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Gateshead Council

AUDIT AND STANDARDS COMMITTEE AGENDA

Monday, 7 March 2022 at 10.00 am in the Blaydon Room - Civic Centre

From the Chief Executive, Sheena Ramsey

Item	Business
1	**Apologies for Absence**
2	**Minutes** (Pages 3 - 6) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 31 January 2022.
3	**Declarations of Interest** Members of the Committee are invited to declare interests in any agenda items.
4	**Annual Governance Statement 2021/22 - Assurance Framework** (Pages 7 - 12) Report of the Strategic Director, Resources & Digital
5	**Treasury Policy Statement and Treasury Strategy 2022/23 to 2026/27** (Pages 13 - 42) Report of the Strategic Director, Resources & Digital
6	**External Auditor's Annual Report Year ended 31 March 2021** (Pages 43 - 66) Report of the Strategic Director Resources & Digitak
7	**Date and time of next meeting** The next meeting will be held on Monday 25 April 2022 at 10.00 am

Contact: Helen Conway- Tel: 0191 433 3993 - Email: helenconway@gateshead.gov.uk
Date: Friday, 25 February 2022

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GATESHEAD METROPOLITAN BOROUGH COUNCIL

AUDIT AND STANDARDS COMMITTEE MEETING

Monday, 31 January 2022

PRESENT: Councillor M Charlton (Chair)

Councillor(s): J Reay, R Beadle, H Kelly, J McElroy and Mr Stuart Bell (Independent Member) and Ms Laura Bowler (Independent Member)

APOLOGIES: Councillor(s): L Green and S Green and Mr Ian Dormer (Independent Member)

ASC363 MINUTES

The minutes were approved as a correct record.

ASC364 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC365 LOCAL CODE OF GOVERNANCE

The Committee received a report which asked them to consider and approve an updated version of the Local Code of Governance, based on the CIPFA Delivering Good Governance in 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. The proposed changes were attached for information as Appendix 1 to the main report.

RESOLVED -
i) That the information be noted
ii) The Committee approved the updated Local Code of Governance attached at appendix 1.

ASC366 EXTERNAL AUDITOR APPOINTMENTS BEYOND 1 APRIL 2023

The Committee received a report which informed them of the optional arrangements for the appointment of external auditors for the financial year beginning on 1 April 2023 and sought agreement to opt into the national sector-led arrangement for the appointment of external auditors with effect from 1 April 2023.

The Committee were advised that Regulation 19 of the Local Audit (Appointing

Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of Full Council (meeting as a whole), except where the authority is a corporation sole (e.g. Police and Crime Commissioner) in which case this decision can be taken by the holder of that office.

It is therefore intended that this report will be presented to Cabinet on 22 February 2022 followed by Full Council at its meeting on 24 February 2022, where it will be recommended that Members agree to become an opted-in authority.

The closing date to provide formal acceptance of the invitation to PSAA is 11 March 2022.

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

RESOLVED -
i) That the information be noted
ii) The Committee agreed to accept the PSAA invitation to opt into the sector-led option for the appointment of external auditors for five financial years commencing 1 April 2023 and submit any comments to Cabinet.

ASC367 EXTERNAL AUDITOR: AUDIT PROGRESS REPORT

The Committee received a report which set out the external auditor's progress in delivering their responsibilities as external auditor and presents for information a summary of recent reports and publications.

The report outlined audit progress and national publications and the external auditor's report was attached at Appendix A for information.

RESOLVED -
i) That the information be noted
ii) The Committee noted the contents of the external auditor's report.

ASC368 CORPORATE RISK MANAGEMENT 2021/22 - QUARTER 3 UPDATE

The Committee received a report providing an update on Corporate Risk Management developments during the period 1 October 2021 to 31 December 2021 in line with the principles of good corporate governance.

The report included updated on:

- Strategic Risk Management
- Operational Risk Management
- Business Continuity Management and
- Corporate Risk and Resilience Group

RESOLVED - i) That the information be noted
ii) The Committee endorsed the effectiveness of the Council's risk management arrangements

ASC369 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED - That the press and public be excluded from the meeting during the consideration of the remaining business in accordance with Paragraph 3 of Schedule 12A to the Local Government Act 1972.

ASC370 INTERNAL AUDIT PLAN 2021/22 QUARTERLY MONITORING REPORT TO 31 DECEMBER 2021

The Committee received a report outlining progress made by the Internal Audit & Risk Service against the audit plan for the financial year 2021/22 and summarises the main findings arising from audit activity throughout the period 1 October 2021 to 31 December 2021.

A total of 16 assignments were completed during the period, with details attached for information at Appendix A.

From the reviews carried out to 31 December 2021 audit work was found to be complying with PSIAS and the Audit Manual.

The Committee were advised that the year to date performance information was as follows:-

- 99% of audits were completed within budgeted time against a target of 90%
- Productive or chargeable time was recorded at 65% of overall time against an annual target of 73% of overall time
- The average score of the customer satisfaction questionnaires returned is 3.88 out of 4, against a target of 3.4 (85%)
- The target for implementation of audit recommendations and 90% for medium priority recommendations. The current rate of implementation of all recommendations is 96% with 97% of all medium priority and 100% of all high priority recommendations having been implemented. Further information was provided to Committee at Appendix C in the main report.

RESOLVED – That the information be noted.

ASC371 DATE AND TIME OF NEXT MEETING

The next meeting will take place on Monday 7 March 2022 at 10.00 am

Chair…….……..

Gateshead Council

Audit and Standards Committee
7 March 2022

Title of Report: **Annual Governance Statement 2021/22 - Assurance Framework**

Report of: **Darren Collins, Strategic Director, Resources & Digital**

Purpose of the Report

1 This report provides an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) for 2021/22 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 last updated and agreed by the Audit and Standards Committee on 31 January 2022. 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 range of stakeholders;

- To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within the 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 2021/22 to ensure it remains focused on the key areas and takes into account any changes due to the impact of the pandemic. The evidence used to complete these statements will be evaluated by Internal Audit as part of the 2022/23 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, Resources & Digital 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 2021/22 will be undertaken by the Council's Internal Control Group, which includes the Strategic Directors of Resources & Digital and Corporate Services & 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;
- Results of external assessment against Public Sector Internal Audit Standards (PSIAS)
- 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 Audit and Standards Committee in June as part of the Internal Audit Annual Report 2021/22.

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, Resources & Digital;
- 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 is reviewed annually to ensure it reflects 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, Resources & Digital 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 and Information Framework (PMIF) is a positive tool for employees, managers and councillors to use to identify how well it is delivering for local people and where to improve delivery so that services and outcomes offer value for money and achieve better results. Service Directors use performance data, alongside management and operational data, to guide development of their business plans to ensure business continuity and service improvement.

29 The PMIF is reviewed periodically to ensure it provides effective challenge and supports the continuous improvement of Council services. Following adoption in 2018 of the Council's strategic approach, Making Gateshead a Place Where Everyone Thrives, the Framework was comprehensively reviewed during 2021/22 to ensure it is focussed on delivery of the Thrive policy.

30 The purpose of the revised PMIF is to:

- Enable the Council to know whether it is achieving its priorities. (Thrive Policy and Health and Wellbeing Strategy).
- Ensure that the Council's resources are being deployed effectively.
- Make both short and long-term effective decisions.
- Enable a whole systems approach – embedded in our partnership working to deliver the Health & Wellbeing Strategy.

31 Cabinet Agreed this approach 19 October 2021. Implementation will be iterative, with continuous development, considering developing strategies and plans to inform the further development of Outcomes, Interventions, Resource and Performance Measures.

32 The new framework has seen widespread engagement with officers and members and will be reported to SMG Services and Performance and the relevant Overview and Scrutiny Committee and Cabinet.

Legal and regulatory framework

33 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

34 Assurance will be sought from the Strategic Director, Resources & Digital 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

35 Each Service Director is required 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

36 Other areas include anything not covered above which gives an opinion on the Council's internal control environment or governance arrangements. This will include consideration of assurance in relation to the Council's response to the pandemic.

Production of the Annual Governance Statement 2021/22

37 A corporate group, chaired by the Strategic Director, Resources & Digital 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.

38 Using evidence from this assessment the Group will prepare the AGS for 2021/22 for approval by the Audit and Standards Committee in June 2022. This will then accompany the Statement of Accounts for 2021/22.

Recommendation

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

Contact: Craig Oakes Ext. 3711

Gateshead Council

REPORT TO AUDIT AND STANDARDS COMMITTEE
7 MARCH 2022

Title of report: **Treasury Policy Statement and Treasury Strategy 2022/23 to 2026/27**

Report of: **Darren Collins – Strategic Director, Resources and Digital**

Purpose of the Report

1. This report asks the Audit and Standards Committee to review the proposed Treasury Policy Statement and Treasury Strategy for 2022/23 to 2026/27 prior to consideration by Cabinet.

Background

2. To provide a framework for the Strategic Director, Resources and Digital 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, Department for Levelling up, Housing and Communities (DLUHC) Guidance on Local Government Investments, CIPFA's Prudential Code for Capital (2021) and CIPFA's Code of Practice on Treasury Management (2021).

Proposals

4. The Committee is asked to review the Treasury Policy and Treasury Strategy attached at Appendix 1 and Appendix 2, 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 (2021) and the Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments.

CONTACT: John Chirnside, ext. 2713

Appendix 1

Treasury Policy 2022/23 to 2026/27

1. Approved Activities of the Treasury Management Operation

1.1 In December 2021 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.

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 treasury and 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 DLUHC Guidance on Local Government Investments.

2.3 The revised Treasury Management Code and revised Prudential Code were published by CIPFA on 20 December 2021. The Council are complying with all requirements contained in the revised codes, any additional reporting obligations arising from the revised codes will be implemented in the 2023/24 Treasury Policy Statement and Treasury Strategy reports as set out in the Codes.

2.4 The Strategy for 2022/23 to 2026/27 is attached at Appendix 2.

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 Council have adopted prudential indicators (detailed in Appendix 2, section 1.4).

4. Annual Investment Strategy

4.1 The DLUHC 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.

4.2 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 2.

4.3 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;
- Guidelines for making decisions on investments and borrowing; and
- The Council's policy on commercial investments held for return.

4.4 As part of the annual review of counterparty limits changes to the existing market conditions and level of council reserves held have been identified. The level of investment per counterparty has therefore been increased in some instances, the new limits are shown in Appendix 2 Sections 6.15 and 6.21 respectively.

5. Policy on Interest Rates Exposure

5.1 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, Resources and Digital, 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, Resources and Digital, 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 Treasury Strategy (Appendix 2, Section 1.3) outlines the Council's arrangements for reporting on Treasury Management. Any additional reporting arrangements resulting from changes to the Treasury Management Code in December 2021 will be introduced in financial year 2023/24.

6.4 As from 1st April 2019, CIPFA required all local authorities 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; and
c) the implications for future financial sustainability.

6.5 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.

6.6 The Capital Strategy 2022/23 to 2026/27 was approved by Cabinet on 16th November 2021.

Appendix 2

Treasury Strategy 2022/23 to 2026/27

1. Introduction

1.1 The CIPFA Code of Practice on Treasury Management 2021 (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 on borrowing and investment activity	Council with review delegated to Cabinet/ Audit and Standards Committee	Annually by 30 September after the end of the year
Scrutiny of treasury management performance via mid-year report	Council approval with review delegated to Cabinet / Audit and Standards Committee	Mid-Year
In year changes to agreed Treasury Management Policy & Strategy / Annual Investment Strategy / Prudential and Treasury Indicators	Cabinet	By exception
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, Resources and Digital	Bi-Monthly/Weekly
Treasury Management Practices	Strategic Director, Resources and Digital	Monthly

1.4 Given the link to the revenue budget and capital programme, the following indicators were approved by the Council on 24 February 2022 as part of the Budget and Council Tax Level 2022/23 report. For completeness, the approved indicators are attached at Appendix 3:

- 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.

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 are included in 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. This is highlighted within the main borrowing strategy outlined in Section 4.6 below.

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

Interest Rates

2.1 The coronavirus outbreak has caused huge economic damage to the UK and economies around the world, leading to the Bank of England taking emergency action and cutting the Bank Rate. It was initially cut in March 2020 to 0.10%, remaining at that level until 4 December 2021 when it was increased to 0.25% and then further increased on 3 February 2022 to 0.5%. The Governor of the Bank of England has also decided not to reinvest any of the government bonds it bought under the recent quantitative easing programmes. As shown in the table below increases in the Bank Rate are forecast as the Bank of England need to balance controlling inflation with the expected gradual economic recovery over a prolonged period.

2.2 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 21 December 2021.

	March 2022	June 2022	Sept 2022	Dec 2022	March 2023	March 2024	March 2025
Bank Rate	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
5 yr PWLB	2.20%	2.30%	2.30%	2.30%	2.30%	2.3.0%	2.30%
10 yr PWLB	2.30%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
25 yr PWLB	2.40%	2.50%	2.50%	2.60%	2.60%	2.60%	2.60%
50 yr PWLB	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%

Long Term Interest Rates

2.3 Investment returns are likely to remain low during 2022/23 with small increases forecast in the following two years.

3 Treasury Limits for 2022/23 to 2026/27 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. This is reported within the Council's Medium-Term Financial Strategy.

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 if they are affordable, prudent and proportionate. 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 24 February 2022 as attached at Appendix 4.

3.6 The Strategic Director, Resources and Digital, 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 2022/23 are PWLB loans, market loans, capital 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. It is not usual practice to agree forward starting loans, but their use may be considered to avoid the 'cost of carry' – the difference between borrowing costs and investment returns. These loans generally would have to be offered at rates below the current or future PWLB forecast rates to make them an attractive option and considered as a means of mitigating future interest rate movements if the opportunity arose, i.e. where the Council can agree an interest rate ahead of when it would actually be required to draw down the funds.

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 2022/23.

4.6 The main strategy is therefore:

- Current (February 2022) long term PWLB rates (50 years) are around 2.11%. It is forecast that there will be upward movement in PWLB rates over the next two financial years, being 2.30% Q1, 2.308% Q2, 2.409% Q3 and 2.409% 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 –2.40%
  25 years – 2.55%
  50 years – 2.35%

- Whilst monitoring borrowing interest rates if there appears to be an upward trend then it may be considered prudent to lock into rates which exceed those outlined in paragraph 4.6 above, to minimise interest rate risk.

- 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 borrowing rates,* then borrowing will be postponed.

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

4.8 Against this background, caution will be adopted in the management of the 2022/23 treasury operations. The Strategic Director, Resources and Digital, 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 of 31 January 2022 the Council had net debt of £511.888m; this includes total borrowing of £660.572m and investments of £148.684m.

4.10 Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of anticipated Bank Rate increases, actual economic circumstances may fall short of these expectations.

4.11 Borrowing interest rates fell to historically very low levels as a result of the covid pandemic and the quantitative easing operations of the Bank of England and remain at relatively low levels. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over recent years. The Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Although short-term interest rates are cheapest, longer-term borrowing could also be undertaken for the purpose of certainty.

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.

Borrowing in advance of need

4.13 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.

4.14 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.

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, Resources and Digital, in line with delegated powers outlined in the approved Treasury Management Practice Statement, will approve all rescheduling.

5.4 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.

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.

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

6. Investment Strategy 2022/23 to 2026/27

Introduction

6.1 The Council has regard to the Department for Levelling up, Housing and Communities (DLUHC) 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 five years.

6.2 The CIPFA definition of "investments" covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations.

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 5, 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 and all investment decisions are taken on data available on the day of investment.

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 indicates the relative creditworthiness of counterparties. 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 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, Resources and Digital.

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 5.

6.15 As part of the annual review of counterparty limits changes to the existing market conditions and level of council reserves held have been identified. The level of investment per counterparty has therefore been increased by £5m for High and & Non-Higher rated counterparties respectively. The existing % limit per counterparty and credit rating requirements have been retained to ensure risk is minimised and security of the councils investments is maintained. 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 £20m. 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, Resources and Digital 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, Resources and Digital prior to investments being placed.

UK Banks - Ring Fencing

6.18 The largest UK banks were required by UK law to separate core retail banking services from their investment and international banking activities by 1 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 The Council 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.

6.21 As part of the annual review of investments balances limits on individual countries have been increased by £5m. The existing % limit per counterparty and credit rating requirements have been retained to ensure risk is minimised and security of the councils investments is maintained. 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 £20m or 20% of the Council's total investments and individual counterparties will not exceed a maximum limit equal to 20% of total investments or £15m. A list of those countries with a minimum sovereign rating of AA+ is shown in Appendix 6.

Local Authorities

6.22 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, Resources and Digital, prior to funds being placed. Limits are detailed at Appendix 6.

Investment balances / Liquidity of investments

6.23 Creditworthiness of counterparties is considered prior to depositing funds. The maximum term for investments is 3 years. Longer term deposits 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 3). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.

6.24 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 25%.

Non-Treasury Investments

6.25 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'**.

6.26 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.

6.27 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.

Commercial Investments

6.28 To date the Council have not entered into 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.

6.29 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:

- Health and Housing
- Economy
- Poverty and Equality
- Climate Change
- Transport

Further information can be obtained from the Council's Capital Strategy at the following link: Capital Strategy 2022/23 to 2026/27

6.30 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 7.

Internal Investment Strategy

6.31 The Strategic Director, Resources and Digital will monitor the interest rate market and react appropriately to any changing circumstances.

6.32 The Council takes the view that bank rate is forecast to gradually increase over the next few years. Bank rate forecasts for financial year ends are 2021/22 1.00%, 2022/23 1.25%, 2023/24 1.25% and 2024/25 1.25%.

6.33 The overall balance of risks to economic growth in the UK are probably weighted to the downside. This will be from the Bank of England reducing its economic forecast, saying the UK economic growth would slow to subdued rates. High inflationary pressure on the economy will continue, with inflation rates in excess of bank targets and expected to remain high for a prolonged period.

6.34 The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also weighted to the downside.

Investment Risk Benchmark

6.35 The use of LIBOR/LIBID rates as a benchmark ceased on 31 December 2021. The Council is now using an investment benchmark to assess the investment performance of its investment portfolio against the Sterling Overnight Investment Rate (SONIA) 3-month rate. 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

6.36 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

6.37 The Council currently uses Link Asset Services as its external treasury management advisers.

6.38 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.

6.39 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

6.40 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed in Appendix 2, paragraph 1.3.

Role of the Section 151 Officer

6.41 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 any other financial guarantees and other 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; and
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

Appendix 3

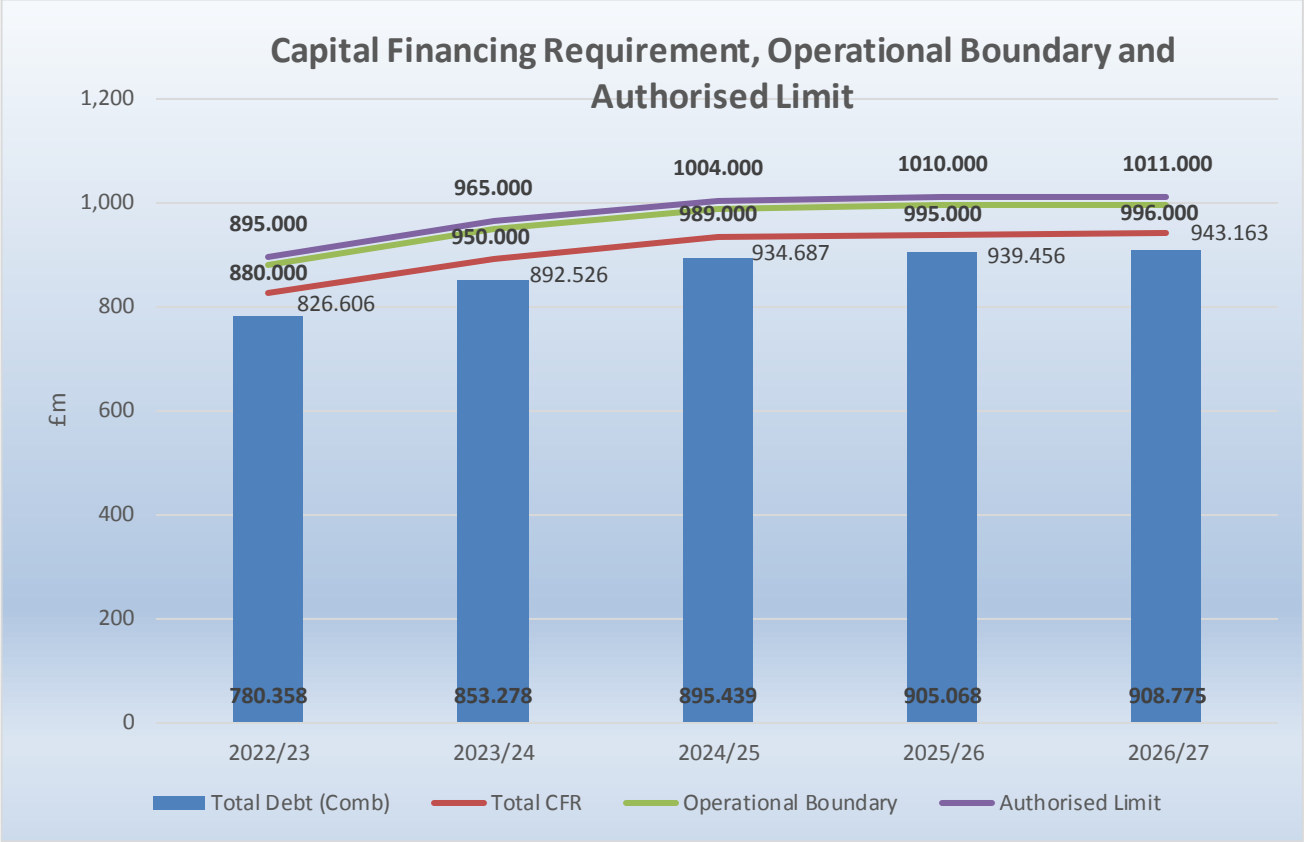
Prudential Indicators –Treasury Management

Authorised Limit for External Debt					
	2022/23 £000	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Borrowing	895,000	965,000	1,004,000	1,010,000	1,011,000

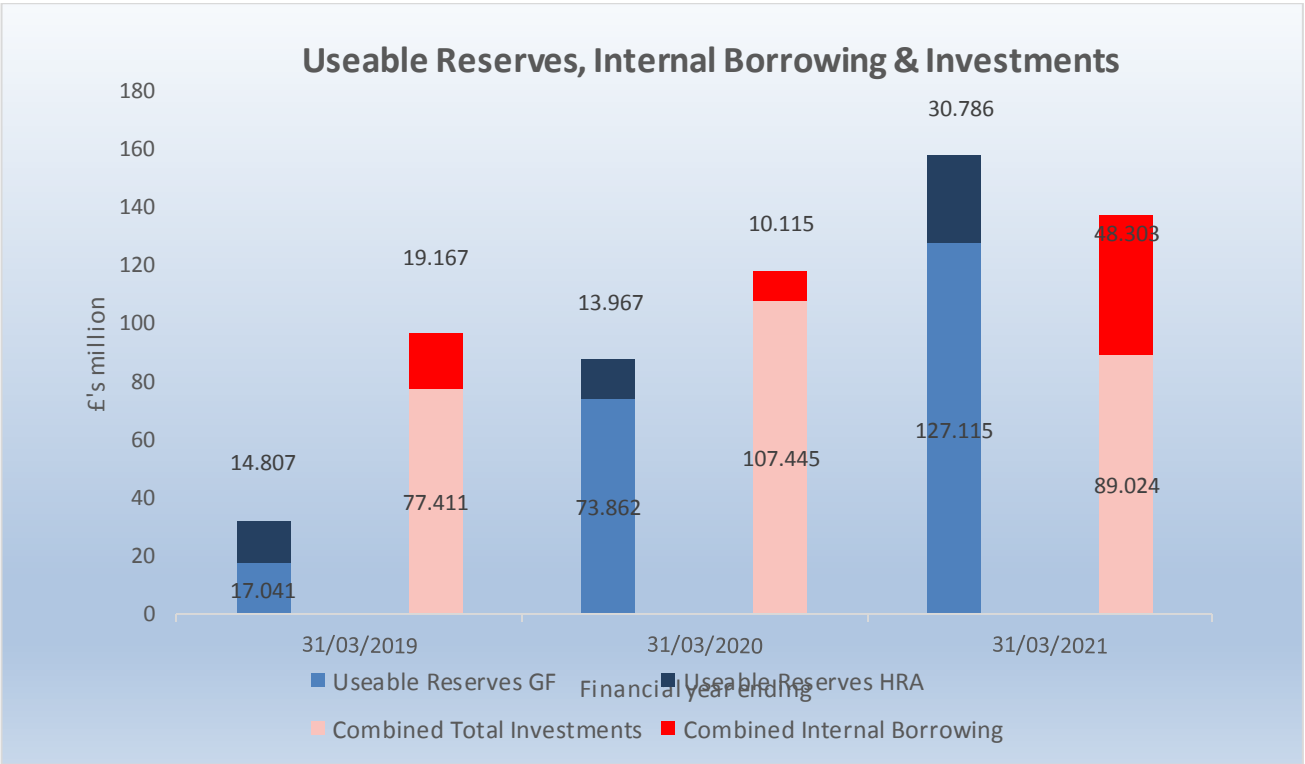
The Authorised Limit for External Debt sets the maximum level of external borrowing that the Council can incur. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the Council's expected maximum borrowing need with headroom for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

Operational Boundary for External Debt					
	2022/23 £000	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Borrowing	880,000	950,000	989,000	995,000	996,000

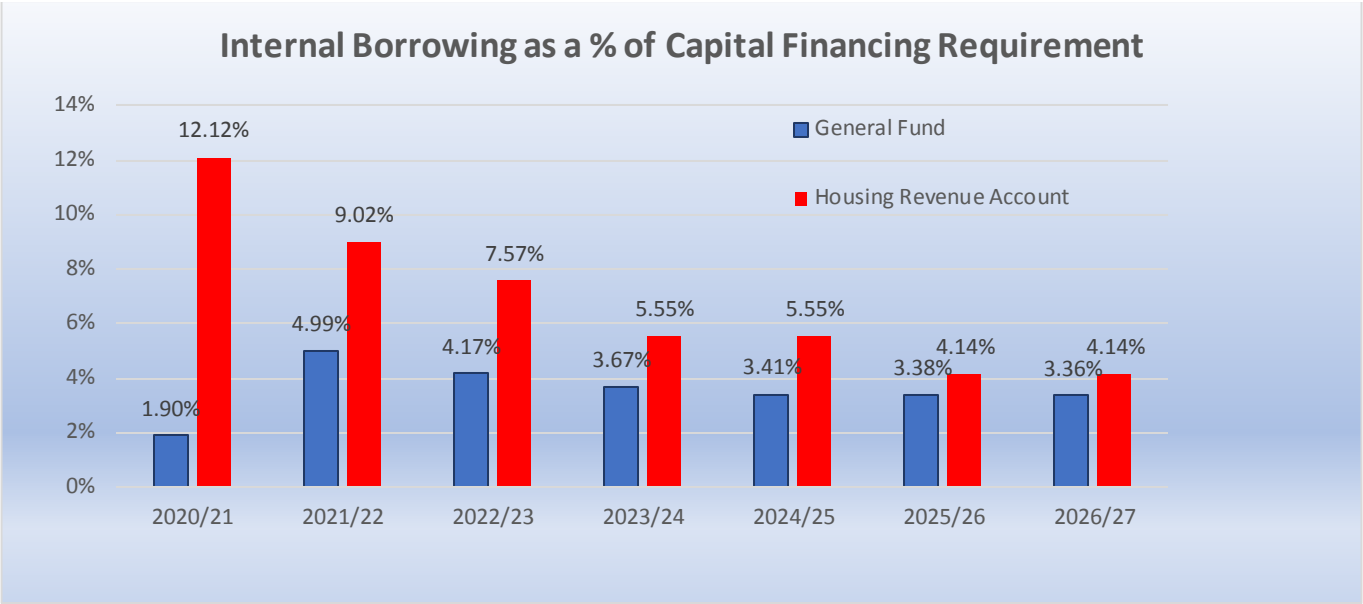
The Operational Boundary for External Debt is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached.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



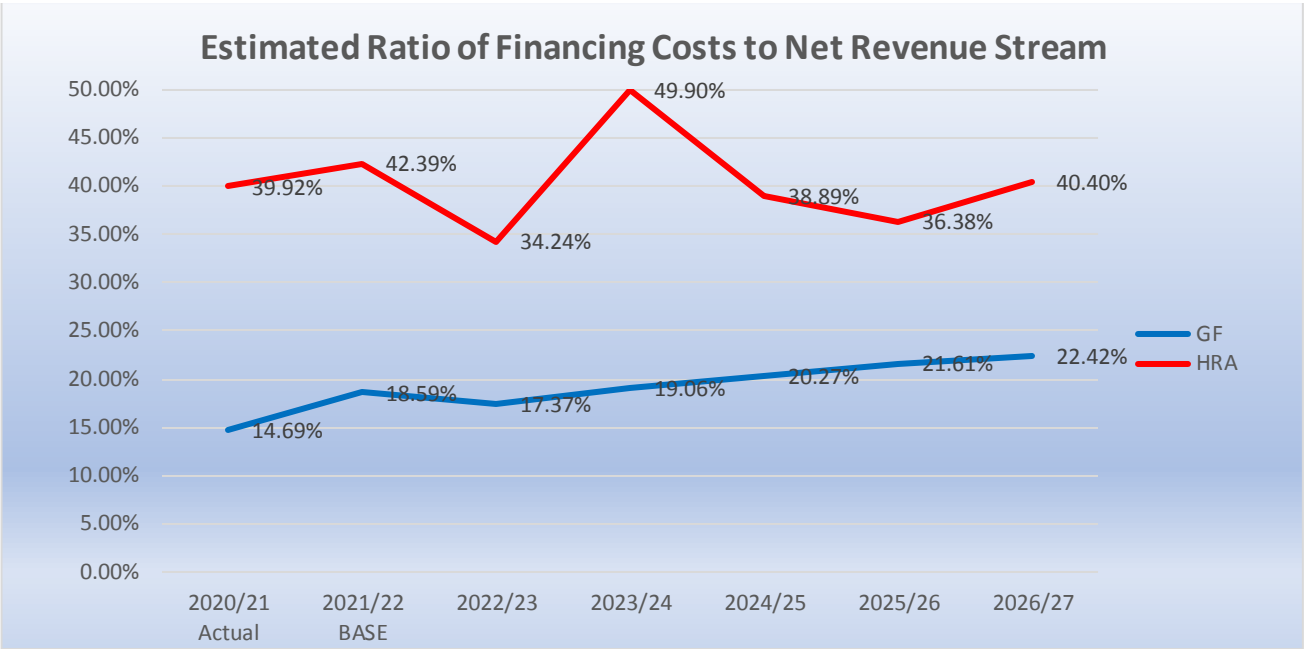
Capital Financing Requirement (CFR) shows the Council's capital borrowing requirement. Any gap between the CFR and the total debt highlights the potential to borrow further if the cashflow and treasury management position dictate.



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	20%	0%
12 months and within 24 months	21%	0%
24 months and within 5 years	26%	0%
5 years and within 10 years	26%	0%
10 years and within 20 years	22%	0%
20 years and within 30 years	43%	0%
30 years and within 40 years	46%	0%
40 years and within 50 years	48%	0%
50 years and above	17%	0%

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

Upper Limit on Amounts Invested Beyond 365 Days					
	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**
Investments	15,000	15,000	15,000	15,000	15,000

Appendix 4

Specified Investments (All Sterling Denominated)

Investment type	**Share/ Loan Capital**	**Repayable/ Redeemable within 12 months**	**Security / Minimum Credit Rating**	**Capital Expenditure**	**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. *See appendix 2 Creditworthiness Policy*	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 *See appendix 2 Creditworthiness Policy*	No	In-house	365 days

Short Term Money Market Funds The majority of these funds are instant access and therefore do not have a maturity date.	No	Yes	Secure Varied minimum credit rating *See appendix 2 Creditworthiness Policy*	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).
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.	No	Yes	Secure Varied minimum credit rating *See appendix 2 Creditworthiness Policy*	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	(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 *Minimum: Long term A-* *Short term F1*	No	In-house	Total not high rated deposits as a proportion of total investments 25%	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	A) Provides additional counterparties, as many banks do not want to take fixed term cash deposits. B) Credit risk could change but if adverse there is an option to sell onto a secondary market. 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 *Minimum: Fitch Long term A- Short term F1*	No	In-House	20%	12 months (but set on an individual counterparty basis)

Appendix 5

Maximum Maturity Periods and Amounts

Organisation	**Criteria**	**Max Amount***	**Max Period**
High Rated (Specified Investments – High rated and up to 365 days see Appendix 4) Foreign Banks	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. Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+	£20m £20m country limit (£15m individual counter party limit)	3 years 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.	£15m	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)	AAA fund rating or equivalent, backed up with lowest volatility rating (S1) or equivalent with assets > £0.75bn	£10m (excludes any compound interest)	3 days

* Restricted to a maximum of either 40% if government backed or 20% of total investments if non-government backed counterparty.

Appendix 6

Foreign Banks

This list is based on those countries which have non-UK sovereign ratings of AA+ or higher at 21/01/2022.

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Finland

Appendix 7

Non-Treasury Management Investments

Investment	**Latest Balance 31 January 2022**	**Notes**
Long term loans to Keelman Homes	£ 16,668,454.07	Loan Balance at 31/01/2022
SCAPE System Build Ltd	£ 784,000.00	17% Shareholding in SCAPE
Newcastle International Airport	£ 8,410,238.23	13.33% shareholding in Newcastle Airport
Loan to Citizens Advice Bureau	£ 512,141.70	Loan Balance at 31/01/2022
Loans to Trading Company	£ 2,246,677.76	Loan Balance at 31/01/2022
Newcastle International Airport Long Term credit notes	£ 10,330,541.41	Loan notes - interest paid bi-annual principal repayment due 2032
Soft Loans	£ 219,259.90	North Music Trust - Soft Loan
Loan to NE Credit Union	£ 102,994.86	Loan Balance at 31/01/2022
Loans to Gateshead Energy Company	£ 3,000,000.00	Loan Balance at 31/01/2022
Loan to NGI	£ 196,872.88	Loan Balance at 31/01/2022

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Gateshead Council

Audit and Standards Committee
7 March 2022

Title of Report: **External Auditor's Annual Report Year-ended 31 March 2021**

Report of: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1 This report requests that the Committee note the contents of Mazar's Annual Report for year-ended 31 March 2021 and agree to the schedule of fees in section 4 of the report.

Background

2 The Auditor's Annual Report (AAR) summarises the work undertaken by Mazars as the auditor of the Council for the year-end 31 March 2021.

3 Their responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

4 The report outlines how Mazars have discharged these responsibilities and outlines the findings from the audit. Although the report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

5 The new Code of Practice has changed the way in which Mazars are required to report on findings relating to Value for Money (VFM). Whilst they are still required to be satisfied that the Council has proper arrangements in place, they are now required to report by exception where they have identified significant weaknesses in those arrangements.

6 This is a significant change to the requirements under the previous Code which required Mazars to give a conclusion on the Council's arrangements as part of their auditor's report. These changes were presented to the Committee on 8 March 2021.

7 Section 4 of the AAR outlines the proposed fees for 2020/21 and outlines specific areas of work over and above the core fee. Officers have discussed the proposed fees with Mazars and are satisfied that the fees are proportionate to the additional work undertaken, in line with guidance on fees issued by Public Sector Audit Appointments (PSAA). Once approved by the Council, Mazars will be required to seek approval by the PSAA.

8 The Department for Levelling Up, Housing and Communities (DLUHC) have recognised the additional work of the new Code of Audit Practice and other Redmond recommendations and have announced £15m of additional funding for local authorities in 2021/22 and a further £15m in each of the next two years to meet these new burdens and the increased audit fees. The Council is yet to be notified of its share of this national funding allocation.

9 Further information is set out in the AAR in appendix 1.

Recommendation

10 The Committee is requested to:

i. Note the contents of the external auditor's Annual Report for Year-ended 31 March 2021;
ii. Agree to the schedule of fees in section 4 of the report; and
iii. Agree to publication of the AAR on the Council's website.

CONTACT: Darren Collins extension: 3582

Auditor's Annual Report

Gateshead Metropolitan Borough Council – year ended 31 March 2021

January 2022

mazars

Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Gateshead Metropolitan Borough Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements

We issued our audit report on 28 October 2021. Our opinion on the financial statements was unqualified.

Our report included an 'emphasis of matter' paragraph drawing attention to the Council's disclosure in its statements of a material uncertainty in respect of the valuation of land and property and investment property due to the pandemic.

Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified any significant weaknesses in those arrangements at the time of reporting.

Section 3 confirms that we have now completed this work, with no significant weaknesses identified and provides our commentary on the Council's arrangements.

Wider reporting responsibilities

At the time of preparing this report the group audit instructions have not been issued by the NAO.

As a result our whole of government accounts work has not been completed. We are unable to issue our audit certificate which will formally close the audit for the 2020/21 financial year until this work is complete.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council and Group's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 28 October 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 30 June 2021, ahead of the revised statutory deadline and were of a good quality, supported by comprehensive working papers.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Given the on-going impact of COVID-19 the audit was again completed remotely.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our audit completion report, taken to the September 2021 Audit and Standards Committee, contained details of one medium-priority recommendation and one low-priority recommendation.

Our follow-up report, issued to Members upon completion of outstanding work, detailed one further medium-priority recommendation and also one high-priority recommendation, which is detailed below and overleaf.

Description of deficiency - **Valuations of property, plant and equipment (PPE) –** level 1 (high priority) significant deficiency in internal controls

In 2020/21, the sample size for our valuations testing was more than double than in the previous year, due to the full portfolio valuation. A number of errors were identified, including:

- incorrect use of data after the valuation date, offset by inclusion of a contingency allowance in certain valuations which should not have been included;
- one special school where an entire floor had been omitted;
- incorrect useful economic lives applied to PFI schools;
- a school which should have been brought back on balance sheet the prior year;
- significant unexplained changes in obsolescence factors used;
- various other errors, including a key report not correctly identifying impairment to be shown in the disclosure note and a valuation not correctly allocated across its components.

A significant amount of work was required as a result of the above errors to establish the nature of the errors and also fully quantify the errors in the relevant sub-populations.

- useful economic lives;
- whether the asset had been physically inspected or not;

2. Audit of the financial statements

Valuations of property, plant and equipment (PPE) – level 1 (high priority) significant deficiency in internal controls

Description of deficiency (continued)

In 2020/21, the sample size for our valuations testing was more than double than in the previous year, due to the full portfolio valuation. A number of errors were identified, including:

- incorrect use of data after the valuation date, offset by inclusion of a contingency allowance in certain valuations which should not have been included;
- one special school where an entire floor had been omitted;
- incorrect useful economic lives applied to PFI schools;
- a school which should have been brought back on balance sheet the prior year;
- significant unexplained changes in obsolescence factors used;
- various other errors, including a key report not correctly identifying impairment to be shown in the disclosure note and a valuation not correctly allocated across its components.

A significant amount of work was required as a result of the above errors to establish the nature of the errors and also fully quantify the errors in the relevant sub-populations.

Delays

We acknowledge the considerable efforts and cooperation from the Valuer and Council; there were, however, delays in obtaining all the required information, which may have been partly avoided if there had been greater detail in the valuation report in respect of individual valuations – or if such information had been readily available upon request.

Adequacy of the Valuation Report

Whilst valuations are judgements, there should be sufficient detail to support individual valuations, to evidence key assumptions such as:

- useful economic lives;
- whether the asset had been physically inspected or not;
- obsolescence factors applied.

Description of deficiency (continued)

In addition, various omissions and errors were noted in the Valuation Report, including:

- missing beacon property data;
- omitted BCIS supporting data and omitted valuation calculations for several assets.

The format of the council houses beacon valuations was also difficult to follow.

Potential effects

Risk of material misstatement.

Recommendation

Consider the areas highlighted from the 2020/21 audit as part of reviewing valuation arrangements.

Management response

These will be considered as part of reviewing valuation arrangements for future years.
We have appointed new external Valuers for 2021/22 onwards and are working closely with them to consider the recommendations set out by the auditor.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- Financial sustainability - how the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - how the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We outline the risk that we have identified and the work we have done to address those risks on page 10.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criterion. On the following page we outline further detail of the work we have undertaken against each reporting criterion, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	10	Yes – see financial pressures risk on page 10	No
Governance	13	No	No
Improving economy, efficiency and effectiveness	15	No	No

3. VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criterion

Risk of significant weaknesses in arrangements

We have outlined below the risk of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to this risk.

	Risk of significant weakness in arrangements	Work undertaken and the results of our work
1	**Sustainable resource deployment – financial pressures** The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements, including alternative models of service delivery. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate.	**Work undertaken** • We reviewed budget monitoring and reporting. • We also considered the adequacy of plans that are developed to deliver savings and improvements. • We also considered the latest update of the Council's medium-term financial strategy. **Results of our work** **Budget monitoring and reporting** Quarterly reports are presented to the Cabinet throughout the year, underpinned by budget monitoring within each portfolio and service. The quarterly reports provide a clear summary of the projected outturn and the actuals, along with supporting narrative to explain any significant changes. The Council has a strong track record of delivering its budget over the last decade, despite the continued pressures of funding reductions and delivery of savings, reporting an underspend of £7.9m for 2020/21 (prior year £4.1m). The Council clearly highlights the continued financial pressures and the need for robust budget monitoring which is key to its financial sustainability. **Adequacy of plans to deliver savings and improvements** Savings of approximately £0.6m were built into the budget for 2020/21, of which £0.4m was not achieved; in the context of the net budget, this is not a significant amount and the Council is clear on these planned savings being carried forward to 2021/22. Various service reviews were also on-going during 2020/21, to deliver cost reductions, alongside building in reduction of prior year overspends for some services to the 2020/21 budget. For 2021/22, savings of £8.117m are planned and the Council plans to use its savings contingency to partly offset these. **Medium-term financial strategy** The Council's latest refresh of its medium-term financial strategy (MTFS) was presented to the Council in November 2021, setting out the forecast strategy for the next five years, from 2022/23 to 2026/27. The MTFS clearly set out the principles underpinning the strategy, such as direction of resources to the *Thrive* agenda and having a minimum general fund balance of 3% of the net budget. The strategy sets out the headline messages of an estimated financial gap of £63m across the five-year period, with required savings and efficiencies of £45m after applying planned use of earmarked reserves. A new three-year budget approach was reported to Cabinet in December 2021, as the scale of challenges set out in the MTFS requires a radically different approach. **Based on the results of our work for the identified risk, we have not identified any significant weaknesses in arrangements. Further commentary on the Council's arrangements is set out overleaf.**

3. VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criterion - continued

How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Medium-Term Financial Strategy (MTFS) includes financial projections analysis and context that supports the Council's new policy approach 'Making Gateshead a Place Where Everyone Thrives'. The key principles set out in the MTFS provides the financial planning framework to inform the allocation of resources within the capital programme.

The Council's capital investment plans are set out in the capital strategy and programme, with the latest approved programme covering the period between the 2021/22 and 2025/26 financial years.

Quarterly reports are presented to the Cabinet throughout the year, underpinned by budget monitoring within each portfolio and service and reporting to the Corporate Management Team. The quarterly reports provide a clear summary of the projected outturn and the actuals, along with supporting narrative to explain any significant changes. Implications of overspends and non-delivery of planned savings and efficiencies are set out in each report.

The Council has a strong track record of delivering its budget over the last decade, despite the continued pressures of funding reductions and delivery of savings, reporting an underspend of £7.9m for 2020/21 (prior year £4.1m), which was largely due to the timing of receipt of Covid funding. In the Council's quarterly reports, it clearly highlights the continued financial pressures and the need for robust budget monitoring which is crucial to its financial sustainability.

Based on our work, there is evidence of effective financial management arrangements despite the continued financial pressures, including the on-going pandemic.

How the Council plans to bridge funding gaps and identifies achievable savings

The overarching MTFS includes the identification of savings and efficiencies over the period of the next five years, after taking into account estimated funding. The latest MTFS sets an estimated financial gap of £63m across the five-year period, with required savings and efficiencies of £45m after applying planned use of earmarked reserves.

consideration throughout the year to allocate resources to Services and consider consultation outcomes.

Savings of approximately £0.6m were built into the budget for 2020/21, of which £0.4m was not achieved; in the context of the net budget, this is not a significant amount and the Council is clear on these planned savings being carried forward to 2021/22. Various service reviews were also on-going during 2020/21, to deliver cost reductions, alongside building in reduction of prior year overspends for some services to the 2020/21 budget.

For 2021/22, savings of £8.117m are planned and the Council plans to use its savings contingency to partly offset these. This is not unreasonable, based on the lead-in time required to delivery some savings.

In addition, a three-year budget approach was set out in a report to Cabinet in December, as the scale of the challenge set out in the MTFS requires a radically different approach.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's MTFS provides a framework with the express objective of achieving a sustainable financial position over the medium-term and which is also aligned to its strategic *Thrive* priorities. The strategic approach of 'Making Gateshead a Place where Everybody Thrives' provides the framework for delivery of the Council's Thrive priorities and the Health and Wellbeing Strategy, using the three pillars of its strategic vision:

- Economic strategy;
- Housing Strategy; and
- Investment Strategy.

The Housing Revenue Account business plan has been subject to significant work over the past year, resulting in a revised 30 year business plan, as part of ensuring the sustainability of council housing in Gateshead.

3. VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criterion - continued

How the Council ensures that its financial plan is consistent with other plans

The Council's MTFS sets out the financial context for the Council's resource allocation process and budget setting. Given the on-going financial pressures, the Council recognises that its budget approach needs to be more clearly linked to the hierarchy of delivering on *Thrive* priorities through the Health and Wellbeing Strategy and the emerging Economic, Housing and Investment Strategies. The Council's new Performance Management Framework aims to support the Council's strategy by aligning performance with the overall approach to the budget to support financial sustainability and ensure that resources are deployed on the outcomes for making Gateshead a Place Where Everyone Thrives.

For example, as part of revising its Asset Management Strategy, we noted from our audit work that Council officers are critically reviewing what assets are currently held and what assets would ideally be required to deliver the Council's priorities most effectively.

As part of ensuring the consistency of the MTFS and annual budget with other plans, significant consultation is undertaken on the budget, both with internal and external stakeholders.

In addition, the Council's budget planning framework is supported by the development of integrated impact assessments (IIAs) for draft budget proposals.

How the Council identifies and manages risks to financial resilience

As part of the annual budget report setting, the Council's s151 officer sets out his assessment of the adequacy of reserves and the robustness of budget estimates. Appropriate risk factors are considered as part of this assessment, including the level of reserves, prudential and treasury indicators and the robustness of inflationary estimates.

This is underpinned by the review of reserves set out in the annual update of the Council's MTFS, which includes an estimate of projected earmarked reserves.

Earmarked reserves as at 31 March 2021 were £87.8m, compared to £43.4m the prior year; the significant increase being due to the pandemic services impact reserve of £17.9m and the pandemic impact Collection Fund reserve totalling £28.2m. The Collection Fund reserve will be largely used in 2021/22, to support the Collection Fund deficit arising from the pandemic, with the pandemic services impact reserve being forecast to be fully used by 31 March 2024. Overall, earmarked reserves (excluding the general fund balance and school reserves) are currently projected to reduce to £15.5m by 31 March 2027.

We would recommend that the Council more explicitly reports the level of earmarked reserves at the end of the MTFS five-year period as part of its annual update, to facilitate decision-making.

The Council also manages risks to its financial resilience via maintaining a general fund balance. The Council's policy for the level of this balance is set out in the MTFS annually, along with the s151 officer's assessment. For 2021/22 onwards, the Council plans to reduce its general fund balance from a minimum of 5% of its net revenue budget to a minimum of 3%; this represents a decrease from £13.9m to £8.0m.

The financial impact of COVID-19 in 2020/21 has been closely managed and monitored throughout the year. The overall impact of COVID-19 has been managed through the receipt of specific COVID-19 grant and allocations of emergency funding. It is expected the impact will continue to be felt in medium term financial planning and that this will be significantly more challenging than would have been the case prior to the emergence of the virus.

In line with good practice, the Council prepares and takes a formal report to the Audit and Standards Committee on whether the 'going concern' assumption is appropriate; this report was taken to the September 2021 Audit and Standards Committee. In this report, the Council clearly sets out:

"that it will be difficult to continue to deliver substantial savings without significant changes in the way we deliver services and therefore reserves have been maintained to assist transition and mitigate future risk. Reserve levels and use will be kept under review and reported to Cabinet".

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.

3. VFM arrangements – governance

Overall commentary on the governance reporting criterion

How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has approved and adopted a code of corporate governance.

The Council continually reviews and improves its Governance Framework and during 2020/21, it has been updated to take account of changes to the Council's performance management framework which was being reviewed during the year and will be implemented in 2021/22.

Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks. The Audit and Standards Committee receives quarterly reports on risk management and takes appropriate action to ensure that corporate business risks are being actively managed; the Committee also receives the annual corporate risk management report and agrees the effectiveness of the Council's risk management arrangements.

We confirmed that the Audit and Standards Committee received regular updates on the Audit Plan. Internal Audit reviews highlight weaknesses and recommends actions when required to strengthen processes or procedures. These are regularly reported to Audit Committee which holds management to account where weaknesses are identified. The Audit Committee monitors management actions in response to recommendations and this is reported on a regular basis. The Audit Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit and Standards Committee on 21 June 2021. This opinion is based on 50 audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in eight cases where significant weaknesses were identified.

The Annual Risk Management Report was presented to the Audit and Standards Committee on 21 June 2021 which concluded that risk management arrangements are effective.

The Annual Report on Counter Fraud Arrangements was presented to the Audit and Standards Committee on 21 June 2021 which concluded that counter fraud arrangements are effective. We observed that the Council has a counter fraud response and strategy which includes fraud governance and arrangements to prevent, detect and pursue fraud.

As part of our audit procedures we considered the Council's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge.

We identified no matters indicating a significant weakness in arrangements.

How the Council approaches and carries out its annual budget setting process

The Council's MTFS arrangement includes the identification and evaluation of risks to the Council's finances.

We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall, the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

We have reviewed Council reports and minutes throughout year and have not identified any evidence of a weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations.

Overview and Scrutiny meetings provide an opportunity to challenge decisions. The Corporate Resources Overview and Scrutiny Committee is in place to oversee and coordinate the work and our work identified no matters that indicate a significant weakness in arrangements.

The Council implemented measures to ensure that services could continue despite the restrictions arising during the COVID-19 pandemic. The arrangements included live streaming to allow the public to observe Council meetings.

3. VFM arrangements – governance

Overall commentary on the governance reporting criterion - continued

How the Council monitors and ensures appropriate standards are maintained

The Council's Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts records material related party transactions as well of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared. While we identified areas of improvement we are satisfied they do not indicate a significant weakness in arrangements.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website. The contract procurement strategy has been recently revised.

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2020/21 financial year and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances and we identified no evidence to indicate a weakness in arrangements.

The Audit and Standards Committee is responsible for promote and maintain high standards of conduct by councillors and co-opted members, as well as monitoring the operation of the Members' Code of Conduct. Full Council approved, in January 2021, the appointment of three independent Members to the Audit and Standards Committee.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

3. VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criterion

How financial and performance information has been used to assess performance to identify areas for improvement

The Council has a corporate suite of strategic performance indicators to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. The Senior Management Group Services and Performance plays a key role in monitoring the Performance Framework before reports are presented to Overview and Scrutiny Committees and Cabinet on a six monthly basis.

During 2020, the Council began development of a new Performance Management and Improvement Framework (PMIF), including consultation with stakeholders. A key message has been how every employee and Councillor contributes to the *Thrive* agenda and, therefore, this framework.

The new framework, as set out earlier in this report, aims to support the Council's strategy by aligning performance with the overall approach to the budget to support financial sustainability and ensure that resources are deployed on the outcomes for making Gateshead a Place Where Everyone Thrives.

The new PMIF is based on the six policy objectives of the Health and Wellbeing Strategy and a Balanced Scorecard that demonstrates performance against 'organisational health'. It is informed by qualitative and quantitative assessment to inform policy and resource decisions.

During 2021, the Council has developed the framework, including setting measures, culminating in the first balanced scorecard being taken to the Corporate Overview and Scrutiny Committee in January 2022.

The Council recognises the framework is an area of on-going development; in particular, recognising the need to align the PMIF to the budget approach. This is good practice; linking financial and performance management is, however, a significant task to do well.

The Council recognises the impact of the pandemic on performance, not just disruption to services in 2020/21, but also the ability of services to collect and assess performance the six-month stage. The Council has, under its Business Impact Assessment and Continuity Plan framework, prioritised critical services to ensure delivery. The impact of the pandemic itself may influence and inform future priorities of the Council which would then inform the performance content of the framework.

How the Council evaluates the services it provides to assess performance and identify areas for improvement

Alongside the performance framework in place, the Council considers the output from regulators to evaluation performance and identify areas for improvement. It is noted that the new PMIF includes a useful summary of external assessments, which includes the Care and Quality Commission, Ofsted, the Regulator of Social Housing and also external partners.

Children's Services

The Council had an Ofsted focused visit for Children's Services in October 2021. This visit evaluated the quality of help and protection provided to vulnerable children and their families in the front door integrated referral team (IRT) and in the assessment and intervention team as well as appraisal of the quality and impact of the local authority's performance management and audit arrangements. As this was a focused visit, there is no overall rating provided. The Ofsted letter of October 2021 was very positive, highlighting a few areas for improvement alongside setting out examples of good practice:

"The Director of Children's Services has an accurate view of the service she leads and shows exceptionally strong, stable leadership and commitment to continued improvement, working adroitly to progress the small number of areas for improvement that remain. There is no complacency. For example, despite the unprecedented challenges posed by the pandemic, a strong culture of outward-looking, continuous learning and accountability meant that Gateshead continued to innovate, and appoint more staff to take forward the new initiatives".

Adult social care and restructuring

A report was taken to the January 2022 Cabinet proposing the current Children, Adults and Families Group is split to establish two new service groups:

- Integrated Adults' and Social Care Services; and
- Children's Social Care and Lifelong Learning.

The separation of the Strategic Director post into two strategic roles will reflect the criticality of adult social care and support the inspection regime which will be in place in 2023 in respect of adult care. Unlike children's services, this area has not been subject to external inspection for the past eleven years; however, such external scrutiny will be introduced to reflect that in place in Children's Services.

3. VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criterion - continued

Housing
Following consultation and review of housing services provided by The Gateshead Housing Company, housing services were brought back in-house from 1 April 2021.

The Regulator of Social Housing issued a notice to the Council that it had breached the Home Standard in April 2019, due to weaknesses in key areas such as fire risk assessments, asbestos and electrical safety. The Council and The Gateshead Housing Company worked closely with the Regulator to address weaknesses identified. In addition, an independent compliance review was commissioned by the Council which reported in July 2021, highlighting clear areas of progress, but also areas where further work was required, such as data assurance for non-domestic assets. The on-going development of the IT system, Northgate, is a key part of improving assurance.

The Regulator of Social Housing withdrew its formal notice of a breach of the Home Standard in December 2021; this follows a period of intensive activity to address weaknesses identified. Some of these have a longer timescale for completion, however, the withdrawal by the Regulator demonstrates progress is being made.

Whilst progress has clearly been made in respect of housing arrangements, this is also an area for on-going work. It is important that close monitoring continues in respect of outstanding Internal Audit recommendations and that the Audit and Standards Committee continues to be informed of progress.

How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

A Corporate Partnership Register is maintained which is updated by Strategic/Service Directors on at least an annual basis.

Examples of partnerships on the register include the Gateshead Health and Care System, Gateshead Safeguarding Children Partnership, Health and Wellbeing Board and the South Tyne & Wear Waste Management Partnership. A risk assessment model has been developed to assess the strength of each partnership arrangement in respect of governance, financial arrangements, reputation and delivery. The most significant partnerships to the Council have been identified from the Partnership Register and risk assessments have been completed by the relevant Strategic/Service Director for each of these.

In 2019/20 the Council entered into a Limited Liability Partnership (LLP) with Public Sector plc (PSP) to operate a portfolio of tenanted, non-residential properties for a period of seven years. This partnership finished in December 2021, with the portfolio returned to the Council.

Integrated Care System

A significant new partnership in the North East will be formally established, subject to the legislation being passed, from 1 April 2022; this is the North East and North Cumbria Integrated Care System (NENC). The Integrated Care Systems (ICS) recognises that public health in this region is amongst the worst in the country and has an ambition to change that.

ICS have been set-up across the country, with an aim of delivering on the NHS Long Term Plan and bringing together, in a partnership, the NHS, councils, combined authorities, voluntary and partner organisations to look at new and different ways of working to improve overall health and wellbeing.

It is noted that, due to pressures in the NHS, the statutory commissioning functions will remain with the local Clinical Commissioning Groups until at least 1 July 2022, however, development of the ICS is continuing and this is a vital partnership for the Council.

The Council has a joint Overview and Scrutiny Committee for this key partnership which last met in October 2021. The ICS presents both opportunities as well as challenges. The challenges include maintaining a focus on the local Gateshead area, whilst working as part of a much larger partnership; this is an area which the ICS is developing, recognising that effective arrangements for focusing on each 'place' need to be in place.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to their attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The National Audit Office (NAO), as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. At the time of issuing this report, the NAO guidance to auditors has not been received, therefore, we are unable to carry out this work. Until this work is concluded we cannot issue our audit certificate.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Standards Committee in April 2021. For the 2020/21 financial year, our fees are as follows, noting that additional fees are subject to review and approval by Public Sector Audit Appointments Limited (PSAA):

Area of work	2019/20 fees	2020/21 fees
Fee in respect of our work under the Code of Audit Practice	£100,329	£100,329
Recurrent scope changes: additional fees in respect of group financial statements and consolidation adjustments	£9,711	£9,711
Recurrent scope changes: additional fees in respect of property, plant and equipment valuations due to increased regulatory requirements	£13,014	£15,049
Recurrent scope changes: additional fees in respect of pensions due to increased regulatory requirements	£7,520	£8,026
In-year scope change: additional testing as a result of the implementation of new auditing standards: ISA 540 (revised) auditing accounting estimates and related disclosures; ISA 570 (revised) going concern Range set by PSAA for a metropolitan borough council being up to £4,300.	£0	£1,500
Additional requirements for Gateshead MBC: additional work in respect of completeness of liabilities	*£2,048*	*£0*
Additional requirements for Gateshead MBC: significant additional property, plant and equipment (PPE) valuations testing due to valuation of the entire portfolio of assets in 2020/21, as well as restatement of the financial statements for a material prior period error.	*£0*	*£8,026*
Additional requirements for Gateshead MBC: PFI shared waste facility expert valuation review	*£1,888*	*£1,275*
Additional requirements for Gateshead MBC: revised pensions report	*£0*	*£2,007*
Value for money: implementation of the new approach on VFM arising from the change to the Code of Audit Practice. Range set by PSAA for a metropolitan borough council being £10,000 - £19,000.	£0	£14,046
Total	**£134,510**	**£159,969**

4. Other reporting responsibilities and our fees

Fees for other work

We carried out the following work for the Council in the year:

Area of work	2019/20 fees	2020/21 fees
Teachers' Pensions 2020/21 return	£4,000	£4,205
Housing Benefits Subsidy 2020/21 return*	£10,000	£10,600
Pooling of Housing Capital Receipts 2020/21 return*	£2,450	TBC**

*Housing Benefits work is being completed at the time of writing this report; any additional work required will be charged at our daily rate set out in our engagement letter
** Pooling of Housing Capital Receipts work is due to carried out in February 2022.

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

*where permitted under applicable country laws.

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