduces the CFR each year, so a decrease in the amount of reduction causes an increase in the current projected CFR.

11.13 When an amount previously set aside for debt liability in the budget is released and then used for another revenue purpose the Authority will have less cash. This is likely to lead to a reduction in external investments and with thus lead to a reduction in interest income.

11.14 The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy will be kept under regular review in order to ensure that the annual provision is prudent.

11.15 As the MRP policy has to be considered by the Executive and approved by Council each year there will be an opportunity to revisit any decision at least annually or make additional voluntary payments.

11.16 The chart below shows the anticipated CFR in future years as well as the CFR for MRP Calculation purposes.


CFR and MRP charges
55,000
45,000
35,000
25,000
15,000
5,000
(5,000)
CFR £'000
MRP £'000
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
Capital Financing Requirement
Capital Financing Requirement for MRP
MRP Charge @ 3% SL

APPENDIX B

APPROVED INVESTMENT INSTRUMENTS

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

- All UK banks and building societies with a minimum specified 'high' credit rating shall have a **maximum of £6m** as the counterparty limit **(individual Transaction Limit for fixed term investments £2m, for instant access and call accounts £6m)**.
- Investments with Lloyds Group banks, HSBC, Santander and Goldman Sachs shall have a maximum of **£10m** as the counterparty limit.
- All overseas banks with a sovereign rating of not less than the UK sovereign rating and a minimum individual credit rating, shall have a **maximum of £4m** as the counterparty limit **(individual Transaction Limit for fixed term investments £2m, for instant access and call accounts £4m)**.
- Where an institution meets the approved counterparty status but the country of registration has an average credit rating below that of the UK; limit such investments in total to such rated non-UK countries to be no more than **£2m** as the counterparty limit. **(individual Transaction Limit for fixed term investments £2m, for instant access and call accounts £2m)**.
- UK building societies that are not credit rated shall have a maximum of **£2m** as the counterparty limit. **(individual Transaction Limit for fixed term investments £2m, for instant access and call accounts £2m)**.
- MMFs shall have a maximum counterparty limit of **£4m (Individual Transaction limit of £4m).**

Fixed Term Deposits with fixed rates and maturities:-	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – local authorities	--High level of security	In-house
Term deposits – U K banks**	Short-term F1 (Fitch) or P1(Moodys)	In-house
Term Deposits – UK building societies**	Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Chief Finance Officer	In-house
Term Deposits – Non UK Banks	Sovereign Rating (not less than UK) Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Chief Finance Officer	In-house
Fixed term deposits with variable rate and variable maturities: -	**Minimum 'High' Credit Criteria**	**Use**
Callable deposits	Short-term F1 (Fitch) or P1 (Moodys)	In-house
Certificates of deposits issued by UK banks and building societies	Short-term F1 (Fitch) or PI (Moodys)	In-house buy and hold
UK Government Gilts	Government backed	In-house buy and hold

Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -	**Minimum 'High' Credit Criteria**	**Use**
1. Money Market Funds	Short-term AAA	In-house
2. Enhanced Cash Funds	Short-term AAA	In-house
3. Government Liquidity Funds	Short-term AAA	In-house

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

Non-Specified Investments:

A maximum of 50% will be held in aggregate in non-specified investments

1. Maturities of ANY period.

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits with non credit rated UK Building Societies	As approved by the S151 Officer. Minimum asset base of £1bn	In-house	50	364 days
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	In-house	50	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	In-house	50	Liquid

2. Maturities in excess of 1 year

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	Any authority	In-house	50	3 Years
Term deposits – UK banks and building societies	Long-term A (Fitch) or A2 (Moodys)	In-house	50	3 Years
Fixed term deposits with variable rate and variable maturities	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period**
Certificates of deposits issued by UK banks and building societies	Long-term A (Fitch) or A2 (Moodys)	In house on a 'buy and hold basis'	50	3 Years
UK Government Gilts	Government backed	In house on a 'buy and hold basis'	50	3 Years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period**
1. Bond Funds	Long-term AAA	In-house	50	3 Years
2. Gilt Funds	Long-term AAA	In-house	50	3 Years

3. Approved Property Funds

	Use	Max % of total investments	Max. maturity period
CCLA Property Fund	In-house as determined by the S151 Officer	50	No maximum

The Council uses Fitch (primarily) or Moody's ratings to derive its counterparty criteria. All credit ratings will be monitored monthly. The Council is alerted to changes in credit ratings through its use of the Link Asset Services creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

APPENDIX C

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by Link Asset Services and Capital Economics. The forecast within this strategy statement has been drawn from these diverse sources and officers' own views. Revised forecasts will be provided when they become available. The rates shown below for PWLB borrowing include the 20bps reduction for the Certainty Rate.

1. INDIVIDUAL FORECASTS

Link Group Interest Rate View	8.11.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
Capital Economics	1.60	1.70	1.70	1.80	2.10	2.10	2.10	2.10	2.10	-	-	-	-	-
10yr PWLB Rate														
Link	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
Capital Economics	1.80	1.90	2.00	2.20	2.30	2.30	2.30	2.30	2.30	-	-	-	-	-
25yr PWLB Rate														
Link	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
Capital Economics	2.10	2.20	2.40	2.60	2.70	2.80	2.80	2.80	2.90	-	-	-	-	-
50yr PWLB Rate														
Link	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.60	2.60	2.70	-	-	-	-	-

APPENDIX D

TREASURY MANAGEMENT POLICY STATEMENT

Carlisle City Council defines treasury management as:

> "The management of the organisation's borrowings, investments and cash flows, including 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."

Carlisle City 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 authority, and any financial instruments entered into to manage these risks.

Carlisle City 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 performance measurement techniques, within the context of effective risk management.

Investment Policy

The Council will manage its investments in line with the criteria set out in section 9 of the TMSS with the security of investment being paramount. The Council's investments will be placed in line with those outlined in Appendix B of the TMSS.

Borrowing Strategy

The Council will manage its borrowings in line with the criteria set out in section 8 of the TMSS with the emphasis being on external borrowing only being taken when absolutely necessary and ensuring it offers the best value for money.

Carlisle City Council
Report to Audit Committee

Item A.5

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD10/21
Policy and Budget Framework	YES
Public / Private	Public
Title:	TREASURY MANAGEMENT QUARTER 2 2021/22 AND FORECASTS FOR 2022/23 TO 2026/27
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD49/21

Purpose / Summary:
This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2021/22 and budgetary projections for 2022/23 to 2026/27, was received by the Executive on 22 November 2021. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter. The Committee is otherwise asked to note the report.

Recommendations:
That the report be noted.

Tracking

Executive:	22 November 2021
Scrutiny:	7 December 2021
Audit Committee:	10 December 2021

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Carlisle City Council
Report to Executive

M	22 November 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD10/21
Policy and Budget Framework	YES
Public / Private	Public
Title:	TREASURY MANAGEMENT QUARTER 2 2021/22 AND FORECASTS FOR 2022/23 TO 2026/27
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD49/21

Purpose / Summary:
This report provides the regular quarterly report on Treasury Transactions together with an interim report on Treasury Management as required under the Financial Procedure Rules.

The report also discusses the City Council’s Treasury Management estimates for 2022/23 with projections to 2026/27. Also included is information regarding the requirements of the Prudential Code on local authority Capital finance.

Recommendations:
That this report be received and that the projections for 2022/23 to 2026/27 be incorporated into the budget reports considered elsewhere on the agenda.

Tracking

Executive:	22 November 2021
Scrutiny:	7 December 2021
Audit Committee:	10 December 2021

1. Introduction

1.1 The purpose of this report is to inform Members on various Treasury Management issues. The report is set out as follows:

1.2 **Appendix A** sets out the schedule of Treasury Transactions for the period to 1st October 2021 as follows:

- **Appendix A1 –** Treasury Transactions July to 1st October 2021
- **Appendix A2 –** Investment Transactions July to 1st October 2021
- **Appendix A3 –** Outstanding Investments at 1st October 2021

1.3 The Prudential Code and Prudential Indicators for 2021/22 are discussed at **Appendix B as follows:**

- **Appendix B1 – Prudential Code background**
- **Appendix B2 – Prudential Indicators**

1.4 **TREASURY MANAGEMENT ESTIMATES 2022/23 TO 2026/27**

1.4.1 The draft base Treasury Management estimates for 2022/23 with projections to 2026/27 are set out at **Appendix C**. Treasury Management projections are reviewed annually to ensure that current interest rate forecasts are up to date and that current and future spending implications are built into the cash flow forecasts model. Average cash balances will need to be amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves and this will adjust the final pressure/saving requirement from treasury management.

1.4.2 The assumptions included in the Treasury estimates for 2022/23 are as follows:

- Assumed use of revenue reserves for all budget pressure commitments outlined in RD46/21 are included;
- The capital programme and capital resources estimate as outlined in RD47/21 are included;
- External borrowing assumed as follows:

	Amount (£000)	Rate	Term
2021/22	11,500	2.20%	25 years
2021/22	1,500	2.05%	15 years
2021/22	15,000	2.20%	25 years
2021/22	1,500	2.20%	25 years
2022/23	1,507	2.30%	25 years
2022/23	5,000	2.30%	25 years
Total	**36,007**		

- Investment returns are assumed to be as follows:

Year	Rate
2021/22	0.30%
2022/23	0.38%
2023/24	0.70%
2024/25	0.95%
2025/26	1.08%

- Investment return from CCLA property fund is assumed at 4% p.a.

2. Risks

2.1 Treasury Management considers risks associated with investments with counterparties; however, the Treasury Management strategy statement outlines the risk management approach to minimise this.

3. Consultation

3.1 Consultation to Date.
None.

3.2 Consultation proposed.
The Business & Transformation Scrutiny Panel and the Audit Committee will consider this report as part of the budget process.

4. Conclusion and reasons for recommendations

4.1 That this report be received and that the projections for 2022/23 to 2026/27 be incorporated into the budget reports elsewhere on the agenda.

5. Contribution to the Carlisle Plan Priorities

5.1 To ensure that the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact details:

Contact Officer: **Steven Tickner** Ext: **7280**

Appendices attached to report:

- **Appendix A1 – Treasury Transactions July to 1 October 2021**
- **Appendix A2 – Investment Transactions July to 1 October 2021**
- **Appendix A3 – Outstanding Investments at 1 October 2021**
- **Appendix B1 – Prudential Code background**
- **Appendix B2 – Prudential Indicators**
- **Appendix C – Treasury Projections 2022/23 – 2026/27**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:
Legal - The Council has a fiduciary duty to manage its finances properly and the proper reporting of budget monitoring is part of this process.
Property Services – Not applicable
Finance - Included in the report
Equality - This report raises no explicit issues relating to the public sector Equality Duty
Information Governance- No implications

APPENDIX A1

TREASURY TRANSACTIONS
JULY 2021 to 1 OCTOBER 2021

1. LOANS (DEBT)

1.1 Transactions July to 1 October 2021

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0	112,500	1.80
P.W.L.B	0	0	125,000	1.33
Local Bonds	0	0	0	0
Short Term Loans	0	0	0	0
Overnight Borrowing	0	0	0	0
	0		**237,500**	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. Procedures, adopted to map the cash flow more accurately, ensure better forecasting and limits the amount of short term/overnight borrowing which may be required.

1.2 Loans (Debt) Outstanding at 1 October 2021

	£
P.W.L.B.	8,550,000
P.W.L.B.	4,500,000
Short Term Loans	12,800
	13,062,800

1.3 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Other £	Total £
Short Term Debt at 1 October 2021	475,000	0	12,800	**487,800**

1.4 Interest Rates

Both Link Group and Capital Economics are currently forecasting bank rate to remain at 0.1% rising to 0.25% in June 2022.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	24,685,000	0.01 - 0.58	20,685,000	0.01 - 0.19
	24,685,000		**20,685,000**	

A full schedule of short-term investment transactions is set out in **Appendix A2**. **Appendix A3** shows outstanding short-term investments at 1 October 2021.

3 REVENUES COLLECTED

To: 30 September 2021		Collected £	% of Amount Collectable %
2021/22	Council Tax	39,492,304	56.25
	NNDR	18,594,961	50.09
Total		**58,087,265**	**54.12**
2020/21	Council Tax	36,788,494	55.04
	NNDR	11,184,691	49.97
Total		**47,973,185**	**53.77**
2019/20	Council Tax	36,403,520	56.80
	NNDR	25,102,107	57.01
Total		**61,505,627**	**56.88**

Collection levels have begun to show signs of recovery from 2020/21 levels which were significantly reduced due to the impact of COVID-19.

4 BANK BALANCE

At 1 October 2021 £982,627.00 in hand.

This records the Council’s bank balance at the end of the last day covered by the report.

5 PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS TO 1 OCTOBER 2021

April – 1 October 2021

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(83)	(91)	(8)
Interest Payable	279	90	(189)
Less Rechargeable	0	0	0
	279	**90**	**(189)**
Principal Repaid (MRP)	0	0	0
Debt Management	12	13	1
NET BALANCE	**208**	**12**	**(196)**

The profiled budget is to 1 October 2021

Interest receivable is ahead of expectations due to higher than forecast average cash balances even though interest rates remain at 0.1%. However, it is expected this position will worsen during the remainder of the financial year as cash balances reduce.

Interest payable is lower than expected as no new borrowing has been undertaken in this financial year.

The CCLA property investment saw a slight increase in the capital value to the end of September. Dividends and yield levels are currently 4.04%.

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS JULY TO 1st OCTOBER 2021

INVESTMENTS MADE			INVESTMENTS REPAID	
	£			£
Santander	2,000,000.00		HSBC	1,000,000.00
Goldman Sachs	1,000,000.00		HSBC	5,000,000.00
Goldman Sachs	1,000,000.00		Goldman Sachs	1,000,000.00
Goldman Sachs	1,000,000.00		HSBC	2,000,000.00
HSBC	3,000,000.00		HSBC	2,000,000.00
HSBC	6,000,000.00		HSBC	4,885,000.00
HSBC	2,000,000.00		Goldman Sachs	1,000,000.00
HSBC	3,885,000.00		HSBC	2,800,000.00
HSBC	800,000.00		Goldman Sachs	1,000,000.00
HSBC	2,000,000.00			
Standard Chartered	2,000,000.00			
TOTAL	**24,685,000**			**20,685,000**
			Bfwd	24,402,054
			Paid	24,685,000
			Repaid	20,685,000
			Total	**28,402,054**
			CCLA	**116,729**
			Total	**28,518,783**

Outstanding Investments as at 01 October 2021

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC UK Bank Plc (RFB)	5,000,000	0.01%			Call1		
R	Standard Chartered Bank	1,000,000	0.11%	16/06/2021	29/10/2021		135	407
O	HSBC UK Bank Plc (RFB)	5,000,000	0.10%			Call31		
R	Standard Chartered Bank	1,000,000	0.12%	16/06/2021	26/11/2021	56	163	536
R	Standard Chartered Bank	1,000,000	0.15%	16/06/2021	24/12/2021	84	191	785
R	Standard Chartered Bank	2,000,000	0.08%	01/10/2021	04/01/2022	95	95	416
R	Goldman Sachs International Bank	1,000,000	0.15%	13/07/2021	28/01/2022	119	199	818
R	Goldman Sachs International Bank	1,000,000	0.18%	30/07/2021	01/02/2022	123	186	917
R	Goldman Sachs International Bank	1,000,000	0.13%	27/08/2021	25/02/2022	147	182	648
R	Santander UK	7,000,000	0.58%			Call180		
	Total Investments	**£25,000,000**	**0.22%**			**104**	**164**	**£4,527**

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) [1]	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	**3,518,783**	**4.04%**	31/07/2014	3,000,000	(163,104)	2,836,896	**518,783**

1. Entry Costs were charged against Treasury Management Budget in 2014/15

N.B Interest is recognised in the appropriate financial year in which it is due.

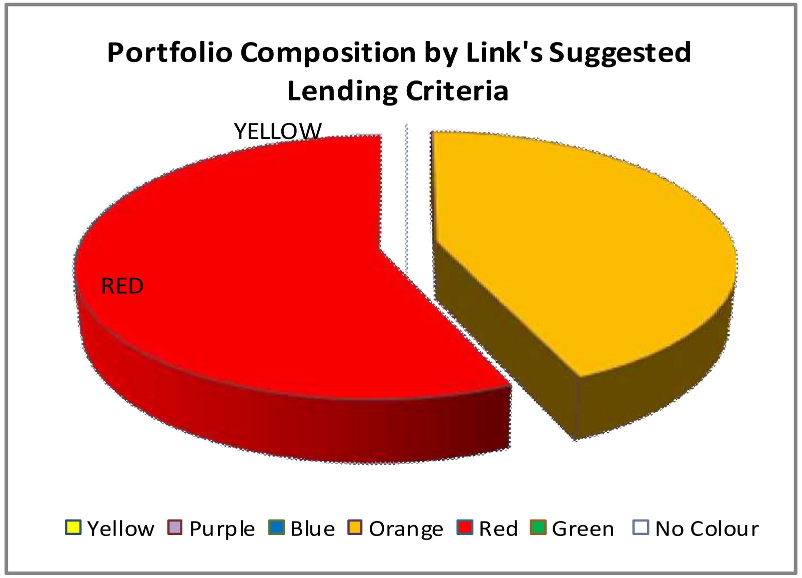
The category colour represents the duration of investment recommended by Link, the Council's Treasury Advisors. Those investments with no colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investment Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	Weighted Average Rate of Return WARoR	Weighted Average Days to Maturity WAM	Weighted Average Dats to Maturity from Execution WAM at Execution
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Orange	43.48%	10,000,000	100.00%	10,000,000	43.48%	0.06%	16	16
Red	56.52%	15,000,000	46.67%	7,000,000	30.43%	0.38%	140	178
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	100.0%	**25,000,000**	**73.91%**	**17,000,000**	**68.00%**	**0.24%**	**86**	**108**

Risk Score for Colour (1 = Low, 7 = High)	Sep 2021	Jun 2021	Mar 2021	Dec 2020
1	0.0	0.0	0.0	0.2
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	1.7	1.9	2.2	2.1
5	2.8	2.6	2.3	1.3
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	4.6	**4.5**	**4.5**	**3.6**
Normal' Risk Score	**3.5**	**3.5**	**3.5**	**3.5**

	LInk's Suggested Criteria
Y	Up to 5 Years
P	Up to 2 Years
B	Up to 1 Year
O	Up to 1 Year
R	Up to 6 months
G	Up to 3 months
N/C	No Colour



APPENDIX B1

THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

1. Introduction

1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.

1.2 The aim of the Code is to support local authorities when making Capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.

1.3 The key objectives of the Code are to ensure, within a clear framework, that the Capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate, to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

2. Prudential Indicators

2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the council to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.

2.2 Appendix B2 sets out the latest performance indicators for the current year.

3. Prudential Borrowing

3.1 Local authorities have always funded a substantial element of their capital programme via borrowing. This continues to be the case but until the introduction of the Prudential Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Following the introduction of the Prudential Code, the permission to borrow was essentially withdrawn and Councils were given greater freedom to borrow so long as they can demonstrate that the revenue consequences of such borrowing (i.e. the cost of the debt) are sustainable, affordable and prudent in the medium to long term.

APPENDIX B2

PRUDENTIAL INDICATORS

Central to the operation of the Prudential code is the compilation and monitoring of prudential indicators covering affordability, prudence, Capital expenditure, and treasury management. Set out below are the indicators for 2021/22 to date as detailed in the Treasury Management Strategy Statement for 2021/22.

(a) Affordability

	2021/22 Original Estimate £	2021/22 Revised Estimate £
(i) Capital Expenditure	19,070,400	29,917,200
(ii) Financing Costs		
Total Financing Costs	458,100	(707)
(iii) Net Revenue Stream		
Funding from Govt Grants/Local Taxpayers	13,848,000	13,848,000
(iv) Ratio of Financing Costs to Net Revenue Stream	3.31%	-0.01%
The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.		
(v) Incremental Impact on Council Tax	12.82	18.54
This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.		
(vi) Authorised Borrowing Limit	45,100,000	48,100,000
Maximum Level of Borrowing and Other Long term Liabilities	34,380,000	34,380,000
The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.		

	2021/22 Original Estimate £	2021/22 Revised Estimate £
(vii) Operational Borrowing Limit	40,100,000	43,100,000
Maximum Level of Borrowing and Other Long term Liabilities	34,380,000	34,380,000
The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.		
(viii) Capital Financing Requirement (CFR)	39,601,000	40,949,000
As at 31 March		
The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.		

(b) Prudence and Sustainability

	2021/22 Original £
(i) New Borrowing to Date	0
Long Term Borrowing has been taken in 2021/22 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing	
at September 2021	100%
(iii) Percentage of Variable Rate Long Term Borrowing	
at September 2021	0%
Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	
(iv) Minimum Level of Investments Classified as Specified	50.00%
Level of Specified Investments as at September 2021	100.00%
As part of the Capital Investment Strategy for 2021/22, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

APPENDIX C

Set out below are the base treasury management estimates for 2022/23 with projections to 2026/27

Carlisle City Council	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**
Interest Payable	980	940	899	860	819
Core MRP	521	1,266	1,265	1,261	1,227
MRP Adjustments - Voluntary and Assets Under Construction	0	0	0	0	0
MRP Adjustments - Adjustment A	(241)	(241)	(241)	0	0
Voluntary MRP (to match principal repayments)	0	0	0	0	0
Debt Management					
Link	12	12	12	12	12
Publications	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(18)	(18)	(18)	(18)	(18)
Total Expenditure	**1,254**	**1,960**	**1,918**	**2,115**	**2,040**
Interest Receivable	(201)	(238)	(249)	(252)	(262)
Total Income	**(201)**	**(238)**	**(249)**	**(252)**	**(262)**
Treasury Management Net Expenditure	**1,053**	**1,722**	**1,669**	**1,863**	**1,778**
Council Resolution Budget 21/22 (incl in year adjustments)	**768**	**1,507**	**1,477**	**1,679**	**1,617**
Difference to Council Resolution Position (budget pressure / (Saving)	**285**	**215**	**192**	**184**	**161**
Cumulative Difference to Council Resolution Position	**285**	**500**	**692**	**877**	**1,038**

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 22 NOVEMBER 2021

EX.135/21 TREASURY MANAGEMENT QUARTER 2 2021/22 AND FORECASTS FOR 2022/23 TO 2026/27
(Key Decision KD.10/21)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Deputy Leader submitted report RD.49/21 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management estimates for 2022/23 with projections to 2026/27 and set out information regarding the requirements of the Prudential Code on local authority capital finance.

Treasury Management projections were reviewed annually to ensure that current interest rate forecasts were updated, and that current and future spending implications were built into the cash flow forecasts model. Average cash balances would need to be amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves and that would adjust the final pressure/saving requirement from treasury management. The draft base Treasury Management estimates for 2022/23 with projections for 2026/27 were set out at Appendix C.

The Deputy Leader concluded by moving the recommendation set out in the report. The Leader seconded the recommendation.

Summary of options rejected none

DECISION

That Report RD.49/21 be received and the projections for 2022/23 to 2026/27 be incorporated into the Budget reports considered elsewhere on the Agenda.

Reasons for Decision

To receive the report on Treasury Management and refer it as part of the budget process.

Carlisle City Council
Report to Audit Committee

Item A.6

Report details

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Policy and Budget Framework	Yes
Public / Private	Public
Title:	STATEMENT OF ACCOUNTS 2021/22
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD 56/21

Purpose / Summary:

This report provides information regarding the 2021/22 Final Accounts process with a summary of the key issues arising from the previous year's process and how these issues have been addressed. The report also includes the draft accounting policies that will be used in the closedown of the 2021/22 accounts.

Recommendations:

Members are asked to note the update on the 2021/22 accounts and to consider the draft accounting policies to be used in the preparation of the 2021/22 accounts.

Tracking

Audit Committee:	**10 December 2021**

1. BACKGROUND

1.1 The revised Accounts and Audit (Amendment) Regulations 2021 reflect the changes of the MHCLG (now DLUHC) consultation on revised dates for publishing and auditing the Statement of Accounts for 2021/22. The new requirements changed the fixed period for public inspection (previously the first 10 working days of June) to start on or before the first working day of August and therefore the unaudited accounts must be published at the latest by 31 July 2022. The audit must then be concluded by 30 September 2022. The Auditors will then submit its Annual Audit Findings Report. This report, which summarises the audit work undertaken, conclusions reached and any subsequent recommendations, will be considered by the Audit Committee at its meeting at the end of July (unless notified otherwise). The Corporate Director of Finance and Resources may provide a response report to that same meeting.

1.2 The Accounts must then be published and will be available in hard copy and on the Council's website.

1.3 In order to provide a set of Accounts by these deadlines which are also in accordance with relevant Codes of Practice, Regulations and Guidance, the final accounts process commences in January with the production of an internal timetable for the completion of the various tasks involved. This timetable is monitored by Financial Services officers and progress reported to the Senior Management Team throughout the final accounts process as it is essential that a corporate approach be taken to achieve a set of Accounts which gives a true and fair view of the financial position of the Authority.

2. CHANGES ARISING FROM THE 2021 CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

2.1 There are no significant changes to the 2021 Code of Practice on Local Authority Accounting that affect the Council. However, it should be noted that from 1 April 2022, i.e. the 2022/23 accounts, IFRS16 on Lease accounting will be implemented. Work is underway to assess the implications on the Council.

3. ACCOUNTING POLICIES

3.1 The existing Accounting Policies have been updated for the 2021/22 Statement of Accounts. However, at the time of writing, the 2021/22 Code of Practice Guidance notes have yet to be published showing the required changes in Accounting Policies for 2021/22. The updated policies are attached at **Appendix A**. Members are asked to consider the accounting policies as outlined to provide the basis for the preparation of the 2021/22 Accounts. If there are any subsequent significant changes to the policies following publication of the Guidance Notes, these will be reported to the Committee at the next meeting.

3.2 To facilitate Members understanding of the accounts, the accounting policies and the main changes required as a result of the 2021 Code of Practice, a training session will be proposed for Members in June/July.

4. RECOMMENDATIONS

Members are asked to note the update on the 2021/22 accounts and to consider the draft accounting policies to be used in the preparation of the 2021/22 accounts.

Contact details:

Contact Officer:	Steven Tickner	Ext:	7280

Appendices attached to report:

- **Appendix A – Draft Accounting Policies 2021/22**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

LEGAL - The Audit Committee's terms of reference require it to consider the Council's compliance with its own and other published standards and controls and to consider whether appropriate accounting policies have been followed.

PROPERTY SERVICES - The statement of accounts include the valuations of the Councils assets. The Valuation process to provide the value of the assets is carried out by property services in conjunction with external expert valuers.

FINANCE – contained within body of the report

EQUALITY – none

INFORMATION GOVERNANCE – none

Draft Accounting Policies 2021/22

4.0.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 and the Accounts by the Accounts and Audit (amended) Regulations 2021, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS).

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

4.0.2 Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

4.0.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4.0.4 Exceptional Items

When items of income and expense are material and out of the ordinary, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

4.0.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

4.0.6 Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover these costs but is required to make an annual contribution to reduce its overall borrowing requirement. This is known as the Minimum Revenue Provision and is calculated as 3% of the Council's Capital Financing Requirement at the start of the financial year on a straight-line basis. Depreciation, impairment losses, revaluation losses and amortisations are therefore replaced by a revenue provision in the Movement in Reserves Statement by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

4.0.7 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement on the earlier of when the Council can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring that is within the scope of section 8.2 of the Code and IAS37 and involves the payment of termination benefits.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits
Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Cumbria County Council.

The scheme is a funded defined benefit scheme meaning that the scheme provides retirement lump sums and pensions, earned as employees work for the Council. As a defined benefit scheme, it is shown within the Council's accounts using the following principles:

- The liabilities of the Cumbria Local Government Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.

- Liabilities are discounted to their value at current prices using a real discount rate of x%.

- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.

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

    Around 56% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

- The change in the net pension liability is analysed into six components and recognised in the Statements as follows:

    Service Cost comprising:

    - **Current service cost –** the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement.

    - **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Comprehensive Income and Expenditure Statement.

    - **Net Interest on the defined pension liability (asset)** – i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

    Re-measurements comprising:

    - **The return on plan assets –** excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- **Actuarial gains and losses –** changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- **Contributions paid to the Cumbria Local Government Pension Fund** – cash paid as employers' contributions to the pension fund. This is not accounted for as an expense.

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note xx to the Accounts.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. This therefore means that within the Movement in Reserves Statement, there are appropriations to and from the Pensions Reserve to remove the notional transactions for retirement benefits and replace them with debits for the amounts paid to the pension fund in the year and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

4.0.8 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

4.0.9 Financial Instruments

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

(i) Borrowing

Borrowing is classed as either a long-term liability, repayable after 12 months or longer, or a current liability if it is repayable within a 12-month period. Borrowing is shown in the Balance Sheet at amortised cost using the effective interest rate that applies to the individual loans comprising the total borrowing held by the Council. For borrowing held by the Council, this means that the amount shown in the balance sheet represents the outstanding principal payable to the lender and the interest on the borrowing that is charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year under the loan agreement.

(ii) Creditors

Creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of the creditors recognised in the balance sheet represents the current value of the outstanding liabilities of the Council at 31 March as a proxy for amortised cost.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit and Loss

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

The fair value measurements of the financial assets are based on the following techniques:

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

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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

4.0.10 Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

4.0.11 Heritage Assets

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

The majority of the Council's Heritage Assets are held in the Council's Museum. The Museum has four collections of heritage assets, Archaeology, Social History, Natural History and Fine and Decorative Arts, which are held in support of the primary objective of the Council's Museum, i.e. increasing the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant, and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as described below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's primary collections of heritage assets are accounted for as follows.

Museum Collection

The Council's museum collection consists of a significant number of artefacts including pictures, prints, sculptures, china, glass, porcelain, coins, medals archaeological items, as well as significant numbers of social and natural history items, costumes, and firearms. Museum collections are reported in the Council's balance sheet at insurance valuation which take into account current market values. These insurance valuations are reviewed on an annual basis as part of the overall insurance premium renewal process.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations being based on appropriate insurance values. The Museum has a defined acquisitions and disposals policy for the period 2018 - 2021 that sets out the policy for the development of collections at the museum.

Heritage assets will not be subject to depreciation as it is not deemed appropriate to estimate a useful life for the assets held.

Statues, Monuments, and other historical buildings

The Council has a number of statues and monuments and other historical buildings that it does not consider that reliable cost or valuation information can be obtained. This is due to the historical significance of such items. However, in some cases, historical cost information is recorded, particularly those that were previously classified as Community assets. Therefore, those items that were previously categorised as Community Assets will be recognised at their historic cost. This will be re-evaluated so that the most appropriate valuation basis is used, and those previously not recognised (primarily statues and monuments) will not be recognised on the balance sheet although appropriate disclosures made.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 4.0.16 in this summary of significant accounting policies. The trustees of the Council's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant, and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

4.0.12 Inventories and Long-Term Contracts

Stocks are reflected in the balance sheet at current prices. This is a departure from the requirements of the Code and IAS 2 Inventories, which requires stocks to be shown at the lower of cost or net realisable value where they are acquired through an exchange transaction.

4.0.13 Investment Property

Investment properties are those that are used solely to earn rentals and for capital appreciation or both. The definition is not met if the property is used in the production or supply of goods or services or for administrative purposes or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

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

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

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

The Council as Lessee

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

The Council as Lessor

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

4.0.15 Overheads and Support Services
The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non- Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

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

De-minimis levels have been set at:

- £5,000 for expenditure on individual items of vehicles, plant, and equipment.
- £20,000 for expenditure on land, buildings, and other structures.

Measurement

Assets are initially measured at cost, comprising:

- the purchase prices.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

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

Donated assets are measured initially at current value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets – depreciated historical cost
- assets under construction – historic cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. This includes assets such as Cemeteries and Crematoria, Leisure Centres, Museums, Community Centres, Hostels and Public Conveniences.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Deprecation is calculated on the following bases:

Asset Category	Rate	Basis
Dwellings & Other Buildings	Useful Life	Straight Line
Infrastructure Assets	Useful Life	Straight Line
Vehicles, Plant, furniture & Equipment	Useful Life	Straight Line
Intangible Assets	Useful Life	Straight Line

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Componentisation
The Council has a policy on componentisation where any asset with a Gross Book Value of more than £1million and is subject to depreciation will be considered for componentisation where a component is deemed to be more than 5% of the assets value. This will primarily apply to buildings and the major components to be considered will be:

Component
Heating and Ventilation System
Windows
Electrical
Roofing
Cremator

Disposals and Non-current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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

participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

4.0.18 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation,and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

4.0.19 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

4.0.20 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

4.0.21 VAT

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

4.0.22 Council Tax / Non-Domestic Rates (NDR) Income

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Non- Domestic Rates (NDR). The Statutory Collection Fund (England) Statement is included as a supplementary statement in the accounts. In its capacity as billing authority the Council acts as an agent. During 2020/21 the Council collected and distributed NDR on behalf of itself, the Government and Cumbria County Council. Council Tax was collected and distributed on behalf of the City Council, the County Council, the Police and Crime Commissioner for Cumbria and local town and parish councils.

Council Tax accrued income for the year and Council Taxpayers debtors, creditors, and provision for bad debts at the 31 March are shared between the major preceptors and the Council based on their percentage share of the total demands/precepts for the year. Business rates accrued income for the year as well as business ratepayers, debtors, creditors and provisions for bad debts and appeals are shared between the Council (40%), Government (50%) and Cumbria County Council (10%).

Collection Fund Debtors are reviewed collectively at the balance sheet date by debt type and provision is made for impairment based on the historical evidence of default in each category. The Council's share of the Collection Fund Debtors shown in the balance sheet is net of this bad debt provision.

In accordance with the current accounting code of practice the Council's Comprehensive Income and Expenditure Statement includes its share of accrued council tax and business rates income. Where this amount is more or less than the amount to be credited to the General Fund under statute, there is an adjusting transfer in the Movement in Reserves Statement, between the General Fund Balance and the Collection Fund Adjustment Account. This account holds the Council's share of the Collection Fund Surplus or Deficit at the 31 March. The Council's Balance Sheet includes the net creditor/debtor position with the Government and major preceptors for taxes collected on their behalf and not yet paid to them or taxes paid to them but not yet collected from taxpayers.

Carlisle City Council
Report to Audit Committee

Item A.7

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not Applicable:
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 – APPOINTMENT OF EXTERNAL AUDITORS
Report of:	Corporate Director of Finance & Resources
Report Number:	RD63/21

Purpose / Summary:

This report summarises the arrangements for the appointment of external auditors for the five-year period 2023/24 to 2027/28.

Recommendations:

Members are requested to consider the options set out in the report and it is proposed that the Audit Committee recommends to Council that:

- The Council opts into the sector led procurement of local authority external auditors and accepts the PSAA invitation for the five-year period from 2023/24 to 2027/28; and that
- Delegation is provided to the Corporate Director of Finance & Resource in consultation with the Chair of the Audit Committee to complete the Formal Notice of Acceptance on behalf of the Council.

Tracking

Audit Committee:	**10 December 2021**
Overview and Scrutiny:	**Not applicable**
Council:	**4 January 2022**

1. BACKGROUND

1.1 Under the Local Audit and Accountability Act 2014 the Council is required to appoint an auditor to audit its accounts for each financial year.

1.2 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. Members are reminded that the Council opted into the “appointing person” national arrangements established by the Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23, with Grant Thornton being the appointed body.

1.3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During 2021/22 government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

1.4 If the Council wishes to take advantage of the national auditor appointment arrangements, and as the City Council operates an Executive arrangement, it is full Council that must appoint the local auditor, not the Executive. The function of appointing the auditor cannot be delegated to a committee, sub-committee or an officer of the authority or to any other authority. The notice of acceptance of the invitation to opt in must be completed and returned by 11 March 2022.

1.5 Given that the Council is going through Local Government Reorganisation, any newly established local government bodies have the right to opt into the PSAA’s scheme under Regulation 10 of the Appointing Person Regulations 2015; and it is suggested that current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should reorganisation be delayed. The Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

1.6 The three main options available to Councils consist of the following:

- To appoint its own auditor, by the setting up of an Independent Auditor Panel;
- To act jointly with other authorities to procure an auditor following the procedures in the Act;

- To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the ‘appointing person’. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

1.7 These options are set out in more detail below.

2. OPTIONS AVAILABLE FOR THE LOCAL APPPOINTMENT OF EXTERNAL AUDITORS

2.1 Independent Auditor Panel

This would be required in order to make a stand-alone appointment. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council’s external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefit

Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances

The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

2.2 Joint Independent Auditor Panel

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

From discussions at Cumbria Chief Finance Officers' Group, there is no appetite for a collaborative approach throughout Cumbria (especially given the LGR process underway), with all Cumbrian Council's likely to support a sector-led approach.

Advantages/benefits

The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

The decision-making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

2.3 <u>Opting- in to the national auditor appointment scheme</u>

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

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

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

3. CONCLUSION AND REASONS FOR RECOMMENATIONS

3.1 The Council has until March 2022 to respond to the invitation if it wishes to opt into the national appointment scheme so that appointments can be made by the statutory deadline of 31 December 2022. In practical terms this means one of the options outlined in the report will need to be in place by spring 2022 in order that the contract negotiation process can be carried out during 2022.

3.2 Members are therefore requested to consider the options set out in the report but based upon the national scheme providing an appointment with limited administrative costs being incurred by the Council; ensuring that there is a continuing and sustainable public audit market into the medium and long term; and by acting with other councils to optimise the opportunity to influence the audit market, it is proposed that the Audit Committee recommends to Council that:

- The Council opts into the sector led procurement of local authority external auditors for the five-year period from 2023/24 to 2007/28; and that

- Delegation is provided to the Corporate Director of Finance and Resources following consultation with the Chair of the Audit Committee to complete the Formal Notice of Acceptance on behalf of the Council.

4. RISKS

4.1 The risks are that the Council fails to appoint an auditor in accordance with requirements of the Local Audit and Accountability Act and associated regulations or does not achieve value for money in the appointment process. These risks can be mitigated through opting into the collective procurement process with PSAA.

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

5.1 To ensure that the Council has the necessary governance arrangements in place to comply with statutory requirements.

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Appendices attached to report:

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

The Local Audit and Accountability Act 2014
Local Government Association website

CORPORATE IMPLICATIONS:

Legal –Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including a requirement that the authority consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 further provides that, where a relevant authority is a local authority operating executive arrangement, the function of appointing a local auditor to audit its accounts is not to be the responsibility of an executive of the authority under those arrangements;

If the authority fails to appoint a local auditory, section 12 provides that it must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

Section 17 gives the Secretary of State power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 2015/192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

Following the decision by the DCLG to specify PSAA Ltd as an appointing person, PSAA has formally issued invites to opt-in. PSAA will let the contract, ensuring compliance with OJEU and then make the necessary appointments of individual firms to opted-in authorities.

Property Services – not applicable

Finance – Over recent years local authorities have benefited from reduction in fees in the order of 50% compared with historic levels. However, current external fees are likely to increase once the current contract ends as it has become clear that the scope of audit work has broadened, requiring more audit days and increased fees. The Council's current external audit fees are £42,300 for 2021/22.

There are also concerns about capacity and sustainability in the local external audit market so opting into the national scheme (a large-scale collective procurement arrangement) provides maximum opportunity to ensure fees are realistic as possible, whilst ensuring that the quality of audit is maintained. It also removes the cost of establishing an auditor panel.

Until the procurement process is completed, it is not possible to estimate the level of audit fees for 2023/24 onwards.

Equality – There are no explicit equality implications arising from this report.

Information Governance - None