

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 4 March 2019 at 1.30 pm in the Blaydon Room - Civic Centre

From the Chief Executive, Sheena Ramsey

Item Business

1 Apologies for Absence

2 Minutes (Pages 3 - 8)

The Committee is asked to approve as a correct record the minutes of the meeting held on 28 January 2019.

3 Declarations of Interest

Members of the Committee are invited to declare interests in any agenda items.

4 External Auditor: Audit Strategy Memorandum Year Ending 31 March 2019
(Pages 9 - 30)

Report of the Strategic Director, Corporate Resources

5 Annual Governance Statement 2018/19 - Assurance Framework
(Pages 31 - 36)

Report of the Strategic Director, Corporate Resources

6 Treasury Policy Statement and Treasury Strategy 2019/20 to 2023/24
(Pages 37 - 70)

Report of the Strategic Director, Corporate Resources

7 Review of Financial Regulations (Pages 71 - 100)

Report of the Strategic Director, Corporate Resources

8 Audit and Standards Committee - Training and Induction (Pages 101 - 108)

Report of the Strategic Director, Corporate Services and Governance

9 Audit and Standards Committee Work Programme (Pages 109 - 110)

The Committee is invited to review and note the current work programme.

10 Exclusion of the Press and Public

The Committee may wish to exclude the press and public from the meeting during consideration of the exempt agenda in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972.

11 External Quality Assessment of Internal Audit (Pages 111 - 112)

Report of the Strategic Director, Corporate Governance

12 Date and time of next meeting

Monday 24 June 2019 at 10.00am

GATESHEAD METROPOLITAN BOROUGH COUNCIL

AUDIT AND STANDARDS COMMITTEE MEETING

28 January 2019

PRESENT: Councillor H Haran (Chair)

Councillors: J Green, L Green, J McClurey, J McElroy,
J Turnbull and N Weatherley
Mr S Bell and Mr B Jones (Independent Members)

APOLOGIES: Mr G Clark

ASC170 MINUTES

RESOLVED – That the minutes of the last meeting held on 1 October 2019 be approved as a correct record.

ASC171 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC172 LOCAL CODE OF GOVERNANCE

The Committee were asked to consider and approve an updated version of the Local Code of Governance, based on the CIPFA Delivering Good Governance on Local Government Framework.

As part of this year's annual review of the Local Code of Governance, the Council's senior management have been requested to make any necessary amendments or additions to the document. As a result, amendments have been made to the Local Code of Governance as follows:

- Reference has been included in the column 'We demonstrate this by' to the Council's Thrive Agenda (Principles A&C), Contracts Procedure Rules (Principles A&F), Corporate Social Responsibility Pledge (Principles A,B &C), Trade Union Consultation Framework (Principle B), Social Care Commissioning Intentions (Principle B), Joint Strategic Needs Assessment (Principle B), and Annual Information Technology Health Check (Principle F).
- The dates on the Medium Term Financial Strategy (MTFS) have been updated to reflect the current document (Principles C,D&G)
- The references to the LGA Peer Review 2016 have been deleted given the time since the review was undertaken (Principles E&G)
- Reference has been made to the Health and Wellbeing Board's remit to recognise the Council's responsibility for public health as this covers the wider determinants such as economic, social and environmental issues (Principle C).

- RESOLVED -
- i) That the updated Local Code of Governance be approved, subject to the inclusion of a reference to the role independent members of this Committee and, in particular, their contribution to strengthening independent scrutiny and challenge of governance issues.
 - ii) That the Local Code of Governance be relocated to the Council and Democracy section of the Council's website so that it is easier to locate.
 - iii) That posters be produced and displayed in the members' lounge and chairmen's room as a visual reminder.
 - iv) That the Local Code of Governance be included as part of member induction.
 - v) That a members' briefing be sent to all councillors and independent members to advise them of the updated Code.

ASC173 AUDIT AND STANDARDS COMMITTEE WORK PROGRAMME

The Audit and Standards Work Programme was tabled and noted and it was agreed that Induction Training would be included in the agenda for 4 March 2019 meeting.

RESOLVED - That the information be noted

ASC174 QUARTERLY STANDARDS UPDATE

The Committee received a report providing the quarterly update highlighting national and local standards issues.

Headline issues with links to further reading was presented to the Committee, and were summarised as follows:

- Progress report on Intimidation of public officials/in public life
- Agenda and minutes of the progress of meetings on the review of local government ethical standards
- Local Government review, clarifying conflicts of interests
- Electoral integrity pilots 2019
- Electoral Commission: Digital Campaigning
- Ministry of Housing, Communities and Local Government – new rules banning those found guilty of serious crimes from councils

RESOLVED – That the information be noted.

ASC175 EXTERNAL AUDITOR: AUDIT PROGRESS REPORT

The Committee received the first report of the 2018/19 audit year providing an update on Mazars delivering their responsibilities as external auditor.

Since the Committee last met, the external auditors have:

- Held update meetings with finance officers in respect of planning for the 2018/19 audit; and
- Continued with regular meetings with senior management and reviewed agenda papers and minutes, to inform the risk assessments for the 2018/19 audit.

The Committee were advised that the Audit Strategy Memorandum will be presented for discussion and the next meeting in March 2019. Planning work is on track, and there are no significant matters arising from work that requires reporting to Committee at this stage.

The report outlined the 2018/19 audit and national publications it was noted that with respect to reports in the results of auditors work 2017/18: Principal local government and police bodies, Gateshead Council met the deadline and with the consultation on 2019/20 scale of fees for opted-in bodies the fees for Gateshead Council remain the same as 2018/19.

RESOLVED - That the information be noted.

ASC176 EXTERNAL AUDITOR: RESULTS OF CERTIFICATION WORK 2017/18

The Committee received a report updating on the results of Mazars certification work for 2017/18.

As the Council's appointed auditor, Mazars acted as an agent of Public Sector Audit Appointments (PSAA) who have responsibilities to make certification arrangements for specified claims and returns. In 2017/18 the only claim or return within this regime was the Housing Benefit Subsidy return, which was tabled as an appendix to the main report.

The Committee were advised that PSAA set an indicative fee for the work on the Council's Housing benefit subsidy return, which was tabled as an appendix to the main report.

RESOLVED - That the information be noted

ASC177 EXTERNAL AUDITOR: 2017/18 AUDIT - ADDITIONAL FEE

The Committee received a report providing an update on the fee resulting from additional audit work in relation to the audit of the financial statements.

The consolidation of The Gateshead Housing Company into the Council's group accounts for 2017/18 necessitated additional external audit work in order for the opinion on the Accounts to be given by the deadline of 31 July 2018.

The additional work carried out has resulted in an additional fee of £9,716 being charged.

RESOLVED - That the information be noted.

ASC178 CORPORATE RISK MANAGEMENT 2018/19 - QUARTERLY REPORT TO 31 DECEMBER 2018

The Committee received a report providing an update on developments in Corporate Risk Management during the period 1 October 2018 to 31 December 2018 in compliance with the requirements of good corporate governance.

In November 2018 Cabinet and Council approved the revised Strategic Risk Register which had been presented to Audit and Standards Committee on 1 October 2018.

The Committee were updated on Operational Risk, Business Continuity and Benchmarking and were advised that the Council has maintained the same benchmarking scores as the last assessment apart from an improved score for the processes strand which reflects the work undertaken by Corporate Risk Officers to assist managers with the operational risk management process, which has included the production and circulation of improved guidance to managers.

The Committee were advised that the Risk and Resilience Group meeting in January discussed the work which has taken place during the previous quarter, including the revised Risk Management and Business Continuity guidance.

The Committee requested that further Risk Management training to Councillors and officers appropriate to their responsibilities be rolled out in due course.

- RESOLVED -
- i) That the information be noted.
 - ii) That the Committee were satisfied with the effectiveness of the Council's risk management arrangements in place.
 - iii) That further risk management training for councillors and officers be rolled out in due course.

ASC179 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED - That the press and public be excluded from the meeting during consideration of the remaining business in accordance with paragraph 7 of Schedule 12A to the Local Government Act 1972.

ASC180 INTERNAL AUDIT PLAN 2018/19 QUARTERLY REPORT TO 31 DECEMBER 2018

A report was presented outlining the progress made by the Internal Audit & Risk Service against the audit plan for financial year 2018/19 and summaries the main findings arising from audit activity throughout the period 1 October 2018 to 31 December 2018.

From the reviews carried out to 31 December 2018 audit work was found to be complying with PSIAS and the Audit Manual.

The year to date performance information is as follows:

- 100% of audits were completed within budgeted time against a target of 90%
- Productive or chargeable time was recorded at 73% of overall time against an annual target of 73% of overall time
- The average score of the customer satisfaction questionnaires returned is 3.76 against a target of 3.4 (85%)
- The target for implementation of audit recommendations due is 100% for high priority recommendations and 90% for medium priority and best practice recommendations. The current rate of implementation of all recommendations due is 100%, with 100% of all high priority and 100% of all medium priority and best practice recommendations having been implemented.

Further information was tabled as an appendix to the main report.

RESOLVED - That the information be noted.

ASC181 DATE AND TIME OF NEXT MEETING

The next meeting will be held on Monday 4 March 2019 at 1.30pm in the Blaydon Room and not 5.30 pm as previously advised.

Chair.....

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Title of Report: External Auditor: Audit Strategy Memorandum Year Ending 31 March 2019

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report requests that the Committee note the external auditor's Audit Strategy Memorandum for the year ended 31 March 2019.

Background

- 2 The report sets out:
 - A summary of the engagement and responsibilities
 - The audit engagement team
 - Audit scope, approach and timelines;
 - Significant risks and key judgements areas;
 - Value for Money;
 - Fees for audit and other services;
 - Commitment to independence; and
 - Materiality and misstatements.
- 3 The external auditor's report is attached at Appendix A.

Recommendation

- 4 The Committee is requested to note the contents of the external auditor's Audit Strategy Memorandum.

Contact name: Craig Oakes Ext - 3711

Audit Strategy Memorandum

Gateshead Council

Year ending 31 March 2019





CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Mazars' client service commitment

This document is to be regarded as confidential to Gateshead Council. It has been prepared for the sole use of the Accounts Committee as the appropriate sub-committee charged with governance . No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Accounts Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

March 2019

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Gateshead Council for the year ending 31 March 2019

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Gateshead Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

Signed: `{_es_:signer1:signature }`

Cameron Waddell, Partner

For and on behalf of Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Gateshead Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Accounts Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM



- Cameron Waddell, Partner
- cameron.waddell@mazars.co.uk
- 0191 383 6300



- Jim Dafter, Senior Manager
- jim.dafter@mazars.co.uk
- 0191 433 3667



- Elaine Hall, Assistant Manager
- Eeaine.hall@mazars.co.uk
- 0191 433 3662

In addition, as outlined in our engagement letter, an engagement quality control reviewer (EQCR) has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

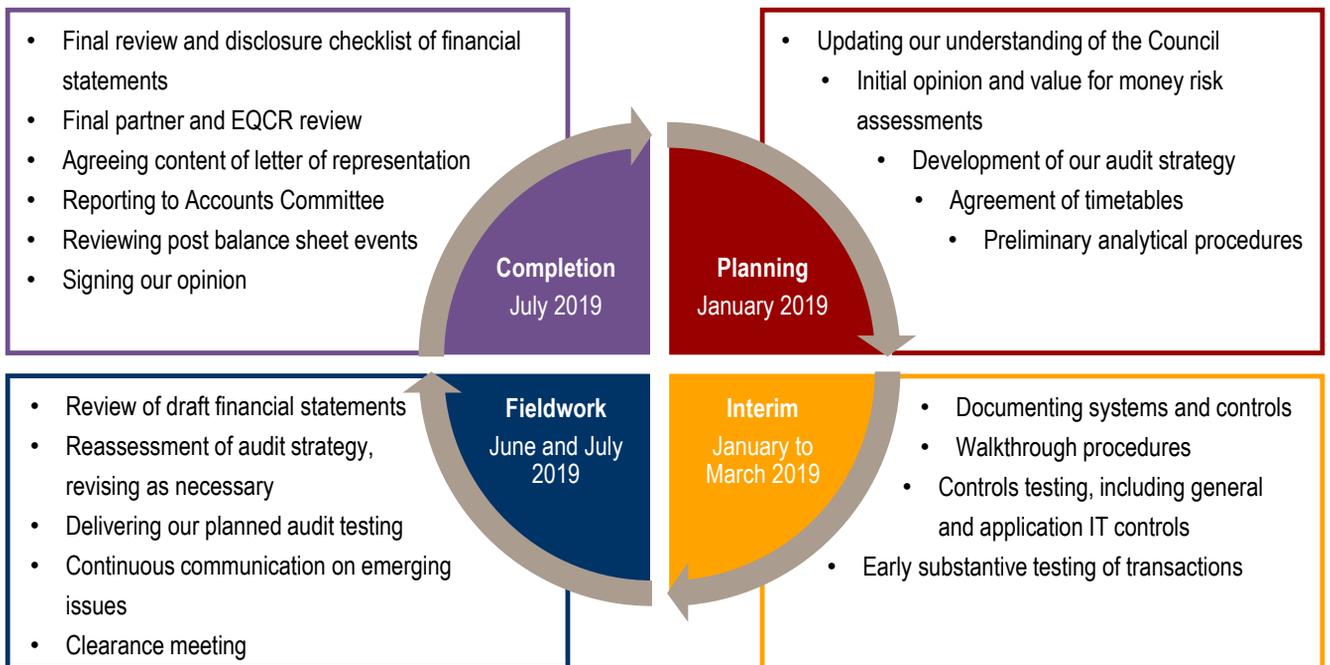
Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt).	NAO's consulting actuary (PWC).
Property, plant and equipment valuation	BNP Paribas Real Estate (UK).	NAO's consulting valuer (Gerald Eve).
Financial instrument disclosures	Link Asset Services	Not required..

Group audit approach

In line with the requirements of the CIPFA Code of Practice on Local Authority Accounting ('the Code'), officers have considered the Council's interests in other entities and determined that it will prepare group accounts which will consolidate The Gateshead Housing Company.

Component	Nature of component / ownership	Auditor
Gateshead Council	Parent – local authority.	Mazars LLP
The Gateshead Housing Company	Subsidiary 100% owned by the Council. The principal activity of the Company is the day to day management, maintenance and improvement of the housing stock of the Council.	KPMG LLP

Group materiality has been set at £13.338 million at the planning stage, and the clearly trivial level is £0.4 million

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach (continued)

We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether any component exceeds a minimum of 15% of key benchmarks (revenues, expenditure, profit/loss before tax, total assets, net assets/liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality – this change, as a result of the EU audit directive, results in such components being classed as ‘material but not significant’ components which are however required to be subject to a group audit scope consistent with a significant component; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the table below. Overall we have assessed that there is one significant component. The nature and scope of work is set out overleaf.

Component	Significant in terms of benchmarks?	Risks of material misstatement?	Commentary
The Council	Yes	Yes	Being the ultimate parent.
The Gateshead Housing Company (TGHC)	No	No	While material transactions and balances exist in relation to pensions; none are greater than the benchmarks after consolidation on a line by line basis.

Nature and scope of planned work

The table below sets out the estimated proportion of each component, relative to the overall group, as well as the nature and scope of planned work. Note that these are estimates and may be subject to change. The work described below is in addition to our review of group-wide controls and the consolidation process. The objective of the analytical procedures is to critically corroborate the group engagement team’s conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.

Component	% of total group revenues	% audited by Mazars	Nature of work	Scope of work
The Council	99.8%	100%	Parent – audited by Mazars.	Not applicable - parent
The Gateshead Housing Company (TGHC)	0.2%	Not applicable	Group analytical procedures.	Critical evaluation of the group engagement team’s conclusion that there are no significant risks of material misstatement of the aggregated financial information of TGHC.
	100%			

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

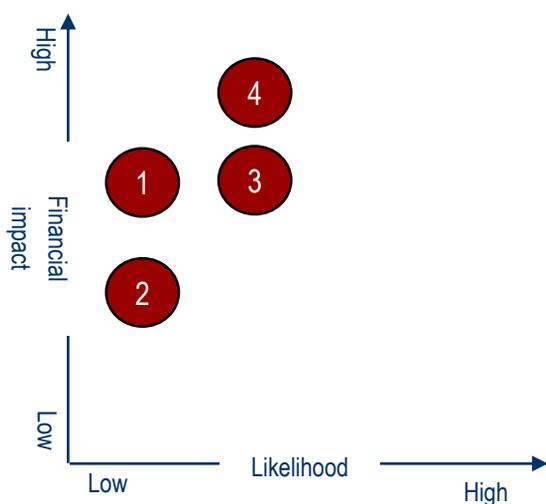
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition (miscellaneous income only)
3	Property, plant and equipment valuation
4	Defined benefit liability valuation

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Accounts Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
2	<p>Risk of fraud in revenue recognition in relation to fees, charges and other income</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income given the demand led nature of these revenue streams. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We will:</p> <ul style="list-style-type: none"> •substantively test fees, charges and other income to ensure it has been correctly classified and recognised; •test journals; and •obtain direct confirmation of year-end bank balances and test the reconciliations to the ledger.
3	<p>Property, plant and equipment revaluation</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We will consider the Council's arrangements for ensuring that PPE values are reasonable and will use an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We will also assess the competence, skills and experience of the valuer.</p> <p>Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.</p>

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

	Description of risk	Planned response
4	<p>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).</p>

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

We have not identified any key areas of management judgement as part of our audit planning.

5. VALUE FOR MONEY

Our approach to Value for Money

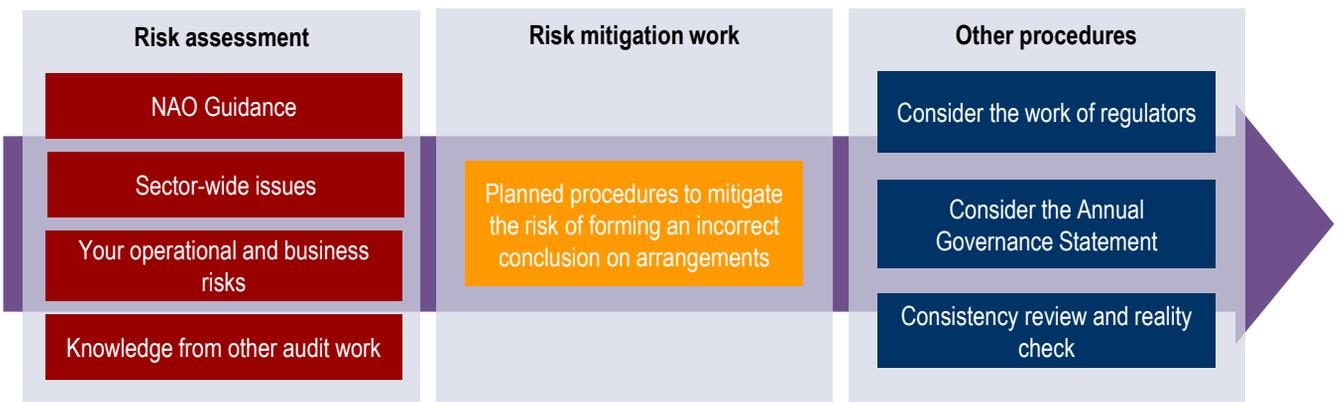
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

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

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2018/19 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
<p>Sustainable resource deployment</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p> <p>The Council continues to face financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges with a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services. Failure to have appropriate arrangements in place to identify and deliver this programme poses a significant risk to the Council's ability to deliver its strategic priorities and maintain statutory functions.</p>	<p>We will review:</p> <ul style="list-style-type: none"> • monitoring and action plans for a sample of savings included in the budget; • the updated Medium-Term Financial Strategy; • budget monitoring reports and other finance updates; and • the progress made in identifying further savings required;

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 9 April 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£130,298	£100,329

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2017/18 fee	2018/19 fee
Assurance services: Housing Benefits Subsidy	£10,615	To be agreed
Assurance services: Teachers' Pensions	£3,750	To be agreed
Assurance services: Pooling of Housing Capital Receipts return	£1,800	To be agreed
Assurance services: Gateshead Primary SCITT	£2,250	To be agreed

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Our assessment of perceived threats and safeguards for non-audit services in respect of 2018/19, as detailed in section 6, is set out in the table overleaf.

No threats to our independence have been identified.

Area of work	Perceived threat	Safeguards and commentary
Assurance Services: Housing Benefits Subsidy return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council/Group and work undertaken will not be relied upon by the audit team.
Assurance Services: Pooling of Housing Capital Receipts return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council/Group.
Assurance Services: Teachers' Pensions Return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council/Group.
Assurance services: Gateshead Primary SCITT	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council/Group.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial Council threshold (£'000s)	Initial Group threshold £'000s
Overall materiality	12,995	13,338
Performance materiality	9,746	10,003
Specific materiality		
• Members allowances	119	119
• Senior manager remuneration	150	150
• Exit packages	431	431
Trivial threshold for errors to be reported to the Accounts Committee	390	400

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Our provisional materiality is set based on a benchmark of gross expenditure at the surplus/deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Accounts Committee.

We consider that gross expenditure at the surplus/deficit on provision of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold of 2% of gross expenditure at the surplus/deficit on provision of services level.

Based on the 2017/18 audited statements we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of –

- Council - £12.995m (£11.370m in the prior year)
- Group - £13.338m (£11.751m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £390k for the Council and £400k for Group based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Accounts Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Accounts Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised costs.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council and its schools are party to.</p>

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.



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Title of Report: **Annual Governance Statement 2018/19 - Assurance Framework**

Report of: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

- 1 This report provides an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) for 2018/19 which demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements.

Background

- 2 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively demonstrating value for money.
- 3 The Accounts and Audit Regulations 2015 require the Council to produce an AGS setting out its governance arrangements and reviewing their effectiveness. The statement accompanies the Annual Statement of Accounts and is signed by the Leader of the Council and Chief Executive.
- 4 The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making, that there is clear accountability for the use of those resources in order to achieve the desired outcomes for service users and the community.

Assurance Framework

- 5 The assurance framework supports the AGS and provides councillors with information on the Council's control environment and governance arrangements. It maps the Council's strategic objectives to risks and controls and seeks assurance from a number of sources of Council activity.
- 6 The process of preparing the AGS should itself add value to the effectiveness of the Governance Assurance Framework. The assurance process will demonstrate four aspects:

- **Identify** – what do we want assurance on?
- **Assess** – what are the sources of assurance?
- **Review** – how is assurance validated?
- **Act** – what are the opportunities to improve?

7 In preparing the governance statement it will be necessary to review evidence from the following sources which together form the assurance framework:

- Governance arrangements
- Councillors
- Senior Managers
- The system of internal audit
- Risk management arrangements
- Counter Fraud arrangements
- Performance management and data quality
- Views of the external auditor and other external inspectorates.
- The legal and regulatory framework
- Financial controls
- Partnership arrangements and governance
- Other sources of assurance.

Governance arrangements

8 The Council has a Local Code of Governance, which was originally presented to the Audit and Standards Committees in April 2007. This was last updated and agreed by the Audit and Standards Committee on 28 January 2019. This Code defines how the Council complies with the principals of good governance as set out in the Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework. The principles of good governance in the framework are:

- Behaving with integrity
- Ensuring openness and comprehensive engagement
- Defining sustainable outcomes
- Determining interventions
- Developing capacity
- Managing risks and performance
- Implementing good practice in transparency

9 The effectiveness of the Council's governance arrangements will be considered through the assessment of the assurances below.

Councillors

10 The Council's Constitution sets out the role of the Cabinet as follows:

- To lead change and make recommendations for change to the Council, in consultation with a wide range of stakeholders;

- To ensure that the Council’s priorities within the policy framework and budget are implemented, making decisions within that framework where appropriate;
 - To monitor and implement the budget and policy framework through taking a lead role on Best Value and through co-ordination with the Overview and Scrutiny role;
 - To provide a public face for specific issues.
- 11 Assurance will be sought from members of the Cabinet on the effectiveness they feel can be placed on the Council’s corporate governance arrangements.

Senior Managers

- 12 All Service Directors will complete a self assessment assurance statement detailing the level of assurance they feel they can place on their key control and governance processes. This statement will be reviewed and updated for 2018/19 to ensure it remains focused on the key areas. The evidence used to complete these statements will be evaluated by Internal Audit as part of the 2019/20 plan.

The system of internal audit

- 13 The Accounts and Audit Regulations 2015 require all authorities to “conduct an annual review of the effectiveness of internal audit and for a committee of the body to consider its findings” and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement. Best Practice highlights that “internal audit”, in this context, includes not only the Internal Audit Service but also the Audit and Standards Committee.
- 14 The review ensures the opinion of the Chief Internal Auditor given in the Internal Audit Annual Report can be relied upon as a key source of evidence in the Annual Governance Statement.
- 15 The Strategic Director, Corporate Resources has delegated responsibility to maintain an adequate internal audit of the Council’s financial affairs as required by Section 151 of the Local Government Act 1972.
- 16 This review of the effectiveness of the system of Internal Audit for 2018/19 will be undertaken by the Council’s Internal Control Group, which includes the Strategic Directors of Corporate Resources and Corporate Services and Governance. This review will be based upon:
- Self-assessment against Public Sector Internal Audit Standards (PSIAS);
 - Self-assessment against the CIPFA Role of the Head of Internal Audit;

- Assessment of the effectiveness of the Audit and Standards Committee;
 - Relevant performance information; and
 - Where appropriate, reliance placed upon Internal Audit by the Council's external auditor.
- 17 The overall opinion of the Chief Internal Auditor based on the work undertaken by the Internal Audit & Risk Service and other providers during the year will be reported to the June Audit and Standards Committee in the Internal Audit Annual Report 2018/19.

Risk management arrangements

- 18 The Corporate Risk Management Policy identifies the roles and responsibilities of the following key groups:
- Councillors through the engagement of Cabinet and the Audit and Standards Committee;
 - Chief Executive;
 - Strategic Director, Corporate Resources;
 - Strategic Directors;
 - Service Directors;
 - Service Managers;
 - Internal Audit & Risk Service; and
 - the Corporate Risk and Resilience Group (including Service Risk Co-ordinators)
- 19 The Policy has been updated to reflect organisational changes which have taken place since it was first adopted. The existing governance arrangements provide a means by which the effectiveness of the Policy can be monitored, thereby facilitating its ongoing development.
- 20 The Strategic Director, Corporate Resources prepares an annual report for the Audit and Standards Committee detailing the Council's risk management arrangements during the year and its findings. The report also includes a view on the effectiveness of the Council's risk management arrangements.

Counter Fraud Arrangements

- 21 The Council's Counter Fraud and Corruption Strategy clearly identifies the Council's Commitment to an effective approach to Counter Fraud and Corruption and outlines the principles the Council is committed to in preventing and reporting fraud and corruption.
- 22 Regular reports on any activity relating to this Strategy, and progress against the fraud plan, are provided to the Committee.
- 23 A Counter Fraud and Corruption Policy and Fraud Response Plan forms an important part of the Counter Fraud and Corruption Strategy by setting the tone, culture and expectations of the Council, as part of the corporate framework. The Policy outlines the Council's attitude to and

position on, fraud and corruption and sets out responsibilities for its prevention and detection. It also communicates important deterrence messages to employees, Councillors, and third parties that fraudulent conduct will not be tolerated by the Council and that the stance against fraud is endorsed and supported at the most senior level.

- 24 The Fraud Response Plan details the Council's procedures for responding to any incidents of suspected fraud or corruption. The Plan sets out how suspicions should be raised and how investigations will be conducted and concluded.
- 25 An annual report will be provided to the Committee on performance against the Strategy and the effectiveness of the Strategy.

Views of the external auditor and other external inspectors

- 26 The external auditor issues an Annual Audit Letter to the Council, providing a review of the Council's value for money arrangements and reporting any significant issues arising from the audit of the Council's financial statements.
- 27 There are a number of other external inspectorates which may report on management or governance arrangements at the Council in the course of the year.

Performance management and data quality

- 28 The Council's corporate performance management framework (PMF) is a positive tool for employees, managers and councillors to use to take appropriate action, allocate resources and drive improvement.
- 29 The PMF is reviewed periodically to ensure it provides effective challenge and supports the continuous improvement of Council services. Following the adoption in 2018 of the Council's strategic approach Making Gateshead a Place Where Everyone Thrives, the suite of strategic indicators was reviewed and a number of changes identified which were formally agreed by Cabinet in January 2019. In addition, a Local Index of Need has been developed which makes better use of local data to inform decision making and support the Thrive Agenda. The review of the PMF will continue throughout 2019.
- 30 Every six months, performance is reported to SMG Services and Performance, the relevant Overview and Scrutiny Committee and Cabinet.
- 31 In addition, Service Directors use this data, as well as management and operational data, to guide development of their service business plans and service improvements.

Legal and regulatory framework

- 32 Assurance will be sought from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to

ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body.

Financial controls

- 33 Assurance will be sought from the Strategic Director, Corporate Resources who is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety, publicity and budget issues; giving financial information; and acting as the Council's money laundering reporting officer.

Partnership arrangements & governance

- 34 Another requirement is for each Service Director to review the partnerships their Service is connected with and record details within their business plan on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. The overall opinion on the effectiveness of such arrangements will be presented in an annual report to the Audit and Standards Committee.

Other sources of assurance

- 35 Other areas include anything not covered above which gives an opinion on the Council's internal control environment or governance arrangements.

Production of the Annual Governance Statement 2018/19

- 36 A corporate group, chaired by the Strategic Director, Corporate Resources will use the findings of the above sources of assurance to form a view on the adequacy of the Council's overall internal control and governance arrangements.
- 37 Using evidence from this assessment the Group will prepare the AGS for 2018/19 for approval by the Audit and Standards Committee in June 2019. This will then accompany the Statement of Accounts for 2018/19.

Recommendation

- 38 The Committee is asked to agree the Assurance Framework as set out in this report.

Contact: Craig Oakes – Ext. 3711

Title of report: Treasury Policy Statement and Treasury Strategy 2019/20 to 2023/24

Report of: Darren Collins – Strategic Director, Corporate Resources

Purpose of the Report

1. This report asks the Audit and Standards Committee to review the proposed Treasury Policy Statement and Treasury Strategy for 2019/20 to 2023/24 prior to consideration by Cabinet.

Background

2. To provide a framework for the Strategic Director, Corporate Resources to exercise his delegated powers, the Council agrees a five-year Treasury Management Policy and Treasury Strategy which is reviewed at the start of each financial year.
3. The attached Treasury Policy and Treasury Strategy have been prepared considering the Local Government Act 2003, Ministry of Housing, Communities and Local Government 's (MHCLG) Guidance on Local Government Investments, CIPFA's Prudential Code for Capital and CIPFA's Code of Practice on Treasury Management (2017).

Proposals

4. The Committee is asked to review the Treasury Policy and Treasury Strategy attached at Appendix 2 and Appendix 3, to ensure that the Council fully complies with the requirements of good financial practice in Treasury Management.

Recommendation

5. The Committee is asked to review the recommendations on the Treasury Policy and the Treasury Strategy and submit any comments to Cabinet.

For the following reason:

- To ensure that the Council fully complies with the requirements of good practice as recommended by the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management and Prudential Code for Capital (2017) and the Ministry of Housing, Communities and Local Government (MHCLG), Guidance on Local Government Investments.

CONTACT: Clare Morton, ext. 3591

Policy Context

1. The proposals in this report are consistent with Council priorities and in particular they ensure that effective use is made of the Council's resources to ensure a sustainable financial position. The Council has approached the budget consultation for 2019 within a framework for achieving the Council's new strategic approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just council resources, but those of partners, local businesses and residents. To deliver on the new strategic approach over the next five years, the Council will need to be resolute in its determination to make Gateshead a place where everyone thrives. This means the Council's decision-making will be policy and priority led and driven.

Background

2. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.
3. In December 2017 CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code (the Code) which represents best practice. The Council fully complies with the Code and this contributes towards achieving good practice.
4. Part 1 of the Local Government Act 2003 specifies the powers of a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Borrowing is linked to the CIPFA Prudential Code for Capital which sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code refers to the need for a clear and integrated treasury strategy.
5. In addition, under Section 15 of the Local Government Act 2003, authorities are required to have regard to the MHCLG's guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Council's Treasury Strategy.
6. MHCLG consulted on proposed changes to the investment guidance which closed on 22 December 2017; the final revised guidance was issued early 2018 and was effective for financial years commencing on or after 1st April 2018. The revised guidance focuses on non-financial asset investments.
7. Under Part 4 of the Council's Constitution the Strategic Director, Corporate Resources will produce a Treasury Policy Statement annually, setting out the general policies and objectives of the Council's treasury management function.
8. The Council also provides a treasury management service to the Gateshead Housing Company through a Service Level Agreement.

Treasury Policy

9. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Council.
10. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
11. CIPFA's Code requires the setting out of responsibilities and duties of councillors and officers to allow a framework for reporting and decision making on all aspects of treasury management. To achieve this CIPFA has recommended the adoption of 12 treasury management practices (TMPs).
12. These principles are intended to provide a working document that forms a detailed framework for treasury management activities. The policy fully encompasses CIPFA's Code of Practice. In addition, the policy fully takes account of the requirements of the Prudential Code for Capital Finance in Local Authorities and the guidance issued by the MHCLG supporting Part 1 of the Local Government Act 2003 in respect of local authority investments. The Treasury Policy is attached at Appendix 2.

Treasury Strategy

13. The Treasury Strategy for 2019/20 to 2023/24 is attached at Appendix 3. This covers the specific activities proposed for 2019/20 to 2023/24 in relation to both borrowing and investments and ensures a wide range of advice is taken to maintain and preserve all principal sums, whilst obtaining a reasonable rate of return, and that the most appropriate borrowing is undertaken. The primary objective of the investment strategy is to maintain the security of investments at all times.
14. The term "investments" used in the definition of treasury management activities also covers non-financial assets which the Council may hold primarily for financial returns. The control of risk and optimising returns on these more commercial investments is consistent with the Council's risk appetite.
15. The Council have reviewed the maximum maturity periods and amounts which can be invested with counterparties outlined in Appendix 6. In ensuring that these limits meet our requirements an assessment of risk has been undertaken and advice obtained from Link Asset Services.
16. The Council has produced the Treasury Strategy to comply with the requirements of the Code, the Prudential Code for Capital Finance in Local Authorities (2017) and Part 1 of the Local Government Act 2003. The Council considers that compliance with the above ensures that best practice is followed.

Consultation

17. Consultation on the production of the Treasury Policy Statement, including the Treasury Strategy for 2019/20 to 2023/24, has taken place with the Council's treasury advisers (Link Asset Services). The outcome of the consultation process, along with guidance issued by CIPFA and the MHCLG, has informed the format and content of the policy and strategy statements.
18. The Leader of the Council has been consulted on the contents of this report.

Alternative Options

19. There are no alternative options, as the Treasury Policy and Strategy reports recommended for approval are required in order to comply with CIPFA's Code of Practice on Treasury Management (2017).

Implications of recommended options

20. Resources:

- a) **Financial Implications** - The Strategic Director, Corporate Resources confirms that the financial implications are set out in this report. There are no additional financial implications associated with the report itself.
- b) **Human Resources Implications** - There are no human resources implications arising from this report.
- c) **Property Implications** – There are no property implications arising from this report.

21. Risk Management Implications

The Treasury Policy and Treasury Strategy which informs activity in this area were prepared with the primary aim of minimising risk to ensure that the Council's principal sums are safeguarded. Maximising income is considered secondary to this main aim.

22. Equality and Diversity Implications

There are no equality and diversity implications arising from this report.

23. Crime and Disorder Implications

There are no crime and disorder implications arising from this report.

24. Sustainability Implications

There are no sustainability implications arising from this report.

25. Human Rights Implications

There are no human rights implications arising from this report.

26. **Area and Ward Implications**

There are no direct area and ward implications arising from this report.

27. **Background Information:**

The following documents have been used in preparation of the report:

- Local Government Act 2003
- MHCLG Guidance on Local Government Investments
- CIPFA's Prudential Code for Capital (2017)
- CIPFA's Code of Practice on Treasury Management (2017)
- Council's approved Treasury Management Practice Statements

Treasury Policy 2019/20 to 2023/24

1. Approved Activities of the Treasury Management Operation

- 1.1 In December 2017 CIPFA published a revised Code of Practice on Treasury Management in the Public Services (the Code), which represents best practice. Treasury management activities are defined by CIPFA as:

“The management of the organisation’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.”

- 1.2 The term “investments” used in the definition of treasury management activities includes all financial assets of the organisation, as well as other non-financial assets which the Council may hold primarily for financial returns. The control of risk and optimising returns on these more commercial investments is also consistent with the Council’s risk appetite.
- 1.3 The Council provides a treasury management service to the Gateshead Housing Company through a Service Level Agreement. Borrowing to fund the capital programme of the Company is also carried out by the Council and is included in the overall borrowing figure.

2. Formulation of the Treasury Strategy

- 2.1 The formulation of a Treasury Strategy involves determining the appropriate borrowing and investment decisions with the prime objective of safeguarding the Council’s assets and secondary objectives of obtaining a reasonable rate of return on investments and minimising the costs of borrowing. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Council and ensure robust due diligence procedures cover all external non-treasury investments.
- 2.2 The Treasury Strategy encompasses the requirements of CIPFA’s Treasury Management Code of Practice, Prudential Code for Capital and the MHCLG Guidance on Local Government Investments.
- 2.3 The Treasury Strategy covers the following:
- a) the current treasury position;
 - b) Prudential and treasury indicators which limit the treasury risk and activities of the Council;
 - c) prospects for interest rates;
 - d) the borrowing strategy;
 - e) debt rescheduling;
 - f) policy on borrowing in advance of need;
 - g) the investment strategy;
 - h) creditworthiness policy; and
 - i) the policy on the use of external service providers.

The strategy for 2019/20 to 2023/24 is attached at Appendix 3.

3. Prudential and Treasury Indicators

3.1 Under Part 1 of the Local Government Act 2003 the Council may borrow money
(a) for any purpose relevant to its functions under any enactment, or
(b) for the purposes of the prudent management of its financial affairs.

3.2 Under the requirements of the Prudential Code and Treasury Management Code of Practice the following indicators have been adopted:

- Actual and estimates of financing costs to net revenue stream;
- Estimates of capital expenditure;
- Actual capital expenditure;
- Estimate of Capital Financing Requirement;
- Actual Capital Financing Requirement;
- Authorised limit;
- Operational boundary;
- Actual external debt;
- Gross debt and Capital Financing Requirement;
- Upper and lower limit of maturity structure of borrowing fixed and variable;
and
- Upper limit on principal sums invested for periods of over 365 days.
- In addition to the above indicators, local indicators showing the level of reserves which are backed by cash in the bank and internal borrowing as a percentage of the capital financing requirement have been introduced to this report.

3.3 Given the link to the budget and capital programme, these indicators were approved by the Council on 21 February 2019 as part of the Budget and Council Tax Level 2019/20 report. For completeness, the approved indicators are attached at Appendix 4.

4. Annual Investment Strategy

4.1 Part 1 of the Local Government Act 2003 relaxed the constraints under which local authorities can invest.

4.2 The MHCLG has issued guidance to supplement the investment regulations contained within the Local Government Act 2003. It is also referred to under Section 15 (1) of the 2003 Local Government Act which requires authorities to “have regard (a) to such guidance as the Secretary of State may issue and (b) to such other guidance as the Secretary of State may by regulations specify”. The guidance encourages authorities to invest prudently but without burdening them with the detailed prescriptive regulation of the previous regime.

4.3 Central to the guidance and the Code is the need to produce an Annual Investment Strategy. This is included as Section 6 of the Treasury Strategy in Appendix 3.

4.4 The Annual Investment Strategy document will include:

- The Council’s risk appetite in respect of security, portfolio liquidity and return;
- The definition of ‘high’ and ‘non-high’ credit quality to determine what are specified investments and non-specified investments;

- Which specified and non-specified instruments the Council will use, dealing in more detail with non-specified investments given the greater potential risk;
- The categories of counterparties that may be used during the course of the year e.g. foreign banks, nationalised/part nationalised banks, building societies;
- The types of investments that may be used during the course of the year;
- The limit to the total amount that may be held in each investment type;
- The Council's policy on the use of credit ratings, credit rating agencies and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list and how the Council will deal with changes in ratings, rating watches and rating outlooks;
- Limits for individual counterparties, groups and countries; and
- Guidelines for making decisions on investments and borrowing;
- The Council's policy on commercial investments held for return.

5. Policy on Interest Rates Exposure

- 5.1 The Budget and Council Tax Level 2019/20 approved by Council on 21 February 2019, sets treasury limits for the maximum and minimum level of exposure to fixed and variable rate borrowing. The use of any financial instruments, such as derivatives, to mitigate interest rate risks will be considered on an individual basis and the Strategic Director, Corporate Resources will obtain approval from the Council prior to entering into any arrangement of this nature.

6. Policy on Delegation, Review Requirements and Reporting Arrangements

- 6.1 It is the Council's responsibility under the Code to approve a Treasury Policy statement.
- 6.2 The Council delegates the review of the policy and monitoring of the performance of the treasury management function to Cabinet, the scrutiny of treasury management strategy and policies to the Audit and Standards Committee, and the execution and administration of treasury management decisions to the Strategic Director, Corporate Resources, who will act in accordance with the organisations policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management. Any proposals to approve, adopt or amend policy require the consent of the Council and are matters for the Council to determine.
- 6.3 Council will receive:
- a) a Treasury Policy Statement and five-year Treasury Strategy report, including the annual Investment Strategy, for approval before the commencement of each financial year; and
 - b) an annual report on borrowing and investment activity by 30 September of each year.
 - c) a mid-year report on borrowing and investment activity.
- 6.4 The Audit and Standards Committee will receive:
- a) a Treasury Policy Statement and five-year Treasury Strategy report for scrutiny; and
 - b) a mid-year report on borrowing and investment activity.
- 6.5 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - b) an overview of how the associated risk is managed
 - c) the implications for future financial sustainability
- 6.6 The aim of this report is to ensure that all elected members of the council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.
- 6.7 The Capital Strategy 2018/19 to 2023/24 was approved by Cabinet on 20th November 2018.

Treasury Strategy 2019/20 to 2023/24**1. Introduction**

- 1.1 The CIPFA Code of Practice on Treasury Management 2017 (the Code) emphasises a number of key areas including the following:
- a) All authorities must formally adopt the Code.
 - b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
 - c) The Council's appetite for risk, including the appetite for any use of financial instruments in the prudent management of those risks, must be clearly identified within the strategy report and will affirm that priority is given to security and portfolio liquidity when investing treasury management funds and explain how that will be carried out.
 - d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
 - e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
 - f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
 - g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
 - h) The main annual treasury management reports must be approved by full council.
 - i) There needs to be a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
 - j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
 - k) Treasury management performance and policy setting should be subjected to prior scrutiny.
 - l) Councillors should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
 - m) Responsibility for these activities must be clearly defined within the organisation.
 - n) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the Treasury Management Practices).
 - o) "Investments" covers the financial and non-financial assets which the organisation holds primarily for financial returns. This will include investments which are not managed as part of the normal treasury management delegations.
- 1.2 This Strategy has been prepared in accordance with the Code.

1.3 The Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy & Strategy / Annual Investment Strategy	Council approval with review delegated to Cabinet/ Audit and Standards Committee	Annually before the start of the year or where a material change is proposed
Annual Report	Council with review delegated to Cabinet/ Audit and Standards Committee	Annually by 30 September after the end of the year
In year changes to agreed Treasury Management Policy & Strategy / Annual Investment Strategy / Prudential and Treasury Indicators	Cabinet	By exception
Scrutiny of treasury management performance via mid-year report	Council approval with review delegated to Cabinet / Audit and Standards Committee	Mid-Year
Scrutiny of treasury management Policy, Strategy and procedures	Audit and Standards Committee	Annually before the start of the year
Treasury Management Monitoring Reports	Strategic Director, Corporate Resources	Monthly/Weekly
Treasury Management Practices	Strategic Director, Corporate Resources	Monthly

1.4 The revised Prudential Code covers the following Prudential Indicators which were approved by Council on 21 February 2019:

- Actual and estimates of financing costs to net revenue stream;
- Estimates of capital expenditure;
- Actual capital expenditure;
- Estimate of Capital Financing Requirement;
- Actual Capital Financing Requirement;
- Authorised limit for external debt;
- Operational boundary for external debt;
- Actual external debt;
- Gross debt and Capital Financing Requirement;
- Upper and lower limit of maturity structure of borrowing fixed and variable;
- Upper limit on principal sums invested for periods of over 365 days.

1.5 In addition to the above indicators, local indicators showing the level of reserves which are backed by cash in the bank and internal borrowing as a percentage of the capital financing requirement have been introduced to this report. Also, where there is a significant difference between the net and the gross borrowing position the risk

and benefits associated with this strategy will be clearly stated in the annual strategy.

- 1.6 The strategy covers:
- a) Prospects for interest rates;
 - b) Treasury limits in force which will limit the treasury risk and activities of the Council, including prudential and treasury indicators;
 - c) The borrowing strategy;
 - d) Sensitivity forecast;
 - e) External and internal borrowing;
 - f) Debt rescheduling;
 - g) Policy on borrowing in advance of need;
 - h) The investment strategy; and
 - i) The policy on the use of external service providers.

2. Prospects for Interest Rates

- 2.1 The table shown below outlines the Council's view of anticipated movements in interest rates, based on guidance received from the Council's treasury management advisers Link Asset Services as at 12 February 2019.

	March 2019	June 2019	Sept 2019	Dec 2019	March 2020	March 2021	March 2022
Bank Rate	0.75%	0.75%	1.00%	1.00%	1.00%	1.50%	2.00%
5 yr PWLB*	1.80%	1.90%	2.00%	2.10%	2.20%	2.50%	2.70%
10 yr PWLB	2.20%	2.30%	2.40%	2.50%	2.60%	2.90%	3.00%
25 yr PWLB	2.70%	2.80%	2.90%	3.00%	3.10%	3.40%	3.60%
50 yr PWLB	2.50%	2.60%	2.70%	2.80%	2.90%	3.20%	3.40%

* Public Works Loan Board, a statutory body operating within the UK Debt Management Office, which is an executive agency of HM Treasury. The PWLB's function is to lend money to other prescribed public bodies.

Short Term Interest Rates

- 2.2 2018 started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% followed by quarter 3 being exceptionally strong at 0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only 0.2%. Growth is likely to continue being weak until the conclusion of Brexit.

The above forecasts are based on a major assumption that Parliament and the EU agree an orderly Brexit, either by 29 March or soon after. At their 7 February meeting, the MPC repeated that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; they have quoted a Bank Rate of around 2.50% in ten years' time but have declined to give a medium-term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit.

Long Term Interest Rates

- 2.3 Following advice from the Council's treasury management advisers, the Council's view on longer term fixed interest rates is that there will be a 20-basis point

difference between 25-year and 50-year rates. 25-year rates are expected to finish 2019/20 close to 3.10% whilst 50-year rates are expected to be near to 2.90%. It is also expected that PWLB rates on loans less than ten years in duration will be lower than longer term loans.

3. Treasury Limits for 2019/20 to 2023/24 including Prudential Indicators

- 3.1 It is a statutory requirement of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 31(a), as amended by the Localism Act 2011, 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 means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from increases in interest charges and 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.
- 3.2 It is a statutory duty under Section 3 of Part 1 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 so determined is termed the Affordable Borrowing Limit. The Authorised Limit represents the legislative limit specified in the Act.
- 3.3 The Prudential Code for Capital Finance in Local Authorities is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Code requires that treasury management decisions be taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Council. The Council will take into account its arrangements for the repayment of debt and consideration of any impact, on the authority's overall fiscal sustainability.
- 3.4 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and housing rent levels is affordable.
- 3.5 To facilitate the decision-making process and support capital investment decisions the Prudential Code and the Treasury Management Code require the Council to agree and monitor a minimum number of prudential indicators which were approved by Council on 21 February 2019 as attached at Appendix 4.
- 3.6 The Strategic Director, Corporate Resources will ensure systems are in place to monitor the treasury limits and will report to Council instances where limits are breached, with the exception of short-term breaches of the Operational Boundary. The Operational Boundary is set so that if breached it acts as an early warning of the potential to exceed the higher Authorised Limit and as such temporary breaches due to debt restructuring and temporary borrowing are acceptable, providing they are not sustained.

4. Borrowing Strategy

- 4.1 The Local Government Act 2003 does not prescribe approved sources of finance, only that borrowing may not, without the consent of HM Treasury, be in other than Sterling.
- 4.2 The main options available for the borrowing strategy for 2019/20 are PWLB loans, market loans and the Municipal Bond Agency. The interest rate applicable to either PWLB or markets loans can be fixed or variable.
- 4.3 Variable rate short term borrowing is expected to be cheaper than long term fixed borrowing and therefore may be considered throughout the financial year. Due to the expectation that interest rates will rise, the risk of the potential increase in interest rates will be balanced against any potential short-term savings.
- 4.4 There are different types of market loans available, including forward starting, at variable and fixed interest rates. These loans generally would have to be offered at rates below the current or future PWLB forecast rates to make them an attractive option. The forward starting loans will be considered as a means of mitigating future interest rate movements, i.e. where the Council can agree an interest rate ahead of when it would actually be required to draw down the funds. This also avoids the 'cost of carry' – the difference between borrowing costs and investment returns.
- 4.5 To mitigate this interest rate risk a limit is placed on the total level of borrowing that can be taken as variable interest rate loans. To provide scope to utilise new market products should they become available as well as minimise the cost of borrowing and increase the diversification of the debt portfolio it is proposed that the limit on variable rate loans should be 40% of total borrowing in 2019/20.
- 4.6 The main strategy is therefore:
 - Current (February 2019) long term PWLB rates (50 years) are around 2.40%. It is forecast that this will rise over the financial year 2019/20 with targets rates being, 2.60% Q1, 2.70% Q2, 2.80% Q3 and 2.90% Q4. Should interest rates fall below these targets borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity, this may include Local Infrastructure Rate borrowing. The average interest rates forecast across this financial year for various borrowing periods are as follows: -
 - 10 years – 2.45%
 - 25 years – 2.95%
 - 50 years – 2.75%
 - The use of short term borrowing (6 months to 18 months) will also be considered with the aim of minimising borrowing costs. This short-term borrowing will be replaced with longer term loans when rates are preferable.
 - External borrowing rates currently far exceed the return that is available for investments, meaning savings can be achieved by borrowing internally from reserves in the short term. The current policy of internal borrowing will continue to be followed as a short-term funding option serving to minimise overall cost.
 - Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate.

Sensitivity of the forecast

- 4.7 The Council, in conjunction with Link Asset Services, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to any changes. The main sensitivities of the forecast are likely to be the two scenarios below:
- *if it was felt that there was a significant risk of a sharp FALL in long and short-term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
 - *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.
- 4.8 Against this background, caution will be adopted in the management of the 2019/20 treasury operations. The Strategic Director, Corporate Resources will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances having delegated powers to invest and manage the funds and monies of the Council.

External and Internal Borrowing

- 4.9 As at 31 January 2019 the Council has net debt of £581.083m; this includes total borrowing of £659.915m and investments of £78.832m.
- 4.10 Investment returns are likely to remain relatively low during 2019/20 but to be on a gently rising trend over the next few years.
- 4.11 Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when it may not be possible to avoid new borrowing to finance capital expenditure and/or refinance maturing debt.
- 4.12 There remains a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new long term borrowing that causes a temporary increase in cash balances as this position will most likely incur a revenue cost.
- 4.13 The Council has examined the potential for undertaking early repayment of external PWLB or LOBO debt in order to reduce the difference between its gross and net debt positions. The significant difference between early redemption rates and interest rates payable on new debt means that large premiums are likely to be incurred by such action. This situation will be monitored in case the differential is narrowed by changes in current borrowing rates.

Borrowing in advance of need

- 4.14 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 considered carefully to ensure that it is in line with the projected capital financing requirement and prudential indicators and that the Council can demonstrate value for money and ensure the security of the funds.
- 4.15 In determining whether borrowing will be undertaken in advance of need the Council will;
- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
 - ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
 - evaluate the economic and market factors that might influence the manner and timing of any decision to borrow; and
 - consider the alternative forms of funding.

Municipal Bond Agency

- 4.16 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council may consider this as an additional source of borrowing as and when appropriate.

5. Debt Rescheduling

- 5.1 Any rescheduling opportunities will be considered in line with procedures approved under the Council's Treasury Management Practice Statements and will include a full cost/benefit analysis of any proposed variations. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above and will also take into account the prudential and treasury limits.
- 5.2 The reasons for any proposed rescheduling will include:
- the generation of cash savings at minimum risk;
 - help to fulfil the treasury strategy; and
 - in order to amend the maturity profile and/or the balance of volatility in the Council's borrowing portfolio.
- 5.3 The Strategic Director, Corporate Resources in line with delegated powers outlined in the approved Treasury Management Practice Statement, will approve all rescheduling.
- 5.4 As short-term borrowing rates are expected to be cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Opportunities identified will take into consideration the likely cost of refinancing these short-term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.
- 5.5 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short-term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

All rescheduling will be reported to Council in the mid-year and annual reports.

6. Investment Strategy 2019/20 to 2021/22

Introduction

- 6.1 The Council has regard to the MHCLG's Guidance on Local Government Investments and CIPFA's Code of Practice. The Council must produce a strategy on an annual basis which covers the subsequent three years.
- 6.2 The MHCLG and CIPFA have extended the meaning of "investments" to include both financial and non-financial investments. Non-financial investments are essentially the purchase of income yielding assets.
- 6.3 This annual strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the categories of **specified investments** and **non-specified investments**.
- Specified investments are those with a high-level 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.
- 6.4 Both specified and non-specified investment types currently utilised by the Council are detailed in Appendix 6, along with approved limits. These limits reflect the Council's investment requirements whilst assessing risk and obtaining advice from Link Asset Services.
- 6.5 In addition to these, numerous other investment options are available for use and these may be considered suitable for use in the future. Should this be the case then the option will be evaluated in line with the procedures contained within the approved Treasury Management Practice Statement.

Investment Objectives

- 6.6 All investments will be in Sterling.
- 6.7 The Council's primary investment objective is the security of the capital investment. The Council will also manage the investments to meet cash flow demands and to achieve a reasonable return commensurate with the proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.
- 6.8 The borrowing of monies purely to invest is unlawful and the Council will not engage in such activity.

Creditworthiness Policy

- 6.9 The Council applies the creditworthiness service provided by Link Asset Services. The service uses a sophisticated modelling approach with credit ratings from the

three main rating agencies - Fitch, Moody's and Standard and Poor's. This service uses a scoring system to ensure that it does not give undue consideration to just one agency's ratings. It does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.10 The end product of this modelling system is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in-house resources.

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.

The minimum credit rating criteria the Council use will be a Short-Term rating (Fitch or equivalents) of F1 and a long-term rating of A. In circumstances where ratings from all three agencies are not available, two acceptable ratings will be deemed as sufficient.

Where three ratings are published and all three do not meet our minimum criteria the counterparty will not be used until such a time as all three ratings meet the minimum criteria or the lowest rating is withdrawn.

6.11 The credit ratings will be monitored as follows:

- All credit ratings are reviewed weekly. The Council has access to Fitch, Moody's and Standard and Poor's credit ratings and is alerted to changes through its use of the Link Asset Services creditworthiness service. Ongoing monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Asset Services.
- If a counterparty's or deposit scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/deposit scheme as a new deposit will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the Strategic Director, Corporate Resources.

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

6.13 The Council has determined the minimum long term and short-term ratings it deems to be "high" for each category of investment. These "high" ratings allow investments of 365 days or less to be classified as **specified investments**. The Council's approved limits for this "high" credit rating for deposit takers is as follows:

High Rated	Fitch	Moody's	Standard & Poor's
Short Term (ability to repay short term debt)	F1	P1	A1
Long Term (ability to repay long term debt)	A	A2	A

- 6.14 In addition to the above specified investments, the Council has also fully considered the increased risk of **non-specified investments** and has set appropriate limits for non-high rated deposit takers. These are as follows:

Non- High Rated	Fitch	Moody's	Standard & Poor's
Short term	F1	P1	A1
Long term	A-	A3	A-

The selection of counterparties with an acceptable level of creditworthiness will be achieved by selecting institutions down to a minimum durational band within Link Asset Services weekly credit list of worldwide potential counterparties. The maximum maturity periods and amounts to be placed in different types of investment instruments are detailed in Appendix 6.

- 6.15 UK Government nationalised/part nationalised banks will have a maximum limit of 40% or £20m of total investment, all other counterparties will not exceed a maximum limit equal to 20% of total investments or £15m. Unless there are major changes in the level of investment balances throughout the year this limit will be reviewed prior to the commencement of each financial year.
- 6.16 Where more than one counterparty from a group is included on the counterparty list the group in total will be controlled by the above limits with the maximum limit being that of the parent company. Within the group each counterparty/subsidiary will have individual limits based on their creditworthiness although the total placed with the subsidiaries will not exceed the limit of the parent company. Subsidiaries that do not satisfy the minimum credit criteria will not be included.
- 6.17 A number of counterparties are also approved by the Strategic Director, Corporate Resources for direct dealing. These counterparties are included on the approved list and dealing will be within agreed limits. Direct dealing with individual counterparties must be approved by the Strategic Director, Corporate Resources prior to investments being placed.

UK Banks - Ring Fencing

- 6.18 The largest UK banks, are required by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing".
- 6.19 Ring-fencing is a regulatory initiative created in response to the global financial crisis which improves the resilience of banks by changing their structure. In general,

simpler, lower risk activities will be offered by a ring-fenced Bank (RFB), whilst more complex and riskier activities will sit within a non-ring-fenced bank (NRFB).

Foreign Banks

- 6.20 We will continue to use UK banks irrespective of the UK sovereign rating, however non-UK banks domiciled in countries with a minimum sovereign rating of AA+ will be considered for inclusion on the approved list, they must also meet the high rated lending criteria and have operations based in the UK. Limits will be prescribed by the Link Asset Services creditworthiness list and limited to 365 days or less. Each country will be limited to the maximum investment limit of £15m or 20% of the Council's total investments. A list of those countries with a minimum sovereign rating of AA+ is shown in Appendix 7.

Local Authorities

- 6.21 The Council invests with other Local Authorities on an ad hoc basis; each investment is considered on an individual basis and agreed by the Strategic Director, Corporate Resources, prior to funds being placed. Limits are detailed at Appendix 6.

Investment balances / Liquidity of investments

- 6.22 The Council deposits funds beyond 365 days to a maximum of 3 years. This will continue where the counterparty is deemed to be a low credit risk to ensure a good rate of return is maintained in the current market conditions. Deposits beyond 365 days will only be considered when there is minimal risk involved. With deposits of this nature there is an increased risk in terms of liquidity and interest rate fluctuations. To mitigate these risks a limit of £15m (20% of total investments whichever is the higher) has been set and a prudential indicator has been calculated (See Appendix 4). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.
- 6.23 Deposits for periods longer than 365 days are classed as **non-specified investments** and this will increase the total limit of overall deposits in this classification to 75%.

Non-Treasury Investments

- 6.24 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as '**non-specified investments**'.
- 6.25 A loan or grant by the Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Council. It is therefore important for the Council to clearly identify if the loan was capital expenditure or if it is an investment made primarily to generate a financial yield. The latter will be assessed using the Council's Investment Framework.
- 6.26 The Council will ensure that all the organisation's investments are covered in either the Capital Strategy or Investment Strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

- 6.27 To date the Council have not entered any non-treasury investments which are purely to generate a commercial return, neither are there any plans to consider entering into non-treasury investments solely or primarily to obtain a revenue return. However, if an opportunity to do so arose the long term financial impact and the risks inherent to the scheme would be assessed as part of the due diligence process. Where the size of the investment or the risk of the investment required external advice, this will be obtained. Any potential investment entered for a commercial return will require prior Cabinet approval.
- 6.28 The Council does not invest for solely commercial reasons or to generate income to support the revenue budget. Any capital investment entered into to deliver service objectives and/or the placemaking role of the local authority is monitored and reported in line with the Capital Strategy. Capital investments are assessed in terms of their contribution to deliver the following objectives:
- Additional Council Tax
 - Increased Jobs
 - Improved Council Services
 - Income Generation
 - Increased Housing
 - Energy Reductions

Further information can be obtained from the Council's Capital Strategy at the following link: <http://vmgovintweb/ieListDocuments.aspx?CId=138&MId=2001>

- 6.29 The Council maintains a schedule setting out a summary of existing material Investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure, which is attached at Appendix 8.

Internal Investment Strategy

- 6.30 The Strategic Director, Corporate Resources will monitor the interest rate market and react appropriately to any changing circumstances.
- 6.31 The Council takes the view that bank rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter1 2022. Bank rate forecasts for financial year ends are 2018/19 0.75%, 2019/20 1.00%, 2020/21 1.50% and 2021/22 2.00%.
- 6.32 The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside and how quickly the Brexit negotiations move forward positively.
- 6.33 The Council will avoid locking into longer term deals while investment rates are down at historically low levels. Long term deposits, beyond 365 days, will only be used where minimal risk is involved and the counterparties are considered to be supported by the UK Government.

Investment Risk Benchmark

- 6.34 The Council will use an investment benchmark to assess the investment performance of its investment portfolio against the 7-day London Interbank Bid Rate

(LIBID). The Council is also a member of the Link Asset Services investment benchmarking Group who meet semi-annually. As a member, quarterly reports on comparative performance with other members of the group and the wider Link Asset Services client base are received. The benchmarking return for the group is a reasonable target for the Council, which allows the relative risk appetite to be considered as part of the benchmark.

End of year investment report

- 6.35 By the end of September each year Council will receive a report from Cabinet on its investment activity as part of its annual treasury report.

Policy on use of external service providers

- 6.36 The Council currently uses Link Asset Services as its external treasury management advisers.
- 6.37 It is recognised that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.
- 6.38 It is also recognised that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Scheme of Delegation

- 6.39 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed in Appendix 3, paragraph 1.3.

Role of the Section 151 Officer

- 6.40 As required by the Guidance Notes for Local Authorities the role of the Section 151 Officer in relation to treasury management is detailed below:
- Recommending the Code of Practice to be applied, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
 - Submitting regular treasury management policy reports;
 - Submitting budgets and budget variations;
 - Receiving and reviewing management information reports;
 - Reviewing the performance of the treasury management function;
 - Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
 - Ensuring the adequacy of internal audit, and liaising with external audit; and
 - Arranging for the appointment of external service providers;
 - Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;
 - Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
 - Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;

- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

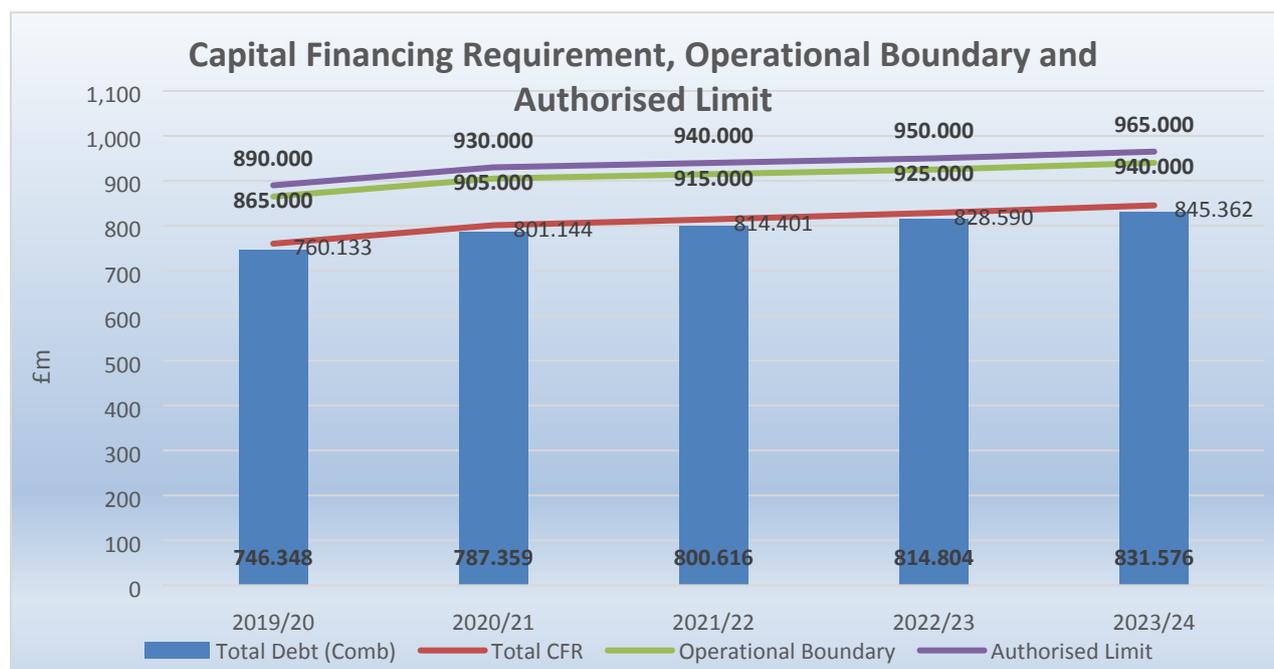
Prudential Indicators – Treasury Management

Authorised Limit for External Debt					
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Borrowing	890,000	930,000	940,000	950,000	965,000

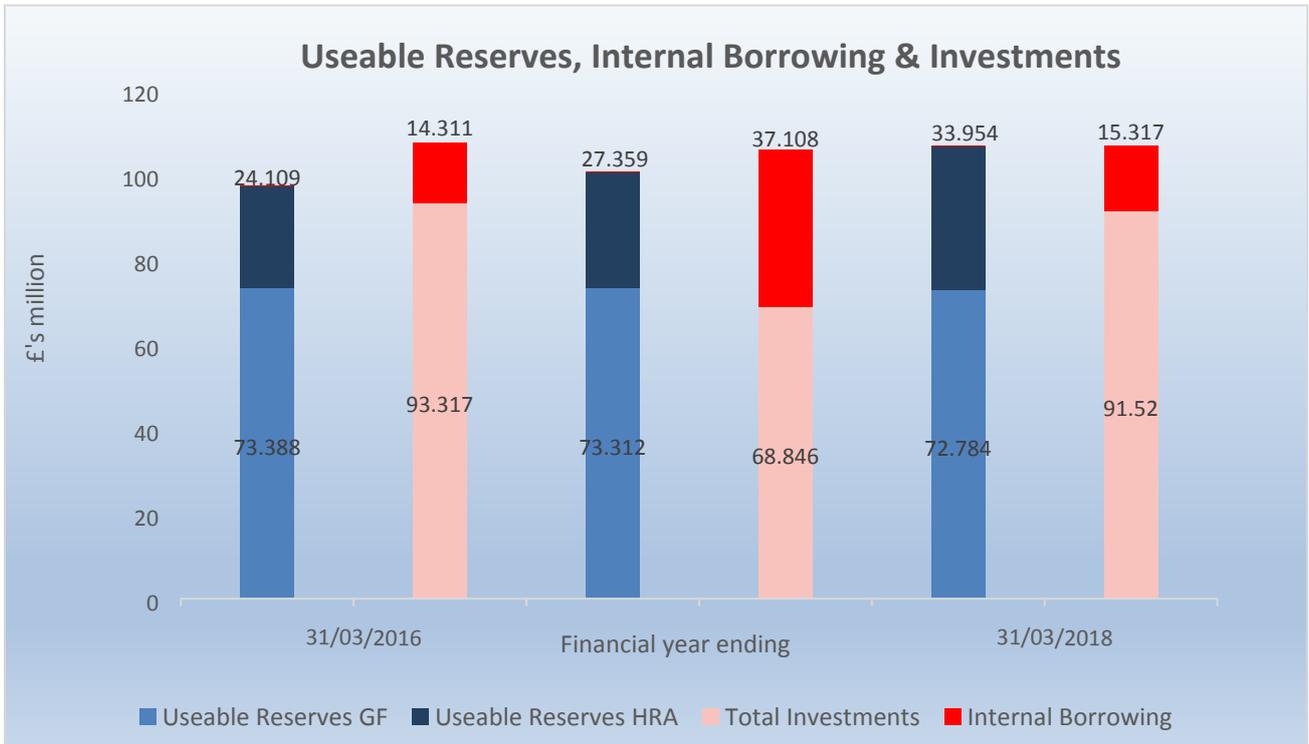
The Authorised Limit for External Debt sets the maximum level of external borrowing that the Council can incur. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the Council's expected maximum borrowing need with headroom for unexpected cashflow. The limit also provides scope for the Council to borrow in advance of need.

Operational Boundary for External Debt					
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Borrowing	865,000	905,000	915,000	925,000	940,000

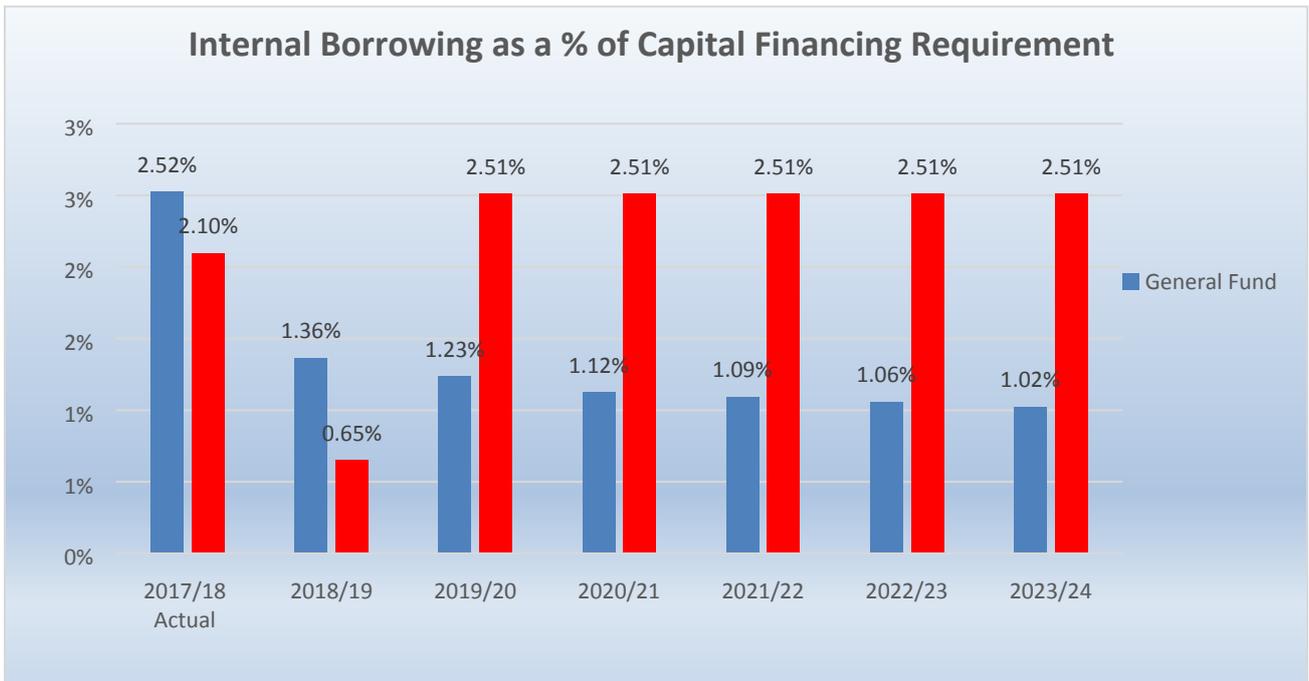
The Operational Boundary for External Debt is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached. Similar, to the authorised limit it also provides scope for the Council to borrow in advance of need



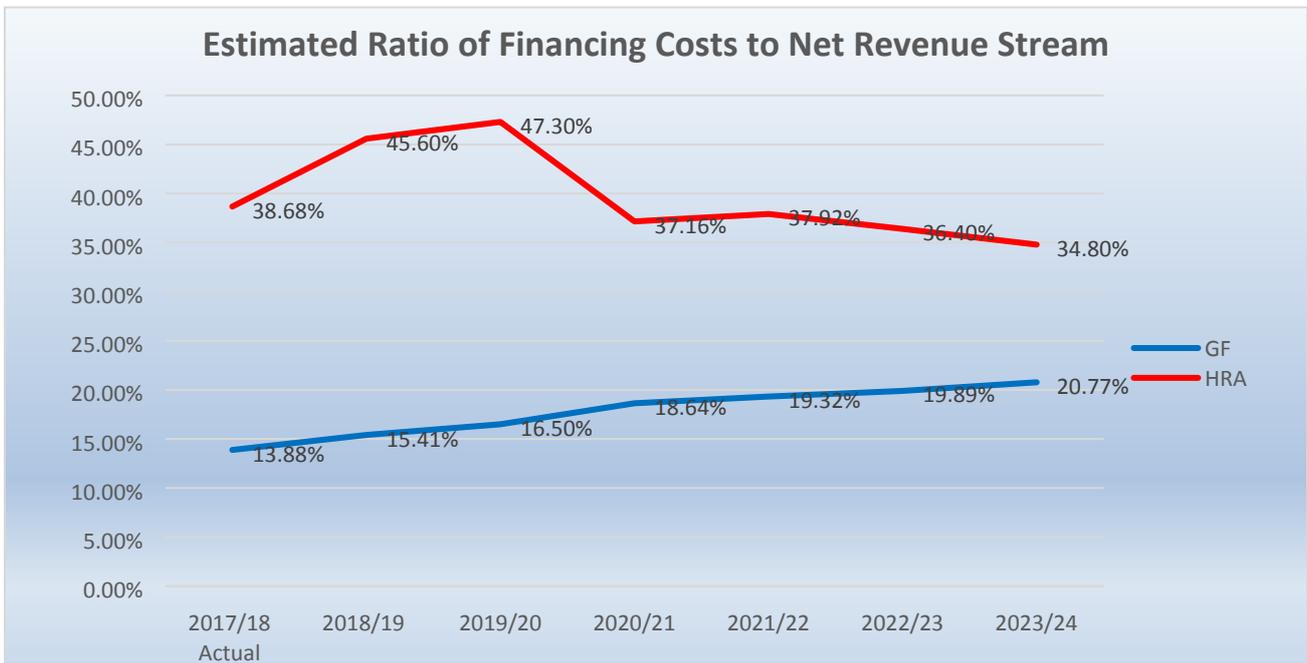
Capital Financing Requirement (CFR) shows the Council's capital borrowing requirement. Any gap between the CFR and the total debt highlights the potential to borrow further if the cashflow and treasury management position dictate.



The internal Borrowing position represents the level to which reserves, and balances have temporarily been used to support borrowing positions and therefore the reserves will not be backed by cash in the bank.



Internal borrowing as a percentage of the Council's underlying borrowing requirement reflects the Council's exposure to interest rate movements and the element of borrowing that is being undertaken at variable rates (i.e. rates equivalent to the lost interest on investment income).



Ratio of financing costs to net revenue stream – financing costs must be met before any services have been delivered. Higher financing costs leaves less available to provide services.

Treasury Indicators

Upper and Lower Limits for the Maturity Structure of Fixed Rate Borrowings		
	Upper Limit	Lower Limit
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and within 20 years	30%	0%
20 years and within 30 years	30%	0%
30 years and within 40 years	50%	0%
40 years and within 50 years	50%	0%
50 years and above	50%	0%

Upper and Lower Limits for the Maturity Structure of Variable Rate Borrowings		
	Upper Limit	Lower Limit
Under 12 months	30%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	15%	0%
5 years and within 10 years	15%	0%
10 years and within 20 years	15%	0%
20 years and within 30 years	15%	0%
30 years and within 40 years	15%	0%
40 years and within 50 years	15%	0%
50 years and above	15%	0%

Upper Limit on Amounts Invested Beyond 365 Days					
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Investments	15,000	15,000	15,000	15,000	15,000

Specified Investments (All Sterling Denominated)

Investment type	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum Credit Rating	Capital Expend- iture	Circumstance of use	Maximum period
Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 365 days.	No	Yes	High security although LA's not credit rated. <i>See appendix 3 Creditworthiness Policy</i>	No	In-house	365 days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits with maturities up to 365 days.	No	Yes	Secure Varied minimum credit rating <i>See appendix 3 Creditworthiness Policy</i>	No	In-house	365 days

<p>Short Term Money Market Funds The majority of these funds are instant access and therefore do not have a maturity date.</p>	No	Yes	Secure Varied minimum credit rating <i>See appendix 3 Creditworthiness Policy</i>	No	In-house	The investment period is subject to liquidity and cash flow requirements. It is assumed that funds are placed overnight and will be returned and reinvested the next working day (although no actual movement of cash may take place).
<p>Standard Money Market Funds and Ultra Short Duration Funds 3-day notice cash plus fund These funds require three-day notice for withdrawals and therefore do not have a maturity date.</p>	No	Yes	Secure Varied minimum credit rating <i>See appendix 3 Creditworthiness Policy</i>	No	In-house	The investment period is subject to liquidity and cash flow requirements. Notice required is three days, however it is the intention to leave these funds for terms longer than other money market funds to achieve greater returns.

Non-Specified Investments (All Sterling Denominated)

Investment type	(A) Why use it (B) Associated risks	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum credit rating	Capital Expenditure	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Rated deposit takers (banks and building societies) which do not meet the Council's "high" credit rating Page 66	(A) To improve ability to place smaller amounts (B) Greater risk than "high" credit rating counterparties but advance warning by rating agency of potential problems. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating <i>Minimum: Long term A- Short term F1</i>	No	In-house	Total not high rated deposits as a proportion of total investments 75%	6 months (but set on an individual counterparty basis)
Term deposits with UK Government, UK Local Authorities or credit rated banks and building societies, with maturities over 1 year	A) To improve the ability to "lock in" at times of high interest rates to secure a higher return over a longer period should rates be forecast to fall. B) Lower liquidity and greater risk of adverse interest rate fluctuations. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	No	Secure Varied minimum credit rating	No	In-house	Total investment per Counterparty 20%	3 years

Certificate of Deposits issued by banks and building Societies	<p>A) Provides additional counterparties, as many banks do not want to take fixed term cash deposits.</p> <p>B) Credit risk could change but if adverse there is an option to sell onto a secondary market.</p> <p>The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.</p>	No	Yes	Secure Varied minimum Credit rating <i>Minimum:</i> <i>Fitch</i> <i>Long term</i> <i>A-</i> <i>Short term</i> <i>F1</i>	No	In-House	20%	12 months (but set on an individual counterparty basis)
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Maximum Maturity Periods and Amounts

Organisation	Criteria	Max Amount*	Max Period
High Rated (Specified Investments – High rated and up to 365 days see Appendix 5)	Minimum Fitch rating of F1 short term and A long term. Moody's minimum rating of P1 short term backed by A2 long term and S&P minimum rating of A1 short term and A long term.	£20m (Gov't Backed, otherwise £15m)	3 years
Foreign Banks	Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+	£15m country limit	365 Days
Non-High Rated	Minimum Fitch rating of F1 short term and A- long term. Moody's minimum rating of P1 short term backed by A3 long term and S&P minimum rating of A1 short term and A- long term.	£10m	6 months
UK Local Authorities	(i.e. local authorities as defined under Section 23 of the 2003 Act) Each investment is considered on an individual basis	£10m	3 years
Short-Term Money Market Funds (Same day settlement)	AAA mmf fund rating or equivalent with assets >£1bn	£10m	Overnight
Standard Money Market Funds and Ultra-Short Duration Funds (Trade plus 3-day settlement)	AAAf fund rating or equivalent, backed up with lowest volatility rating (S1) or equivalent with assets > £0.75bn	£10m	3 days

* Restricted to a maximum of either 40% or 20% of total investments depending on the counterparty.

This list is based on those countries which have non-UK sovereign ratings of AA+ or higher at 15/01/19.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

Investment	Latest Balance	Notes
SCAPE System Build Ltd	784,000.00	17% shareholding in SCAPE
Ncle International Airport	11,583,020.00	13.33% shareholding in Newcastle Airport
Hospital Of King James	74,494.76	Loan Balance @ 21/09/18
Long Term loan Keelman	11,916,536.63	Loan Balance @ 31/12/18
Long term loan CAB	537,583.90	Loan Balance @ 31/01/19
Loan to Trading Company	4,019,000.00	Loan Balance @ 21/02/19
Newcastle Airport Long Term Loan notes	10,298,654.00	Loan Notes - Interest paid bi annually - principal repayment due 2032
Soft Loans	413,396.05	Northern Music Trust - soft loan

Title of Report: Review of Financial Regulations

Report of: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report updates the Audit and Standards Committee on the review of the Council's Financial Regulations.

Background

- 2 The Accounts and Audit Regulations place a duty on the Strategic Director, Corporate Resources to determine the systems of financial control, which must include measures to:
 - a. ensure that the financial transactions of the Council are recorded as soon as, and accurately as, reasonably practicable;
 - b. enable the prevention and detection of inaccuracies and fraud; and
 - c. ensure that risk is appropriately managed
3. The Financial Regulations contained within the Council's Constitution form part of the system of financial control and are subject to periodic review to ensure they remain effective.

Summary of Progress

4. The format of the Regulations has been revised to provide more clarity on the purpose and objectives of the Regulations, the key risks and rules of each one, with a greater emphasis on broad control principles rather than detailed prescriptive processes.
5. Each Regulation will sign post the reader to the relevant detailed procedural guidance which will be available on the Intranet. It is also intended that once approved, the revised Financial Regulations on the intranet will note a responsible officer for each Regulation, who will be the first point of contact for any queries regarding interpretation or application. This officer will also be responsible for ensuring the Regulation continues to be relevant and up to date, and that effective procedural guidance to facilitate compliance is available.
6. The procedural guidance will ensure controls are proportionate, with risks adequately managed and mitigated, and supported by effective exception reporting to ensure any instance of non-compliance is captured and reported for supervisory review.

6. The draft revised Financial Regulations are attached at Appendix A.

Recommendation

- 7 The Committee is requested to review and comment on the draft revised Financial Regulations.

Contact name: Craig Oakes Ext - 3711

Financial Regulations

Introduction and Background

1. What are Financial Regulations

- 1.1 The Local Government Act 1972 (Section 151) requires that an employee of the Council is recognised as the Responsible Financial Officer. Gateshead Council has designated the Strategic Director, Corporate Resources as that officer.
- 1.2 The Accounts and Audit Regulations place a duty on the Strategic Director, Corporate Resources to determine the:
- Appropriate financial records, including the form of accounts and supporting financial records; and
 - Systems of financial control.
- 1.3 The systems of financial control must include measures to:
- a. ensure that the financial transactions of the Council are recorded as soon as, and accurately as, reasonably practicable;
 - b. enable the prevention and detection of inaccuracies and fraud; and
 - c. ensure that risk is appropriately managed.
- 1.4 The Strategic Director, Corporate Resources has developed the following Financial Regulations as part of the system of financial control. These regulations provide a framework for managing the Council's financial affairs, whilst enabling a culture of accountable autonomy.
- 1.5 Each Financial Regulation is supported by more detailed guidance and procedures which set out how the Financial Regulations will be implemented.
- 1.6 The Strategic Director, Corporate Resources has responsibility for the preparation, review and amendment of these Financial Regulations. They should be read in conjunction with other sections of the Council's Constitution, in particular:
- Part 3, which sets out delegations to the Cabinet, various Council bodies and managers;
 - The Budget Policy and Framework Rules; and
 - The Contracts Procedure Rules.
- 1.7 The Strategic Director, Corporate Resources has responsibility for the administration of the Council's financial affairs and is chief financial advisor to the Council and Cabinet. Any issues of uncertainty in the interpretation of these

Financial Regulations should in the first instance be referred to the specified contact for that Regulation.

- 1.8 The Strategic Director, Corporate Resources is responsible for the production of financial management information and will keep the Council and Cabinet informed of the financial implications of all new policies and changes of policies.
- 1.9 Each Strategic Director must Consult the Strategic Director, Corporate Resources on any matter within their purview which is liable to materially affect the finances of the Council before any provisional or other commitment is incurred or before reporting to the Cabinet on the matter.
- 1.10 The Strategic Director, Corporate Resources, or in their absence their nominated Deputy, may take any action they consider necessary taking in to account their duty under Section 114 of the Local Government Finance Act 1988, which provides that they must make a report if it appears to them that the Council, a person holding any office or employment under the Council, or a joint committee on which the Council is represented:
 - 1) has made or is about to make a decision which involves or would involve the authority incurring expenditure which is unlawful;
 - 2) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the Council; or
 - 3) is about to enter an item of account the entry of which is unlawful.
- 1.11 Section 114 also requires a report where it appears the expenditure of the Council is likely to exceed the resources available to it to meet that expenditure.
- 1.12 Each Service Director is responsible for establishing internal control so that the activities under their control are dealt with efficiently and effectively. Internal control covers financial and other measures which are established to:
 - Safeguard the Council's assets;
 - Ensure reliability of records; and
 - Monitor adherence to policies and directives.

2. **Who do Financial Regulations apply to?**

- 2.1 Financial Regulations apply to everyone involved in financial transactions on behalf of the Council. Not every Regulation will be relevant to all employees, but employees should be aware that failure to comply where relevant could result in disciplinary action.
- 2.2 Financial Regulations also apply to Council employees when they are acting in an official capacity as a Council officer dealing with non-Council monies.
- 2.3 Schools have separate Financial Regulations.

3. Why are they important?

- 3.1 To conduct its business effectively, the Council needs to ensure and demonstrate that sound financial management arrangements are in place and that they are complied with in practice.
- 3.2 In order to continually meet the Council's Duty of Best Value, it is vital that it maintains good, sound financial management which helps to ensure that the Council is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 3.3 Adherence to these Financial Regulations will help control spending, ensure due probity of transactions and allow decisions to be informed by accurate accounting information. They also protect employees, in that by complying with the Regulations they can gain assurance that they have followed correct procedures.
- 3.4 Good financial management requires secure and reliable records and systems to process transactions and information and demonstrate the effective use of public money.
- 3.5 Financial Regulations should not be seen in isolation, but rather as part of the overall regulatory framework of the Council as set out in the Constitution.

4. Key Principles

- 4.1 All employees should have regard to the following principles:
 - Budgets must not be overspent.
 - Only goods, works and services legitimately required by the Council should be purchased.
 - All spend should represent good value for money.
 - All income due must be collected, held securely and banked promptly and intact.
 - Assets should be managed in an efficient and effective manner.
 - A principal of common sense should underpin all transactions performed on behalf of the Council.

5. Who is responsible for ensuring they are applied?

- 5.1 The Financial Regulations often refer to Service Directors as being responsible, and whilst they are ultimately responsible for ensuring that the Financial Regulations are applied and observed by their officers and for reporting to the Strategic Director, Corporate Resources any known or suspected breaches of the Financial Regulations, it is important that all employees involved in financial transactions are aware of their personal responsibility.
- 5.2 The Strategic Director, Corporate Resources is responsible for issuing advice and guidance to underpin the Financial Regulations.

5.3 The Strategic Director, Corporate Resources is responsible for maintaining a continuous review of the Financial Regulations.

6. **Waivers of Financial Procedure Rules**

6.1 There are expected to be very few instances when it would be appropriate not to comply with the Financial Regulations. Waivers of Financial Regulations can only be requested by Service Directors, approved by the Strategic Director, Corporate Resources, and will only be agreed where it can be shown that a waiver would not result in unnecessary financial risk or loss.

7. **General**

7.1 For each Financial Regulation, an owner will be nominated who will have overall responsibility for ensuring that it is:

- Modern and proportionate
- Communicated
- Regularly reviewed
- Complied with

7.2 Where appropriate, the owner of the Financial Regulation will provide details of training and development available and how this can be accessed.

7.3 If an employee would like to propose an amendment to a particular Financial Regulation, they should contact the owner. This includes where it is felt that the controls are not proportionate to the risk, or that the Regulation has not been updated to match changes in technology, systems or procedures.

1. Budget Management
2. Capital Expenditure
3. Revenue Budgets Preparation, Control and Accounting
4. Internal Audit
5. Income
6. Banking Arrangements
7. Treasurer, Accountable Body and other Similar Financial Arrangements
8. Grants and Contributions Given
9. Grants and Contributions Receivable
10. Purchases and Payments
11. Payroll and Pensions
12. Travelling and Subsistence
13. Land and Property
14. Treasury Management
15. Bequests, Trusts, Client and Amenity Fund Monies
16. Insurance
17. Risk Management
18. Stocks and Stores
19. Control of Assets (exc Land and Property)
20. Fees and Charges
21. Taxation
22. Fraud and Corruption

2. Capital Expenditure	
Objective	To ensure that the preparation, approval and monitoring of the Council's capital expenditure is robustly controlled.
Key Risk(s)	<p>Failure to deliver capital projects to time, cost and quality requirements.</p> <p>Incorrect distinction between capital and revenue expenditure.</p> <p>Unapproved capital spending.</p> <p>Capital expenditure does not reflect Council priorities.</p> <p>Insufficient resources to fund the capital expenditure and / or the revenue implications of the project.</p> <p>Council resources are not prioritised.</p>
1. Budget Management	
Objective	To ensure that budget monitoring is both accurate and timely and enables the Council to effectively manage its financial affairs.
Key Risk(s)	<p>Budgets overspend resulting in available reserves falling below the minimum level required to mitigate the Council's financial risks.</p> <p>The Council's financial position is unsustainable in the medium term.</p> <p>Poor financial decisions due to inaccurate financial information.</p>
Key Rule(s)	<p>Service Directors must ensure that all budgets are allocated to a named budget holder.</p> <p>Named officers will be deemed responsible for managing service delivery and containing expenditure within the agreed revenue and capital budgets, with support from Corporate Finance and comply with the roles and responsibility set out in the budget holder manual.</p> <p>All budget monitoring information will be recorded on the Council's financial ledger system (Agresso) in order to feed into corporate financial reporting.</p>
Guidance	<p>Manual of Accounting Procedures</p> <p>Budget Holder Manual</p>

	<p>Project outputs / outcomes are not achieved.</p> <p>The Council's financial position is unsustainable in the medium term</p> <p>Poor financial decisions due to inaccurate financial information.</p>
Key Rule(s)	<p>The Capital Programme and Capital Strategy is approved by full Council prior to the start of the financial year.</p> <p>Updates to the Capital Programme are reported to Cabinet and Council quarterly.</p> <p>Service Directors are responsible for capital projects within their Service and must ensure that the Capital procedures are complied with.</p> <p>The Strategic Director, Corporate Resources must provide management information to enable Service Directors to manage their respective capital projects.</p> <p>Service Directors are responsible for ensuring value for money for each capital project and that approved costs are not exceeded.</p> <p>Only costs which meet the statutory definition of capital expenditure for Local Authorities can be charged to capital projects.</p> <p>Service Directors must have approval in place for full project costs prior to committing expenditure other than design fees and surveys.</p> <p>Service Directors should ensure that appropriate professional advice is sought (to include but not restricted to financial, legal, procurement) prior to project approval in accordance with Capital Guidance.</p>
Guidance	<p>Manual of Accounting Procedures</p> <p>Capital Strategy</p>

3. Revenue Budget Preparation, Control and Accounting	
Objective	To ensure that the Council's budget setting process and subsequent accounting is accurate, timely and meets all statutory and corporate requirements.
Key Risk(s)	<p>Budget overspend resulting in available reserves falling below the minimum level to mitigate the Council's financial risks.</p> <p>The Council's financial position is unsustainable in the medium term.</p> <p>Poor financial decisions due to inaccurate financial information</p>
Key Rule(s)	<p>Accounting and budgeting procedures and policies must be complied with.</p> <p>All financial transactions, budgets and budget forecasts must be maintained on the Council's financial ledger system (Agresso) unless otherwise agreed by the Strategic Director, Corporate Resources.</p> <p>All financial transactions of the Council must be recorded as soon as, and as accurately as reasonably practicable. Budget holders are responsible for informing Finance of any issues impacting upon the accuracy of financial projections.</p> <p>The General Reserve must be approved and maintained in accordance with the Council's Reserves Policy. All appropriations to and from earmarked reserves must be in accordance with the Council's Reserves Policy.</p> <p>Legal entities and other arrangements for which the Council has financial responsibility must operate in accordance with the Council's Financial Regulations and related policies and procedures unless otherwise agreed by the Strategic Director, Corporate Resources.</p> <p>The approved budget can only be amended in accordance with virement procedures and delegated limits are set out in the Constitution.</p> <p>The Strategic Director, Corporate Resources must be consulted before entering into the following types of arrangement:</p> <ul style="list-style-type: none"> • A lease or similar arrangement. • A loan. • A finance guarantee. • A payment in advance. • Non-monetary (or part) exchange of assets. • Non-standard contract terms.
Guidance	<p>Manual of Accounting Procedures</p> <p>Medium Term Financial Strategy</p>

4. Internal Audit	
Objectives	<p>To promote an effective Internal Audit Service on behalf of the Strategic Director, Corporate Resources, in line with legislation and the appropriate audit standards.</p> <p>To provide independent and objective assurance designed to add value and improve the Council's activities.</p> <p>To help the Council accomplish its objectives by a bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.</p>
Key Risk(s)	<p>That the Council may operate in an inefficient and ineffective way and not achieve value for money.</p> <p>That the Council's key controls do not operate as intended and do not protect against fraud, theft, inefficiency and error.</p>
Key Rule(s)	<p>The Strategic Director, Corporate Resources must ensure that the Council has an effective Internal Audit function.</p> <p>The Chief Internal Auditor must be able to report without fear or favour, in their own name to the Chief Executive, Cabinet and Audit and Standards Committee as well as the Scrutiny Functions.</p> <p>All audit work must be conducted in accordance with the appropriate professional standards.</p> <p>Service Directors must ensure that Internal Audit is allowed to:</p> <ul style="list-style-type: none"> • Enter all Council premises and land at reasonable times. • Access all records, documents, data and correspondence relating to all transactions of the Council, or unofficial funds operated by an employee as part of their duties. • Receive all explanations as are necessary concerning any matter under examination. • Require any employee of the Council to produce cash, stores or any other property under their control belonging to the Council or held as part of the employee's duties.
Guidance	Internal Audit Charter

5. Income	
Objective	To ensure that income due is collected, banked and accounted for in an efficient and secure manner.
Key Risk(s)	<p>Loss of income due to the Council through non-identification, non-collection or theft.</p> <p>Inefficient collection of income.</p> <p>Impact on Council cash flow.</p>
Key Rule(s)	<p>The procedures set out in the Manual of Accounting Procedures in relation to income collection and banking must be followed and any changes from the procedures must be in an agreed manner.</p> <p>All income activity will be in accordance with the Council's Anti Money Laundering Policy, Procedures and Reporting Arrangements.</p> <p>All monies received on behalf of the Council must be paid intact into the relevant income account and recorded in the Council's financial ledger system (Agresso) in a timely manner.</p> <p>All monies for the Council must be paid into an authorised bank account.</p> <p>Treasury Management will be informed of any material income in advance of receipt.</p> <p>Service Directors must ensure that sundry debtor invoices are issued in an accurate and timely manner. They should also monitor payment to ensure the Council receives all due income and avoids future financial risk.</p>
Guidance	<p>Manual of Accounting Procedures</p> <p>Anti Money Laundering Policy, Procedures and Reporting Arrangements.</p>

6. Banking Arrangements	
Objectives	<p>To ensure that all bank accounts operate in a secure and approved way.</p> <p>For the purposes of this Regulation the term bank account covers all bank accounts, imprest accounts, building society accounts and other holdings with third party financial institutions to which officers of the Council are signatories.</p>
Key Risk(s)	<p>Bank accounts may be created and used for unapproved activities.</p> <p>Insufficient controls are in place for the Council's banking arrangements, increasing the risk of fraudulent or unapproved transactions.</p>
Key Rule(s)	<p>The Strategic Director, Corporate Resources must approve the opening or closing of any bank account operated on behalf of the Council.</p> <p>Only methods of payment approved by the Strategic Director, Corporate Resources may be used.</p> <p>All bank accounts must be set up and operated in accordance with the bank and imprest account operating procedures guidance notes.</p> <p>Overdraft facilities or other borrowing arrangements must not be agreed without the express permission of the Strategic Director, Corporate Resources.</p>
Guidance	Manual of Accounting Procedures

7. Treasurer, Accountable Body and Other Similar Financial Arrangements	
Objective	To ensure that the financial affairs of legal entities and other arrangements for which the Council has responsibility are managed in a secure and effective manner.
Key Risk(s)	<p>Funds are misappropriated or used for unauthorised purposes.</p> <p>Impact on the Council's financial reputation due to inaccurate or misleading financial reporting.</p> <p>Poor financial decisions due to inaccurate financial information.</p>
Key Rule(s)	<p>The Strategic Director, Corporate Resources must agree to undertake the financial responsibilities for such arrangements, except where the Council has a legal obligation to do so.</p> <p>Service Directors must ensure that an appropriate employee is appointed to manage arrangements covered by this Regulation.</p> <p>All financial reporting must comply with appropriate accounting standards. Budgets must be set, monitored and reported to the Strategic Director, Corporate Resources in line with the guidance and timetable issued.</p> <p>All accounting records and budgets must be maintained on the Council's financial ledger system (Agresso) unless otherwise agreed by the Strategic Director, Corporate Resources.</p> <p>The Strategic Director, Corporate Resources must be consulted on all investment decisions taken.</p> <p>All such arrangements must comply with the Council's Financial Regulations unless otherwise agreed by the Strategic Director, Corporate Resources.</p>
Guidance	Manual of Accounting Procedures

8. Grants and Contributions Given	
Objective	To ensure that all grants and contributions made by the Council are appropriate, provide value for money and associated outcomes are achieved.
Key Risk(s)	<p>Grants and contributions given are not in accordance with Council priorities.</p> <p>The awarding of grants and contributions is seen as unfair and open to challenge.</p> <p>Grants and contributions are not spent in line with the agreed terms and conditions and the required outcomes of the funding are not achieved.</p>
Key Rule(s)	<p>Ensure that organisations in receipt of grant aid demonstrate that they are a competent and suitable organisation to receive public monies.</p> <p>Grants and contributions must only be given in accordance with the Council priorities and awarded on a fair and equitable basis.</p> <p>The grant or contribution should represent value for money and not duplicate other funding provided by the Council or other organisations.</p> <p>All grants and contributions must be awarded and monitored with a written agreement stating appropriate terms and conditions. Terms and conditions must include required outcomes; how such outcomes will be measured and the obligations to repay the funding if the terms are not met.</p> <p>Appropriate action must be taken to reclaim funds when breaches of terms and conditions occur and / or outcomes are not achieved.</p>
Guidance	Manual of Accounting Procedures

9. Grants and Contributions Receivable	
Objectives	<p>To ensure the Council takes advantage of all opportunities to maximise resources in delivering its strategic priorities by securing external grants and contributions.</p> <p>To ensure the proper management of the obligations arising from a successful award of external funding.</p>
Key Risk(s)	<p>Failure to maximise grant drawdown / non-delivery of conditional outputs / outcomes.</p> <p>Exposure to grant clawback arising from non-compliance with terms and conditions.</p> <p>Future commitments once grant comes to an end placing pressure on existing budgets.</p>
Key Rule(s)	<p>The Strategic Director, Corporate Resources shall be consulted prior to the submission of applications for funding, including any requirements for match-funding.</p> <p>Service Directors must ensure that grants and contributions in their Service area are properly evidenced, regularly monitored, promptly claimed and that all relevant terms and conditions are met.</p> <p>Service Directors must ensure an exit strategy is in place to address the budget impact once the funding ends.</p> <p>The Strategic Director, Corporate Resources must also be consulted where the Council is the accountable body and where the funder requires an external audit.</p> <p>The Strategic Director, Corporate Resources must be given all evidence needed so that grants can be claimed in a timely and accurate manner. Such evidence must be provided within the appropriate timeframe to allow the Strategic Director, Corporate Resources time to evaluate and, if necessary, question the evidence provided.</p> <p>All relevant and significant grant claims must be signed off by the Strategic Director, Corporate Resources or authorised representative.</p> <p>The Strategic Director, Corporate Resources is responsible for ensuring that all grant monies claimed are received and correctly accounted for.</p>
Guidance	Manual of Accounting Procedures

10. Purchases and Payments	
Objective	Assets, goods, works and services legitimately required by the Council are appropriately purchased and paid for, and in compliance with the Council's Contract Procedure Rules.
Key Risk(s)	<p>Inappropriate items may be purchased which are not for Council use, or where there is no business need.</p> <p>Rogue spend and / or use of suppliers for goods and services for which an approved contracted supplier is in place.</p> <p>Incorrect amounts or duplicate payments may be paid to suppliers.</p> <p>Penalties for late payment of invoices.</p> <p>Theft, loss or misuse of Purchasing Cards or Petty Cash.</p> <p>Budget overspend.</p> <p>Reputational damage to the Council.</p> <p>Non-compliance with statutory requirements such as GDPR, Health & Safety, Safeguarding.</p>
Key Rule(s)	<p>Purchasing and payment for assets, goods, works and services must only be undertaken by authorised officers and in accordance with the approved purchase and payment procedures as defined by the Strategic Director, Corporate Resources. Any variation to the procedures must be agreed by the Strategic Director, Corporate Resources.</p> <p>Before assets, goods, works or services are ordered the designated budget officer must apply the following tests:</p> <ul style="list-style-type: none"> • Has the Service needs and objectives been obtained? • Is it affordable? • Is it Value for Money? • Is there financial provision? • Are there any implications in respect of GDPR, Health & Safety or Safeguarding? <p>Procurement of all goods, works and services by the Council including the procurement of Income Contracts and Concession Contracts must be in line with Contract Procedure Rules.</p> <p>Unless a specified exception applies, an official order must be raised through authorised systems in order to ensure a commitment is generated and a payment is made promptly. Once the goods are received the official order must be updated to reflect this.</p>

	<p>Before authorising a payment, it must be ensured that the goods, works or services have been properly ordered, there is proof of receipt and the invoice is accurate.</p> <p>To ensure prompt payment, invoices must be sent to Exchequer Services within three days of receipt.</p> <p>All payment feeder systems must be authorised by the Strategic Director, Corporate Resources, who will ensure appropriate controls are in place for the generation and authorisation of payment files.</p> <p>All Purchasing Card transactions must be reviewed and authorised on a regular basis</p> <p>All use and authorisation of Petty Cash must be in accordance with laid down procedures and limited to minor items of expenditure.</p> <p>All receipts for Purchasing Card and Petty Cash transactions must be retained and if VAT is claimable, a proper VAT receipt obtained.</p>
Guidance	<p>Manual of Accounting Procedures Contract Procedure Rules</p>

11. Payroll and Pensions	
Objective	To ensure that payments of salaries and pensions to employees and former employees of the Council are accurate, timely, made to the right people and in accordance with the relevant terms and conditions and are compliant with statutory regulations.
Key Risk(s)	<p>Incorrect or late payments made to recipients.</p> <p>Inaccurate or incomplete records held on the Payroll System.</p> <p>Penalties for inaccurate or late submission of returns or payments to HMRC or pension providers.</p> <p>Budget overspend</p> <p>Reputational damage to the Council.</p>
Key Rule(s)	<p>In order to ensure correct treatment for tax, National Insurance and pension, all salary payments including councillors and casual workers must be processed through the Council's payroll system.</p> <p>Payment for any individual who does not fall within the scope of IR35, ie not an employee, must be paid via the Council's Financial Ledger, Agresso.</p> <p>To arrange and control secure and accurate payments of salaries or other emoluments to existing and former employees, in accordance with Council Procedures within the pre-determined and legislative deadlines.</p> <p>All permanent and temporary changes to employee terms and conditions affecting payroll and pensions must be notified promptly and accurately to the Strategic Director, Corporate Resources, and be in accordance with approved terms and conditions and statutory legislation.</p> <p>To ensure all appropriate payroll and pension documentation are retained and stored for the defined period in accordance with the document retention schedule and legislation.</p> <p>To ensure statutory returns and payments are submitted to HMRC and appropriate pension providers within deadlines.</p>
Guidance	<p>HR Policies</p> <p>Annual Payroll Timetables</p> <p>Procurement Protocols for non employees</p>

12. Travelling and Subsistence	
Objective	To ensure that the reimbursement of allowances and expenses to employees and councillors is in accordance with the appropriate agreements and legislation.
Key Risk(s)	<p>Incorrect or late payments made to recipients.</p> <p>HMRC penalties for inaccurate or unreceipted VAT treatment.</p> <p>Irregular claims submission leading to budget overspend.</p> <p>Fraudulent claims.</p> <p>Reputational damage to the Council.</p>
Key Rule(s)	<p>Expenditure to be incurred and claims completed and authorised in accordance with guidance approved by the Strategic Director, Corporate Resources.</p> <p>Submission by the claimant will be taken to mean that the journeys and expenses were properly and necessarily incurred on Council business.</p> <p>Claims are to be submitted in accordance with the agreed timetable.</p> <p>Receipts must be provided for all expenditure claimed to enable VAT to be recovered from HMRC.</p>
Guidance	Manual of Accounting Procedures

13. Land and Property	
Objective	To ensure there are effective controls in place for all property matters including acquisition, disposal, lease, licence or use of property so that the Council's property portfolio is managed in an efficient, effective and secure manner.
Key Risk(s)	<p>The Council incurs additional costs in operating its land and property portfolio due to:</p> <ul style="list-style-type: none"> • The retention of under utilised property • Inefficient use of land and property • The retention of property that is not fit for purpose
Key Rule(s)	<p>The Strategic Director, Corporate Service and Governance is responsible for all acquisitions, disposals, leasing and licensing of all land and / or property. Service Directors must engage with the Strategic Director, Corporate Services and Governance at the start of any initial consideration around;</p> <ul style="list-style-type: none"> • Acquisition or disposal of land and / or property owned by the Council. • Change in the use of any land and / or property owned or occupied by the Council. • Proposal to substantially reconfigure or refurbish Council owned or occupied property. • Change in the occupancy of property owned or occupied by the Council. • Lease or licence of land and / or property. • Use of Council land and / or property for the purpose of generating additional revenue income. <p>In relation to the above, the Strategic Director, Corporate Services and Governance will then advise on the appropriate approval process to be followed taking into account the Council's overall strategic priorities.</p> <p>All communication with vendors, purchasers or their agents or professional advisers shall be undertaken by the Strategic Director, Corporate Services and Governance.</p> <p>Where a property and / or land is no longer required then it should be declared surplus for service delivery purposes without delay.</p> <p>Where a Service is vacating a property (or part) then the surplus property handover procedure in the land and property guidance must be adhered to.</p>
Guidance	<p>Solicitors' Regulation Authority Handbook Council of Mortgage Lenders' Handbook RICS Professional Statements RICS Valuation Standards</p>

14. Treasury Management	
Objective	To ensure that all investment and borrowing is valid, accurate, efficient, properly accounted for and in accordance with statutory and corporate requirements.
Key Risk(s)	<p>Inefficient borrowing may have adverse impact on the Council's financial resources.</p> <p>Failure to recover investment monies from counterparties.</p> <p>Illegal borrowing or investment.</p> <p>Fraud / theft.</p> <p>Reputational damage to the Council.</p>
Key Rule(s)	<p>The Strategic Director, Corporate Resources is responsible for Treasury Management and no other employees, unless named in the officer scheme delegation, must borrow or invest Council funds.</p> <p>Funds are invested in accordance with the Treasury Management Strategy approved each year by Council.</p> <p>The Strategic Director, Corporate Resources will report on Treasury Management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report in the form set out in the Treasury Management Practices.</p> <p>The Council delegates responsibility for the implementation and monitoring of its Treasury Management Policies and Practices to Cabinet and for the execution and administration of Treasury Management decisions to the Strategic Director, Corporate Resources who will act in accordance with the Council's Strategy Statement and Treasury Management Practices.</p> <p>The Audit and Standards Committee is nominated by the Council to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies.</p>
Guidance	<p>Treasury Management Policy Statement</p> <p>Treasury Management Strategy</p> <p>Investment Strategy</p> <p>Treasury Management Practices</p>

15. Bequests, Trusts, Client and Amenity Fund Monies	
Objective	All bequests, trusts, client and amenity funds are correctly managed and monitored.
Key Risk(s)	Funds may be misappropriated or lost within the Council's overall funds.
Key Rule(s)	<p>Where gifts or bequests are received by the Council, details of the donor should appear on the inventory.</p> <p>All trusts should wherever possible be in the Council's name unless otherwise stated in the trust deeds, or where charities legislation dictates otherwise.</p> <p>Officers acting as trustees by virtue of their official position must deposit all documents of title relating to the trust with Legal and Democratic Services who must maintain a register of all such documents.</p> <p>The financial management of all bequests and trusts must be reported to the Strategic Director, Corporate Resources or their representative. For further details refer to Bequests and Trusts Guidance Note in the Manual of Accounting Procedures.</p> <p>Where an employee of the Council is responsible for a fund not relating to the Council, the Service Director concerned shall ensure that the fund is properly administered and that it is independently audited, where appropriate, by person's having knowledge of the fund's purpose.</p> <p>Any proposed unofficial funds shall require the prior approval of the Service Director who must maintain a record of all such funds and ensure that officers are appointed to administer each fund.</p> <p>The Strategic Director, Corporate Resources is to have access to any records relating to such funds and must be informed immediately of any irregularities in connection with them.</p> <p>A private fund can only be set up if the Strategic Director, Corporate Resources is made aware and with the approval of the Service Director. It must be audited every year by two independent individuals or a CCAB/CIMA qualified accountant.</p>
Guidance	Manual of Accounting Procedures

16. Insurance	
Objective	To ensure that the insurance risk across the Council is managed efficiently and effectively and limit the authority for arranging insurance cover to the Strategic Director, Corporate Resources.
Key Risk(s)	<p>Failure to secure appropriate insurance arrangements leaving the Council lacking cover in the event of a significant loss.</p> <p>Failure to seek the appropriate insurance advice when taking decisions could impact adversely on the Council's insurance risk.</p>
Key Rule(s)	<p>The Strategic Director, Corporate Resources is responsible for arranging all insurance.</p> <p>The Strategic Director, Corporate Resources, in consultation with the Chief Executive, is responsible for advising the Cabinet on insurance and will effect all insurance cover and negotiate all claims in consultation with other officer, where necessary.</p> <p>Directors must manage insurance risks within their Service. This includes:</p> <ul style="list-style-type: none"> • Notifying the Strategic Director, Corporate Resources of the nature and extent of any new insurable risk and of any alterations to currently insured risks. • Consulting with the Strategic Director, Corporate Resources at an early stage in projects / decisions that may have insurance implications. This consultation must be undertaken well in advance of the drafting of any legal agreements or any form of commitment made by the Council. • Immediately notifying the Strategic Director, Corporate Resources of any loss, liability or damage. • Supplying information to the Strategic Director, Corporate Resources, Legal Services or the Council's insurers. <p>The Insurance Procedural Guidance notes within the Manual of Accounting Procedures must be complied with.</p>
Guidance	Manual of Accounting Procedures

17. Risk Management	
Objective	To ensure that the Council manages the strategic and operational risks associated with the provision of its services in accordance with good management practice and in compliance with the Local Code of Governance and the Council's Risk Management Policy.
Key Risk(s)	<p>Failure to identify and respond to risks associated with strategic decisions could result in missed opportunities to innovate, reduce costs and improve outcomes and consequently impact on the delivery of the Council's medium to long term objectives and priorities.</p> <p>Failure to identify operational risks and effectively mitigate, leading to service impact from failed internal processes, people, equipment or systems, or from external events.</p> <p>Absence of robust contingency plans for the security of assets and the continuity of service in the event of a disaster, significant event or system failure.</p>
Key Rule(s)	<p>Risks assessments must be carried out for all identified strategic and operational risks, including new and existing contracts / projects and contract changes.</p> <p>Procedures must be in place to update risk assessments either when triggered by a risk occurrence, a system or legislative change, or at appropriate intervals.</p> <p>Risk management should be integrated into the Council's strategic planning framework and all Service Business Plans.</p> <p>The Corporate Risk and Resilience Group will facilitate the preparation of Business Continuity Management Plans. In accordance with the Business Continuity Policy, Service Directors are responsible for the development and maintenance of the business continuity plan covering the activities within their Service's remit. The plans will describe the action to be taken in the event of a business interruption.</p> <p>All Business Continuity Management related activity within the Council is coordinated through the Corporate Risk and Resilience Group under the guidance of the Strategic Director, Corporate Resources.</p> <p>Accountable officers will ensure that appropriate, cost effective actions are taken to manage and control risks.</p>
Guidance	<p>Risk Management and Policy and Procedures</p> <p>Business Continuity Management Policy</p>

18. Stocks and Stores	
Objective	To ensure the Council holds appropriate stock levels in a secure manner.
Key Risk(s)	<p>The Council holds too much stock tying up resources, both financial and space.</p> <p>Stock in hand becomes obsolete or is misappropriated.</p> <p>The Council has insufficient stock to operate efficiently and effectively.</p>
Key Rule(s)	<p>Service Directors must ensure proportionate arrangements are put in place to safeguard stocks and stores under their control, in accordance with the Stocks and Store Guidance.</p> <p>An officer must be nominated as responsible for the management and security of the stocks and stores.</p> <p>When a stock of goods is maintained there should be an inventory or stock record as appropriate for the value of the stock.</p> <p>Regular stock takes, at least annually, should be carried out. Any variance should be reported and investigated as appropriate.</p> <p>At the end of the financial year the method of stock valuation detailed in the close of accounts guidance must be complied with.</p> <p>Stores or materials found to be obsolete or in excess of requirements are to be disposed of in accordance with relevant procedures.</p>
Guidance	Manual of Accounting Procedures

19. Control of Assets (exc Land and Property)	
Objective	To ensure that assets are kept securely and disposed of appropriately.
Key Risk(s)	<p>Assets may be misappropriated or used on an inappropriate way.</p> <p>Software and other intellectual property is not used in accordance with licensing agreements.</p>
Key Rule(s)	<p>Proportionate arrangements should be in place to safeguard assets, including those owned by third parties. Service Directors are responsible for ensuring arrangements are in place for maintaining effective security of all assets, including data and information.</p> <p>Assets including equipment and vehicles should only be disposed of in accordance with relevant procedures.</p> <p>All inventories must be maintained in accordance with relevant procedures.</p> <p>When an officer has to look after private property they must make a complete inventory of the property under their custody, and make arrangement for its safekeeping, including instructions on how to dispose of the property if the client dies.</p> <p>Service Directors must ensure that when an employee has to look after money not belonging to the Council, that they keep it separate from Council monies and make arrangements for its recording and safekeeping.</p>
Guidance	Manual of Accounting Procedures

20. Fees and Charges	
Objective	Fees and charges are set to ensure full costs recovery and are regularly reviewed to ensure they continue to do so.
Key Risk(s)	Unapproved subsidy of services provided to third party. Out of date fees and charges, negatively impacting on Council budgets.
Key Rule(s)	All fees and charges must be reviewed at least once per year as part of the Council's annual budget process. Within the annual review all fees and charges which are locally determined should be increased in line with guidance provided by the Strategic Director, Corporate Resources. Charges should be set at a level to ensure that all relevant costs are fully recovered, unless agreed otherwise. Any proposed changes to locally determined fees and charges, which are not in line with the guidance, or any proposals not to increase charges, will be agreed with the Strategic Director, Corporate Resources and the reasons set out in the Annual Fees and Charges Report. The introduction of a completely new fee or charge, arising due to changes in policy or new policies, must be referred to Cabinet for approval.
Guidance	Manual of Accounting Procedures Annual fees and charges guidance

21. Taxation	
Objective	To ensure that taxation is correctly accounted for and any risks are effectively managed.
Key Risk(s)	<p>Incorrect accounting of taxation resulting in penalties from HMRC.</p> <p>Failure to comply with HMRC rulings.</p> <p>Inefficient taxation treatment leading to financial resources not being optimised.</p>
Key Rule(s)	<p>The Strategic Director, Corporate Resources must be consulted on:</p> <ul style="list-style-type: none"> • The nature and extent of any new agreements or alterations to existing arrangements where there may be taxation risks or potential taxation liabilities. • Projects / decisions that may have taxation implications. <p>This consultation must be undertaken well in advance of the drafting of any legal agreements or any form of commitment made by the Council.</p> <p>Taxation guidance, including statutory HMRC rule must be complied with.</p>
Guidance	Manual of Accounting Procedures

22. Fraud and Corruption	
Objective	To ensure that the Council is committed to and promotes a culture of counter fraud and zero tolerance in relation to fraudulent activity.
Key Risk(s)	That the Council may be subject to fraud resulting in the potential loss of resources and / or reputational damage.
Key Rule(s)	<p>Whenever any matter arises which involves or is thought to involve, theft, fraud or financial irregularity, including breaches of these Financial Regulations, or bribery or corruption which involves the Council's interests, the Strategic Director concerned must immediately, and before proceeding with any further investigation, notify the Strategic Director, Corporate Resources of that matter.</p> <p>The Strategic Director, Corporate Resources will take such steps as they consider necessary by way of investigation and report, or by advising the Strategic Director about any further action to be taken.</p> <p>Each Strategic Director will maintain a Register of all offers of gifts and hospitality in a form to be agreed by the Strategic Director, Corporate Resources and Strategic Director, Corporate Services and Governance, and in accordance with the guidelines set out in the Code of Conduct for Council Officers (Part 5 of this Constitution)</p>
Guidance	<p>Audit Charter Counter Fraud and Corruption Policy Counter Fraud and Corruption Strategy Fraud Response Plan Whistleblowing Policy Statement on the Prevention of Bribery Code of Conduct for Council Officers</p>

TITLE OF REPORT: **Audit and Standards Committee – Training and Induction**

REPORT OF: **Mike Barker, Strategic Director, Corporate
Services and Governance**

Purpose of the Report

1. This report sets out proposals for induction and training plans for the Audit and Standards Committee and seeks views from the Committee on the approach.

Background

2. The Audit and Standards Committee has previously considered a report on the Councillors' Engagement and Development Framework. The Framework is intended to guide councillors on how they undertake their duties, and particularly relates to consultation, engagement, training and development.
3. All training and development is important, but some areas are considered essential. All councillors (and independent members) are expected to undertake training on several areas including Ethics and Probity and training related to committee membership.
4. In addition to guidance, the Framework also contains role descriptors with a specific one being produced relating to a member of the Audit and Standards Committee (attached at Appendix 1).

Proposal

Induction

5. At present all newly elected councillors undertake an induction programme which consists of them meeting all Strategic Directors. As part of this programme they receive a hard copy of the Council's Code of Conduct and related guidance following their election. It is proposed that they will also receive a hard copy of the Local Code of Governance in their induction packs. These will also be provided to independent members following their appointment.
6. In addition, all newly appointed members of the Audit and Standards Committee, including councillors and independent members, will receive an induction meeting from officers from Corporate Services and Governance and Corporate Resources prior to their first attendance at the Committee.
7. The induction meeting will cover the role and remit of the Committee, the role descriptor for members of the Committee, any training needs they need to fulfil their roles, and an overview of the governance structures of the authority and decision making processes.

Training

8. All councillors are expected to undertake training on Ethics and Probity once in their four-year term following their election. In order to facilitate this, regular training opportunities are arranged throughout the year following the election. Four sessions have been held in 2018/19. Further sessions will be arranged in 2019/20 starting in September 2019.
9. The Audit and Standards Self Assessment for 2017/18 to support the Annual Governance Statement included a comment that a skills analysis of the Committee should be undertaken, following which a Development Plan will be drawn up which will be subject to continuous formal committee review. A suggested Development Plan is attached at Appendix 2. Members of the Committee will be asked to identify those areas where their skills set could be strengthened by further training. This will inform the final Development Plan for the Committee.
10. Notwithstanding the completion of the skills analysis, it would be prudent to plan for delivery of training in relation to Risk and Counter Fraud as both of these areas have undergone changes recently, and it is proposed that training on these areas should be arranged during 2019/20 starting after the local elections in order to ensure that newly elected councillors have the opportunity to attend these sessions.
11. It is also proposed that the training opportunities referred to above be offered to all members of the Council.
12. The Chair of the Committee attended a CIPFA event (Development Day for Local Authority Audit Committees) on 16 January 2019. Officers will identify opportunities for members of the Committee to attend similar national and regional events. Any member attending such an event would be expected to give feedback and share any learning materials with the Committee to maximise learning and development opportunities.
13. It is also suggested that Mazars could be requested to give some short sessions at the end of committee meetings on aspects of their work with the Council, such as their Audit Completion Report and Statement of Accounts.
14. The Chair and Vice Chair are invited to meetings of the North East Governance Forum, hosted by Mazars, which along with presentations and discussions on topical issues, provides networking and member development opportunities. These meetings are attended by Audit Committee Chairs / Vice Chairs from other North East Councils, along with their Chief Internal Auditors.

Recommendation

15. It is recommended that the Committee:
 - (i) consider the proposed induction and training plans;
 - (ii) consider whether there are any additional induction or training needs which could be incorporated into the plans; and
 - (iii) to receive a further report at the next meeting on the Development Plan.

APPENDIX 1

Role Description: Audit and Standards Committee Member

Role	Actions	Skills/Behaviour
<p>1. Monitoring the effectiveness of the Council's internal control environment including:</p> <ul style="list-style-type: none"> • the Annual Governance Statement • Arrangements for ensuring value for money • Monitoring the Council's exposure to the risk of fraud and corruption 	<p>By:</p> <ul style="list-style-type: none"> • receiving regular reports from internal and external audit at committee • reviewing Risk registers • making sound judgements based on a wide range of factual information and advice from the Monitoring Officer, Chief Finance Officer and Chief Internal Auditor • reviewing Counter Fraud Policy, Whistleblowing Policy and Statement on the Prevention of Bribery 	<p>These include:</p> <ul style="list-style-type: none"> • understanding of the governance structures and decision-making processes • understanding of the organisational objectives and major functions of the Council • awareness of governance framework • knowledge of the Local Code of Governance • understanding of the main areas of fraud risk the Council is exposed to • knowledge of the Council's arrangements for tackling fraud • ability to question and challenge
<p>2. In relation to Internal Audit:</p> <ul style="list-style-type: none"> • overseeing its independence, objectivity, performance and professionalism • supporting the effectiveness of the internal audit process • promoting the effective use of internal audit within the assurance framework 	<p>By:</p> <ul style="list-style-type: none"> • reviewing and approving the Internal Audit Strategy and Risk Based Audit Plan • reviewing Internal Audit annual report • ensuring professional internal audit standards are being followed • reviewing benchmarking data 	<p>These include:</p> <ul style="list-style-type: none"> • awareness of Internal Audit Charter • awareness of Public Sector Internal Audit Standards • knowledge of how the Council meets the requirements of the role of the Chief Financial Officer and Chief Internal Auditor • ability to question and challenge
<p>3. Considering the effectiveness of the Council's risk management arrangements. Reviewing the risk profile of the Council and receiving assurances that action is being taken on risk-related issues, including partnerships with other bodies.</p>	<p>By:</p> <ul style="list-style-type: none"> • monitoring the major risks facing the Council • reviewing and approving the Internal Audit Strategy and Risk Based Audit Plan 	<p>These include:</p> <ul style="list-style-type: none"> • knowledge of Corporate Risk Management Policy • ability to question and challenge

Role	Actions	Skills/Behaviour
4. Reviewing and monitoring treasury management arrangements	By: <ul style="list-style-type: none"> reviewing the Treasury Management Policy and Strategy monitoring treasury management performance 	These include: <ul style="list-style-type: none"> understanding of treasury management principles ability to question and challenge
5. Financial management and accounting	By: <ul style="list-style-type: none"> reviewing the financial statements prior to publication Receiving the external audit report and opinion on the financial audit 	These include: <ul style="list-style-type: none"> understanding of good financial management principles knowledge of how the Council meets the requirements of the role of the Chief Financial Officer ability to question and challenge
6. Assisting councillors and independent/co-opted members to observe the Councillors' Code of Conduct.	By: <ul style="list-style-type: none"> ensuring that training is provided for councillors, co-opted members and church and parent governor representatives on matters relating to the Councillors' Code of Conduct; assessing the effectiveness of such training; promoting and maintaining high standards of conduct for councillors, co-opted members and church and parent governor representatives. 	These include: <ul style="list-style-type: none"> awareness of the Code of Conduct; awareness of current legislation; Standards Board guidance and relevant Council policies; understanding of the context within which councillors work.
7. Monitoring the effectiveness of the Councillors' Code of Conduct.	By: <ul style="list-style-type: none"> receiving regular reports at Committee, including information on the way the Code of Conduct is applied in practice 	These include: <ul style="list-style-type: none"> awareness of the Code of Conduct; awareness of current legislation; ability to question and challenge.
8. Dealing with any other issues relating to standards of conduct.	By: <ul style="list-style-type: none"> participating in discussions of issues that are brought to the Committee's attention identifying issues that could be relevant to the Committee 	These include: <ul style="list-style-type: none"> ability to take a broad view of matters relating to ethical behaviour; ability to question and challenge.

Role	Actions	Skills/Behaviour
<p>9. Granting dispensations to councillors, co-opted members and church and parent governor representatives, from requirements relating to interests set out in the Code of Conduct.</p>	<p>By:</p> <ul style="list-style-type: none"> • making sound judgements based on the information presented and advice from the Monitoring Officer 	<p>These include:</p> <ul style="list-style-type: none"> • awareness of the Code of Conduct; • awareness of the environment within which the Council works; • ability to question and challenge.
<p>10. Participating in hearings on allegations of misconduct.</p>	<p>By:</p> <ul style="list-style-type: none"> • making sound judgements based on a wide range of factual information and advice from the Monitoring Officer • not allowing personal or political prejudices or biases to influence decisions • exploring and challenging the evidence presented in order to arrive at a proper understanding of the issues • explaining reasons for views and findings 	<p>These include:</p> <ul style="list-style-type: none"> • awareness of the Code of Conduct • understanding of the context within which councillors work • probity and fairness • openness • ability to question and challenge

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Audit and Standards Committee

Basis of Development Plan

Member	*Basic Introduction to Role/Remit of Committee & Governance Structures	Ethics and Probity	Risk Management	Counter Fraud	Reviewing Financial Statements	Understanding Internal/External Audit	Treasury Management
Councillor Haran (Chair)							
Councillor Turnbull (Vice Chair)							
Councillor J Green							
Councillor L Green							
Councillor J McClurey							
Councillor J McElroy							
Councillor N Weatherley							
Mr S Bell							
Mr G Clark							
Mr B Jones							

* This training will be provided to all new members of the Audit and Standards Committee. In addition, existing members of the Committee can use this as a refresher session. Attendance by other members of the Council would be welcome.

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AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME

Committee Meeting Date and Time	Items to be considered
4 March 2019 1.30pm	<ul style="list-style-type: none"> • Work Programme 2018/19 • Training and Induction • Review of Financial Regulations • Treasury Policy Statement and Treasury Strategy • Annual Governance Statement (Assurance Framework) • External Quality Assessment of Internal Audit (Exempt Item)
29 April 2019 10.00am	<ul style="list-style-type: none"> • Work Programme 2019/20 • Standards Update • Mazars Audit Progress Report • Internal Audit Strategy Statement and Annual Plan 2018/19 • Corporate Risk Management 2018/19 – Quarterly Report to 31 March 2019 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 March 2019 (Exempt Item) • Counter Fraud and Corruption Arrangements Annual Report (Exempt Item)
24 June 2019 10.00am	<ul style="list-style-type: none"> • Constitution • Role and Remit • Work Programme 2019/20 • Treasury Annual Report 2018/19 • Mazars Audit Progress Report • Oversight of Management Processes • Members' Assurance Statements 2018/19 • Managers' Assurance Statements 2018/19 • Review of the Effectiveness of Internal Audit 2018/19 • Corporate Risk Management – Annual Report 2018/19 • Internal Audit Annual Report 2018/19 (exempt item) • Annual Governance Statement 2018/19
22 July 2019 10.00am	<ul style="list-style-type: none"> • Work Programme 2019/20 • Standards Update • Audit Completion Report Year Ended 31 March 2019 and Gateshead Council Statement of Accounts 2018/19 • Annual Report to Cabinet and Council 2018/19 • Corporate Risk Management 2018/19 – Quarterly Report to 30 June 2019

	<ul style="list-style-type: none"> • Internal Audit Plan 2019/20 – Quarterly Monitoring Report to 30 June 2019 (Exempt Item)
<p>28 October 2019 10.00am</p>	<ul style="list-style-type: none"> • Work Programme 2019/20 • Standards Update • Results of the 2018/19 CIPFA Audit Benchmarking • Corporate Risk Management 2019/20 - Quarterly Report to 30 September 2019 • Treasury Management – Performance to 30 September 2019 • Internal Audit Plan 2019/20 – Quarterly Monitoring Report to 30 September 2019 (Exempt Item) • Counter Fraud and Corruption Arrangements Update Report (Exempt Item)
<p>27 January 2020 10.00am</p>	<ul style="list-style-type: none"> • Work Programme 2018/19 • Standards Update • Local Code of Governance • Mazars Audit Progress Report • Mazars – Results of Certification Work 2018/19 • Corporate Risk Management 2019/20 – Quarterly Report to 31 December 2019 • Internal Audit Plan 2018/19 – Quarterly Monitoring Report to 31 December 2019 (Exempt Item)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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