

## AUDIT COMMITTEE

**Tuesday, 1 February 2022**

**6.00 pm**

**Committee Rooms 1-2, City Hall**

Membership:	Councillors Rebecca Longbottom (Chair), Helena Mair (Vice-Chair), David Clarkson, Thomas Dyer, Gary Hewson, Rosanne Kirk and Calum Watt
Substitute member(s):	Councillors Pat Vaughan
Independent Member:	Jane Nellist
Officers attending:	Paul Berry, Democratic Services, Jaclyn Gibson, Sarah Hardy and Colleen Warren

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## A G E N D A

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### SECTION A

Page(s)

**A training session will be held immediately prior to the start of this meeting at 5.00pm in relation to Treasury Management**

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|--|---------------|
| 1. Confirmation of Minutes - 14 December 2021  | 3 - 12        |
| 2. Declarations of Interest  |               |
| Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary. |               |
| 3. Prudential Indicators 21-22 - 2024/25 and Treasury Management Strategy 2022/23  | 13 - 46       |
| 4. Audit Recommendations - Licensing   | Verbal Report |
| 5. Internal Audit Progress Report  | 47 - 64       |
| 6. Review of Code of Corporate Governance 2022   | 65 - 80       |
| 7. Audit Committee Work Programme  | 81 - 92       |

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**Present:** Councillor Rebecca Longbottom (*in the Chair*)

**Councillors:** Helena Mair, David Clarkson, Thomas Dyer, Gary Hewson, Rosanne Kirk and Calum Watt

**Independent Member:** None.

**Apologies for Absence:** Jane Nellist

**37. Confirmation of Minutes - 23 September 2021**

RESOLVED that the minutes of the meeting held on 23 September 2021 be confirmed and signed by the Chair.

**38. Declarations of Interest**

Councillor T Dyer declared a personal interest in minute number 50 as he was a member of the Central Lincolnshire Joint Planning Committee.

**39. Annual Governance Statement - Monitoring**

Jaclyn Gibson, Chief Finance Officer:

- a) presented a progress update on those areas identified as 'significant governance issues' as set out in the 2020/21 Annual Governance Statement (AGS), which Audit Committee had a role to review.
- b) stated that the report provided details of the monitoring arrangements for the significant internal control issues raised in the latest AGS, as detailed at Appendix A of the report.
- c) advised that key actions would be reviewed by the Service Manager's Group and be overseen by Corporate Leadership Team as well as monitored by Audit Committee.
- d) advised that of the two significant issued, both were considered to have reduced in significance from Red to Amber status.
  - I. The IT Disaster Recovery plan alignment with current Business Continuity plans.
  - II. Vision 2025 needed to be re-profiled and communicated to a wider audience in light Covid-19
- e) requested that members of Audit Committee give consideration to the content of the report.

**Question:** Asked if there was a split between the Housing Revenue Account and General Fund to pay for IT services.

**Response:** Both the Housing Revenue Account and the General fund paid for an element of the IT services.

**Question:** Asked why the Levelling Up white paper had not been included in the Annual Governance Statement.

**Response:** The Annual Governance Statement was about the current governance plan, it would be changed in future if necessary.

RESOLVED that the content of the report be noted and monitoring arrangements be continued.

#### 40. **External Audit - Progress Report**

Mike Norman, Mazars:

- a) presented the External Audit Progress Report to provide Audit Committee with an update on progress in delivering responsibilities of the external auditors.
- b) referred to the External Audit progress report attached at Appendix A covering the following areas:
  - an update on progress in delivering the 2020/21 audit assurance work;
  - the 2021/22 audit planning process; and
  - a summary of recent relevant reports and publications
- c) requested that members note the contents of the report and the attached appendix.
- d) invited member's questions and comments.

**Question:** Referred to paragraph 6.1 of the report and asked if the additional funding was enough to cover the extra expectations.

**Response:** The funding was sufficient to meet the additional costs.

RESOLVED that the contents of the External Audit Progress report be noted.

#### 41. **External Audit - Audit Completion report**

The Council's external auditors presented the Audit Completion Report which summarised the findings from the 2020/21 audit.

The external auditor's work on the financial statements was substantially complete and, subject to satisfactory conclusion of any outstanding work, they would propose issuing an unqualified audit opinion by 31 January 2022. As part of the audit, the internal controls in place relevant to the preparation of the financial statements had been considered, with 1 low recommendation resulting from this work made as follows:

- property valuations.

Further details of these recommendations were outlined in section 5 of the external auditors' report at Appendix A.

In relation to misstatements in the accounts, there were five misstatements identified that were above the threshold level of £49k., Two of which were adjusted for as part of the audit process and had been reflected in the Statement of Accounts. The remaining three misstatements were not proposed to be adjusted for, the effects of these uncorrected misstatements were immaterial, both individually and in aggregate, to the financial statements as a whole. Further details of these misstatements were provided in section 5 of the auditors' report at Appendix A.

The Statement of Accounts included on the agenda for this meeting at item 6 reflected a fully amended version of the document.

It was reported that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources were yet to be completed. At the time of preparing this report, no significant weaknesses in arrangements, that required a recommendation to be made had been identified. However, work continued to be undertaken on the Council's arrangements and a commentary of these would be provided in the External Auditors Annual Report.

As part of presenting this item, the external auditors took the Committee through each page of the report and highlighted any key issues, particularly with regard to:

- the audit approach;
- significant findings;
- internal control recommendations;
- summary of misstatements;
- value for money conclusion.

**Question:** Asked for more information on the Whole Government of Accounts.

**Response:** The Whole Government of Accounts was a process where departments accounts were consolidated. The work was unable to commence in this area until instruction had been received from the National Audit Office. This would not impact on the Audit opinion.

**Question:** Asked how working from home had affected audit work.

**Response:** There had been some challenges and also some benefits, but the work had been completed virtually.

The committee expressed their thanks and appreciation to the Finance Team for preparing an accurate Statement of Accounts.

It was RESOLVED:

- (1) That the financial statements be recommended to Council for approval.
- (2) That the draft letter of representation on behalf of the Council be approved, before the external auditors issue an opinion, conclusion and certificate, and that any further amendments to the letter, should any additional issues be raised by the external auditors prior to 31 January 2022 be delegated to the Chief Finance Officer and Chair of the Audit Committee, which any changes reported back to the Audit Committee.
- (3) That any further changes that may be required to the Statement of Accounts as identified during the conclusion of the audit, be delegated to the Chief

Finance Officer and Chair of the Audit Committee, with any changes reported back to the Audit Committee.

#### **42. Statement of Accounts 2020/21**

Colleen Warren, Financial Services Manager:

- a) presented the Statement of Accounts for the financial year ended 31 March 2021.
- b) reported that the Statement of Accounts for 2020/21 provided a comprehensive picture of the Council's financial circumstances and were compiled to demonstrate probity and stewardship of public funds.
- c) reported that the Council was statutorily required to publish its Statement of Accounts for 2020/21 with an audit opinion and certificate by no later than 30 November 2021. This date had been extended from the ordinary deadline of 31 July as a result of Covid-19.
- d) noted that the Statement of Accounts for 2021/2 were still subject to final verification by external audit . The audit of accounts was being finalised by Mazars, who had commented the audit in July. Should any material changes be necessary as a result of this final external audit work, these would be reported back to a meeting of this committee by the Chief Finance Officer.
- e) reported that the Council must make the Statement of Accounts available for public inspection for 10 working days. Following notification from the Council's external auditors, this ran from 2 August 2021 until 13 August 2021 and the external auditor was available to answer questions during this period. It was reported that no questions had been asked.
- f) advised that during the completion of the external audit there were five misstatements above the threshold level of £49k, of these two misstatements had been amended in the final version of the Statement of Accounts.
- g) reported that the Council was required to provide a documented annual review of the effectiveness of its governance arrangements which sat alongside the Statement of Accounts, known as the Annual Governance Statement. The overall level of assurance provided in 2020/21 was substantial and was in line with the Council's Code of Corporate Governance.
- h) presented the following aspects of the Statement of Accounts:
  - the Comprehensive Income and Expenditure Statement;
  - the Balance Sheet;
  - general balances;
  - earmarked reserves;
  - liquidity;
  - debtors;
  - creditors;
  - non-current assets;
  - pensions;
  - officer remuneration;
  - borrowing;
  - investments.

- i) invited members' questions and comments.

**Question:** Referred to page 61 of the report and asked for an update on the mayoral car.

**Response:** In the current climate there was less of a need for a mayoral car, therefore temporary transport had been hired. Earmarked reserves had been released from the budget, however £27k had been left in the fund which would be enough to purchase a new vehicle if necessary. A review of the mayoral car would take place shortly.

**Question:** Referred to the assessment of car parks and asked if the 60 year life related to all car parks in the City.

**Response:** 60 years was the average life of the of all if the car parks in the City which had been estimated by the valuers.

**Question:** Referred to page 88 of the report and asked for clarification on the sale of PPE.

**Response:** PPE was in relation to property plant equipment, a glossary of abbreviations would be included in the report.

**Question:** Referred to the longevity of Council Staff once retired and asked if this was based on national statistics.

**Response:** The information had been provided by Lincolnshire Pensions therefore it was based on local statistics.

**Question:** Referred to the table at paragraph 4.2.2 of the officers report and asked if the figure of £0.075m for the HRA balances was incorrect.

**Response:** This would be updated to the correct figure of £0.75m.

**Question:** Referred to paragraph 4.2.5 of the report and asked for more information on debtors.

**Response:** This was in relation to the collection fund. The City of Lincoln Council acted as the billing authority for Business Rates and Council Tax which were both in a deficit. The debtor was due to the County Council owing money, the full deficit had to be shown in the City Council accounts however, the deficit was shared between the Lincoln City Council, Lincolnshire County Council, Lincolnshire Police and the Government.

RESOLVED that

1. the final Statement of Accounts 2020/21 be noted, noting that the external audit was substantially complete.
2. any further changes to the Statement of Accounts, arising from the conclusion of the external audit be delegated to the Chief Finance Officer who would report any changes to the Chair of Audit Committee.

#### 43. Internal Audit Progress Report

Paul Berry, Principal Auditor:

- a) presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during the period September 2021 to November 2021, as detailed at Appendix A.
- b) highlighted that Audit Committee held the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of public sector internal audit standards.
- c) detailed the content of the report covering the following main areas:
  - Progress against the plan
  - Summary of Audit work
  - Current areas of interest relevant to the Audit Committee
- d) invited members' questions and comments

**Question:** Referred to the National Audit Office Cyber and Information Security: Good Practice Guide and asked if there would be any further work undertaken.

**Response:** Any IT issues would be routinely reported to Audit Committee. The Audit Committee Terms of Reference would be reviewed in 2022 and as part of the review advice from the National Audit Office and CIPFA would be taken into account.

RESOLVED that the report be accepted and the monitoring arrangements be continued.

#### 44. Internal Audit Recommendations Follow Up

Paul Berry, Principal Auditor:

- a) presented an update to Audit Committee on outstanding audit recommendations including recommendations over 12 months old.
- b) referred to Appendix A attached to his report which provided details of relevant audits, outstanding recommendations, agreed actions and the current position/explanation from the service manager
- c) invited members' questions and comments.

The Chair referred to the number of outstanding recommendations in relation to Licensing and requested that a member of the Licensing Team attend a future meeting of Audit Committee to provide more information.

RESOLVED that

1. updates on Audit Recommendations older than 12 months be noted.



2. a representative from Licensing be invited to attend a future Audit Committee to provide information on the outstanding Audit recommendations for the service area.

#### 45. Internal Audit Plan 2021/22 Review

Jaclyn Gibson, Chief Finance Officer:

- a) presented to Audit Committee the revised Audit Plan for 2021/22 which included a change in the number of days in the Audit Plan and to seek views on audit coverage in the second half of the year.
- b) explained that the development of the plan used a combination of the following:
  - The Council's Combined Assurance Model, an assessment of risk – based on the significance and sensitivity of key activities
  - Consultation with Senior Management
  - Issues raised by the Audit Committee
- c) highlighted that using the Combined Assurance Model helped streamline and avoid duplication of effort where assurances could be drawn from other sources.
- d) advised on the reduced resources in 2021/22 as detailed at paragraph 3 of the report and explained that that the current Audit Plan needed to be amended to reflect the lower level of resource.
- e) detailed the audits that had either been complete, were in progress had not yet been started or were suggested deferral outlined at paragraph 4 of the report.
- f) advised that the revised plan focussed on core financial audits and other key areas to enable internal audit to provide an annual opinion on the governance, risk and control environment at the year end.
- g) updated that the Audit Manager position had been filled subject to references and they should be in post by mid to end February 2022.
- h) invited members comments and questions.

**Comment :** At the previous meeting assurance was provided to committee that there would not be a gap between the Audit position being filled.

**Response:** Assurance was provided that there would be sufficient resource to provide an Audit opinion. The recruitment process did take time and it was being completed as quickly as possible.

**Question:** Asked if it was Council Policy that all posts had to be advertised internally before being advertised externally.

**Response:** All posts had to be advertised in the redeployment pool and the internally before they could be advertised externally.

**Question:** Asked how long this process had delayed advertising externally.

**Response:** The post was advertised in the redeployment pool for 3 days and then internally for one week.

RESOLVED that revised Audit Plan 2021/22 be approved.

**46. Anti-Bribery Policy**

Paul Berry, Principal Auditor:

- a) presented a revised version of the Anti-Bribery Policy as detailed at Appendix A of his report.
- b) explained that the policy was reviewed and updated every two years or upon any significant change to the law.
- c) reported that the Bribery Act 2010 made it an offence to offer, promise or give a bribe, and to request, agree to receive or accept a bribe.
- d) highlighted that the document set out the Council's policy on anti-bribery in accordance with the legislation and guidance.
- e) reported that a comparison to other recent Local Authority Anti-Bribery policies and best practice documents found that no changes to the existing policy was required.
- f) invited members' questions and comments:

RESOLVED that the latest version of the Anti-Bribery Policy be approved.

**47. Appointment of External Auditor**

Jaclyn Gibson, Chief Finance Officer:

- a) presented a report to recommend to Audit Committee for referral to Full Council that the Council accepts Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for appointment of external auditors to principal government and police bodies for the five-year period from 2023/24.
- b) referred to paragraph 2.1 of the report and outlined the the current auditor appointment arrangements which covered the period up to the end of 2022/23 accounts.
- c) advised that PSAA was now undertaking procurement for the next appointing period which covered audits for 2023/24 to 2027/28.
- d) referred to paragraph 4 of the report and detailed the procurement of the External Auditor as follows:
  - The Appointed Auditor
  - Appointment by the council itself or jointly
  - The national auditor appointment scheme

- Pressure in the current local audit market and delays in issuing opinions
- The invitation
- The next audit procurement

- e) explained the assessment of options as detailed at paragraph 5 of the report.
- f) advised that the report concluded that the sector-wide procurement conducted by PSAA would produce better outcomes and would be less burdensome for the Council than a procurement undertaken locally.
- g) explained that if the Council wished to take advantage of the national auditor appointment arrangements, it was required under the local audit regulations to make the decision at Full Council.
- h) invited members' questions and comments:

**Question:** Commented that there had previously been some issues with Mazars and asked if there was a risk that the Council could be in the same situation again.

**Response:** It was a national issue not just with Mazars. The Council would be allocated an external auditor through the suggested process.

**Question:** Asked if it was best practice to change Auditors regularly.

**Response:** The management team at the External Auditors were rotated regularly.

RESOLVED that Full Council be recommended to accept Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for the five financial years from 1 April 2023.

#### 48. **Audit Committee Work Programme**

Jaclyn Gibson, Chief Finance Officer:

- a) presented a report to inform members of the Audit Committee on the work programme for 2021/22 as detailed at Appendix A of the report.
- b) referred to paragraph 3 of the report and highlighted the changes to the work programme.
- c) advised that the Audit Committee Terms of Reference was attached at Annex A of the report for information.
- d) referred to paragraph 4 of the report and gave an overview of the learning and development plan to support members in the delivery of their roles.

RESOLVED that the contents of the Audit Committee work programme 2021/22 be noted.

#### 49. **Exclusion of Press and Public**

RESOLVED that the press and public be excluded from the meeting during consideration of the following item(s) of business because it is likely that if members of the public were present there would be a disclosure to them of 'exempt information' as defined by Section 100I and Schedule 12A to the Local Government Act 1972.

**50. Partnership Governance**

Jaclyn Gibson, Chief Finance Officer:

- a) presented an overview of the governance arrangements in place for any partnerships that the Council was part of, and of which of those partnerships had been assessed as being 'significant' and as such would be subject to an annual assurance report to Audit Committee.
- b) gave the background to the report as detailed at paragraph 2 of the report.
- c) highlighted The Council's Partnership Guidance attached as Appendix A of the report.
- d) advised on the Partnership Registers and Significant Partnerships which would require an annual assurance assessment and would be presented to Audit Committee on 22 March 2022.

The committee discussed the contents of the report.

RESOLVED that

1. the list of significant partnerships as set out in paragraph 4.1 of the report be noted.
2. assurance assessments for each of these partnerships would be presented to Audit Committee on 22 March 2022 be noted.

**AUDIT COMMITTEE****1 FEBRUARY 2022**

<b>SUBJECT:</b>	<b>PRUDENTIAL INDICATORS 21-22 – 2024/25 AND TREASURY MANAGEMENT STRATEGY 2022/23</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>REPORT AUTHOR:</b>	<b>COLLEEN WARREN, FINANCIAL SERVICES MANAGER</b>

**1. Purpose of Report**

- 1.1 The purpose of the report is for Audit Committee to review and recommend to Council for approval the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2021/22 to 2024/25 together with the 2022/23 Treasury Management Strategy.

**2. Executive Summary**

- 2.1 The table below summarises the key prudential indicators that have been incorporated into the 2022/23 strategy. The projected capital expenditure will determine the capital financing or borrowing requirement, which will in turn determine the actual level of external borrowing taken and hence, cash balances available for investment.

<b>Key Prudential Indicators</b>	<b>2021/22 Revised £'000</b>	<b>2022/23 Estimated £'000</b>	<b>2023/24 Estimated £'000</b>	<b>2024/25 Estimated £'000</b>
<b>Capital Expenditure</b>				
General Fund	11,151	18,253	1,864	683
HRA	22,649	20,559	12,918	10,802
<b>Total</b>	<b>33,800</b>	<b>38,812</b>	<b>14,782</b>	<b>11,485</b>
<b>Capital Financing Requirement</b>				
Non HRA	69,242	71,086	68,394	66,994
HRA	74,220	79,825	80,815	80,815
<b>Total</b>	<b>143,462</b>	<b>150,911</b>	<b>149,209</b>	<b>147,809</b>
<b>Net Borrowing</b>	<b>94,000</b>	<b>114,000</b>	<b>112,000</b>	<b>106,000</b>
<b>External debt (borrowing only)</b>	<b>126,000</b>	<b>139,000</b>	<b>140,000</b>	<b>136,000</b>
<b>Investments</b>				
Under one year	32,000	25,000	28,000	30,000

- 2.2 The methodology employed for selecting investment counterparties is a multi-stage formula based creditworthiness methodology provided by the Council's treasury management advisors, Link Group. The aim of the investment strategy is to generate a list of highly creditworthy counterparties, allowing the Council to maintain a diversified portfolio of investments that safeguards the cash balances whilst generating a reasonable rate of return. The Link methodology, which incorporates credit ratings, credit outlooks and watches and overlays credit default swaps as a measure of market risk, fully meets the aim of the strategy.
- 2.3 The Council is required to by statutory provision and regulation to 'have regard to' the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003. An updated Prudential Code has been published in December 2021 and applies with immediate effect, except that authorities may defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The Council has opted to defer full implementation of the revised reporting requirements until the 2023/24 financial year.

The general ongoing principles of the revised Prudential Code, including the requirement in paragraph 51 that an authority must not borrow to invest primarily for financial return, apply with immediate effect. The Council's Treasury Management Strategy has been prepared in accordance with this.

### 3. Background

- 3.1 This report covers the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year. It incorporates four key Council reporting requirements:
- **Prudential and Treasury Indicators** – the reporting of the statutory prudential indicators together with local indicators, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management Code of Practice.
  - **Minimum Revenue Provision (MRP) Statement** – the reporting of the MRP policy which sets out how the Council will pay for capital assets through revenue each year (as required by regulation under the Local Government Act 2003)
  - **Treasury Management Strategy** – which sets out how the Council's treasury activity will support capital decisions, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Authorised Borrowing Limit required by s3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.
  - **Investment Strategy** – this is included within the Treasury Management Strategy and sets out the criteria for choosing investment counterparties

and limiting exposure to the risk of loss. It is reported annually (in accordance with Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance).

#### 4. Treasury Management Requirements 2022/23

##### 4.1 The Capital Prudential Indicators 2021/22 – 2024/25

4.1.1 The Council's capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and to produce prudential indicators. The Prudential Code requires the Council to approve as a minimum the statutory indicators and limits. This report revises the indicators for 2021/22 and details them for 2022/23 to 2024/25. An explanation and calculation of each Prudential Indicator is provided in **Appendix 1** and the key messages summarised in section 4.1.3.

##### 4.1.2 Capital Expenditure and Financing

The Council's capital expenditure plans (as detailed in the Draft MTFs 2022-27) are summarised below. Capital expenditure can be paid for immediately (by resources such as capital receipts, capital grants or revenue resources) but if these resources are insufficient, any residual capital expenditure will form a borrowing need. This can be supported by government grant for the repayment of debt (very limited support available) or can be unsupported (prudential borrowing) where the Council needs to identify the resources to finance and repay debt through its own budget.

<b>Indicators 1&amp;2</b>	<b>2021/22 Revised £'000</b>	<b>2022/23 Estimated £'000</b>	<b>2023/24 Estimated £'000</b>	<b>2024/25 Estimated £'000</b>
<b>Capital Expenditure</b>				
General Fund	11,151	18,253	1,864	683
HRA (including New Build)	22,649	20,559	12,918	10,802
<b>Total Expenditure</b>	<b>33,800</b>	<b>38,812</b>	<b>14,782</b>	<b>11,485</b>
<b>Financed by:</b>				
Borrowing	7,282	12,385	2,176	383
Capital Receipts	2,095	4,800	470	47
Capital Grants and Contributions	14,242	9,231	678	300
Major Repairs Reserve	6,136	12,193	7,157	7,565
Revenue Contributions	4,045	203	4,301	3,190
<b>Total Financing</b>	<b>33,800</b>	<b>38,812</b>	<b>14,782</b>	<b>11,485</b>

##### 4.1.3 The Council's Borrowing Need - the Capital Financing Requirement (CFR)

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either capital or revenue resources. It is essentially a measure of the Council's underlying borrowing need. Based on the capital expenditure plans in paragraph 4.1.2 the CFR for 2021/22 to 2024/25 is projected to be:

Indicators 3&4	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
<b>Capital Financing Requirement</b>				
General Fund	69,242	71,086	68,394	66,994
HRA	74,220	79,825	80,815	80,815
<b>Total CFR @ 31 March</b>	<b>143,462</b>	<b>150,911</b>	<b>149,209</b>	<b>147,809</b>
<b>Net movement in CFR</b>	5,688	7,449	(1,702)	(1,400)
Actual debt (borrowing & other liabilities)	126,000	139,000	140,000	136,000
Net borrowing need for the year	7,282	12,385	2,176	383
Minimum Revenue Provision (MRP)	(1,444)	(1,714)	(1,735)	(1,783)
Application of Capital Receipts	(150)	(3,223)	(2,142)	0
<b>Movement in CFR</b>	<b>5,688</b>	<b>7,449</b>	<b>(1,702)</b>	<b>(1,400)</b>

The CFR also includes any other long term liabilities (e.g. finance and embedded leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility, so the Council is not required to separately borrow for them. The Council has no such leases within the CFR in 2021/22. The CFR does not yet include any allowance for the planned replacement of the majority of the vehicle fleet under leasing. Once the final cost of the replacement fleet is established the CFR will be increased to reflect a borrowing requirement for the replacement fleet. This will also increase the MRP charge annually during the lifetime of the lease arrangements.

In future years all lease liabilities, including some of those currently treated as operating leases and expensed through revenue, will be 'on balance sheet' which will increase the CFR. With the exception of the new leased fleet it is not considered that any of the council's existing arrangements will be on balance sheet at the point of transition.

**4.1.4 Limits on Borrowing** – In order to ensure that borrowing decisions are based on consideration of affordability, prudence and sustainability and that treasury management decisions are taken in accordance with good professional practice, in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to City of Lincoln Council, the Prudential Code requires that Council's set limits on borrowing activity.

**Limiting Borrowing for Capital Purposes** - the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future.

**Operational Boundary for External Debt** – boundary based on the expected



maximum external debt during the course of the year.

**Authorised Limit for External Debt** - represents the limit beyond which external debt is prohibited. It represents the level of debt, which while not desired, could be afforded in the short term, but is unsustainable in the long term. This limit needs to be set or revised by full Council.

The level of the proposed operational and authorised limits is based on an assessment of the level of borrowing required to meet the Capital Financing Requirement (CFR) and also an allowance for temporary borrowing for working capital and also in lieu of other capital financing sources (e.g. capital receipts). Financial modelling has been carried out for both and the affordability and sustainability of the potential borrowing requirement has been assessed and can be contained within the Draft MTFS 2022-27. This is reflected in the table below and in the Prudential Indicators 7 and 8 tables in Appendix 1.

<b>Indicator 7</b>	<b>2021/22 Revised £'000</b>	<b>2022/23 Estimated £'000</b>	<b>2023/24 Estimated £'000</b>	<b>2024/25 Estimated £'000</b>
<b>Authorised limit</b>				
Borrowing	141,678	156,500	155,071	148,453
Other long term liabilities	1,380	1,380	1,380	1,380
<b>Total Authorised limit</b>	<b>143,058</b>	<b>157,880</b>	<b>156,451</b>	<b>149,833</b>

## 4.2 Minimum Revenue Provision (MRP) Policy

- 4.2.1 The Council is required to pay off an element of the accumulated General Fund borrowing each year (the CFR) through a revenue charge - the Minimum Revenue Provision (MRP), and is also allowed to undertake additional voluntary payments (VRP). No revenue charge is currently required for the HRA. However, under self-financing, the HRA is now required to charge depreciation on its assets, which has been built into the revenue charges in the HRA 30 year Business Plan.

The Department for Levelling Up, Homes and Communities have issued statutory guidance on the options available for making prudent provision for the repayment of debt. The Council must have regard to this guidance. The guidance is not prescriptive and makes it clear that councils can follow an alternative approach, provided they still make a prudent provision. The broad aim of a 'prudent provision' is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits to service delivery.

Guidance issued by the Secretary of State requires that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to Full Council for approval. There has been no amendment to the proposed MRP policy for 2022/23.

The MRP policy statement is set out in **Appendix 2**.

### 4.3 The Treasury Management Strategy 2022/23

4.3.1 Treasury Management is an important part of the overall financial management of the Council's affairs. The treasury management service performs the borrowing and investment activities of the Council and effectively manages the associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Treasury Management Policy and Practices and the annual Treasury Management Strategy provides the operational rules and limits by which day to day treasury management decisions are made.

4.3.2 The Treasury Management Strategy for 2022/23 is attached at **Appendix 3**. The strategy outlines expected treasury activity for the coming year and expected prudential indicators relating the treasury management for the next three years. The key principals in the strategy are summarised below.

- **Debt and Investment Projections (Treasury Management Strategy section 2)** – based on the budgeted borrowing requirements, estimated balances and cash flow, year-end debt and investment projections are:

	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
<b>External Debt</b>				
Debt at 31 March (including other long term liabilities)	126,000	139,000	140,000	136,000
<b>Investments</b>				
Total Investments at 31 March	32,000	25,000	28,000	30,000

- **Expected Movement in Interest Rates (Treasury Management Strategy section 3)** - the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.
- **Borrowing & Debt Strategy (Treasury Management Strategy section 4)** - The main aims are:
  - To reduce the revenue costs of debt
  - To manage the Council's debt maturity profile
  - To effect funding at the cheapest cost commensurate with future risk
  - To forecast average future interest rates and borrow accordingly
  - To proactively reschedule debt in order to take advantage of potential savings as interest rates change.
  - To manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing.
- **Investment Strategy (Treasury Management Strategy section 5)** - The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time, then ensuring adequate liquidity, with investment return being the final objective.

The current investment climate continues to present one over-riding risk consideration, that of counterparty security risk. In order to fully consider counterparty risk factors when selecting investment counterparties, the Council employs the multi-stage formula based creditworthiness methodology provided by the Council's treasury management advisors, Link Group . This methodology, developed by Link, uses credit ratings as the core criteria but also incorporates other market information on a mathematical basis. The methodology is continuously reviewed and changes are made in response to changes made by the credit rating agencies. There haven't been any major changes made to the credit rating methodology since last year's change when any reference to the implied levels of sovereign support (which were phased out last year) were taken out. The current methodology is explained in detail in the Council's Investment Strategy 2022/23 in **Section 5 of Appendix 3**.

The aim of the investment strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk (i.e. placing a large proportion of investments with a small number of counterparties). The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use are listed in **Appendix 3** under the specified and non-specified investments categories. Counterparty limits will be as shown in **Appendix 3**. Examples of institutions which currently fall under the various colour coded categories are as follows:

- Blue (part-government owned - 1 year)
- Orange (1 year)
- Green (100 days)
- Yellow (5 years) – Local Authorities.

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

The criteria to be used to select investment counterparties are set out in Appendix 3. These include:-

- Maintenance of a counterparty list with approved credit ratings and time and principal limits
  - Regular monitoring of counterparties with the help of the Council's treasury management advisors
  - Limits on the amounts on non-specified investments (e.g. over 1 year investments)
  - Limits on non-UK counterparties
- **Risk Benchmarking** – The revised CIPFA Code and the CLG Investment Guidance adopted 2<sup>nd</sup> March 2010 introduced the consideration and approval of security and liquidity benchmarks. The Investment Strategy for 2022/23 includes the following benchmarks for liquidity and security:-

*Liquidity* – The Council’s bank overdraft limit is nil. The Council will seek to maintain liquid short-term deposits of at least £5,000,000 available with a week’s notice. The weighted average life (WAL) of investments is expected to be 0.08 years as investments are kept in accounts of less than 365 days maturity.

*Security* – the Council’s expected security risk benchmark from its budgeted investment strategy is 0.012% historic risk of default when compared to the whole portfolio. This means that the risk amounts to approximately £0.002m on the expected investment portfolio of £18 million. Money Market Funds are not subject to historic risk of default.

- **Treasury Limits on Activity (Treasury Management Strategy section 6)** – This section includes statutory and local indicators covering treasury management activity. These include limits on fixed and variable interest rate exposure, maturity structure of debt and performance targets for interest rates on new investments and loans.
- **Breakdown of Investment Categories (Treasury Management Strategy section 7)** – covers authorised posts for treasury management activities.

The need to limit the risk to the Council of loss from counterparty failure results in a restricted range of counterparties available for investment.

#### **4.4 Treasury Management Practices**

The Council adopted the CIPFA Code of Practice on Treasury Management (revised December 2017) on 2<sup>nd</sup> March 2010. The Treasury Management Policy Statement was also adopted at this time. The Treasury Management Policy and Practices (TMP’s) are updated annually to reflect the Treasury Management Strategy approved by Council and to reflect any changes in staffing structures or working practices of the treasury function and are attached as Appendix 4.

### **5. Strategic Priorities**

- 5.1 The budget process sets the resources in support of the Council’s Strategic Priorities and determines the Service Plans for the year ahead. Effective scrutiny of the budget process should support the Executive in reaching the right decisions with regard to finances.

### **6. Organisational Impacts**

#### **6.1 Finance**

Financial implications are contained in the main body of the report.

#### **6.2 Legal Implications including Procurement Rules**

The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority

may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the MHCLG Investment Guidance when carrying out their treasury management functions.

### 6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

Due to the nature of the report, no specific Equality Impact Analysis is required.

## 7. Risk Implications

The Local Government Act 2003, the Prudential Code and the Treasury Management Code of Practice include a key principal that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing.

## 8. Recommendations

8.1 The Audit Committee are recommended to:

8.2 Review and recommend to Executive the prudential indicators detailed in section 4.1 and appendix 1 of the report.

8.3 Review and recommend to Executive the Treasury Management Strategy (including the treasury management prudential indicators and the Investment Strategy) set out section 4 and appendix 3 of the report.

8.4 Review and recommend to Executive the MRP policy in appendix 2 of the report.

**Is this a key decision?** No

**Do the exempt information categories apply?** No

**Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?** No

**How many appendices does the report contain?**

4

**List of Background Papers:**

Medium Term Financial Strategy 2022-27  
CIPFA Code of Practice  
CIPFA Prudential Code  
Treasury Management Practices

**Lead Officer:**

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## Prudential Indicators 2021/22 – 2024/25

### **1.0 Introduction**

1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and to produce prudential indicators. The Code sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Prudential Code operates by the provision of prudential indicators, which highlight particular aspects of the capital expenditure planning. This report revises the indicators for 2021/22 and details them for 2022/23-2024/25. Each indicator either summarises the expected capital activity or introduces limits upon the activity, and reflects the outcomes of the Council's underlying capital appraisal systems.

1.2 The Prudential Code requires the Executive and full Council to approve as a minimum the 15 statutory indicators. The Chief Finance Officer has added 8 local indicators that are believed to add value and assist understanding of the main indicators.

1.3 The purpose of the indicators is to provide a framework for capital expenditure decision-making. It highlights, through the prudential indicators, the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.

1.4 Within this overall capital expenditure framework there is a clear impact on the Council's treasury management activity, either through increased borrowing levels or the investment of surplus balances. As a consequence the treasury management strategy for 2022/23 (see Appendix 3) includes the expected treasury management activity, together with the 5 specific Prudential indicators and 8 local indicators, which relate to treasury management.

1.5 The 15 statutory prudential indicators can be categorised under the following four headings:

- Capital Expenditure and External Debt (numbers 1, 2, 3, 4, 5, 7, 8)
- Prudence (number 6)
- Affordability (numbers 9,10)
- Treasury Management limits (numbers 11, 12, 13, 14, 15)

(The numbers above relate to the reference given to each indicator).

1.6 The paragraphs 2 to 4 below detail the 10 statutory indicators under the headings of Capital Expenditure/External Debt, Prudence and Affordability. The remaining 5 statutory and 8 local indicators relating to the treasury management strategy are set out in appendix 3.

### **2.0 Capital Expenditure Prudential Indicators**

2.1 The Council's capital expenditure plans are summarised below and this forms the

first of the prudential indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants etc.), but if resources are insufficient any residual expenditure will form a borrowing need.

2.2 A certain level of capital expenditure may be supported by government grant; any decisions by Council to spend above this level will be unsupported and will need to be paid for from the Council's own resources. This unsupported capital expenditure needs to have regard to:

- Service objectives e.g. strategic planning
- Stewardship of assets e.g. asset management planning
- Value for money
- Prudence and sustainability e.g. implications for external borrowing and whole life costing
- Affordability
- Practicality e.g. achievability of plan

The revenue consequences of capital expenditure, particularly the unsupported expenditure, will need to be paid for from the Council's own resources.

The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been required.

2.3 The key risks to the plans are that some estimates for sources of funding, such as capital receipts, may be subject to change over this timescale. For instance, anticipated asset sales may be postponed due to the impact of the recession on the property market.

2.4 The summary capital expenditure and financing projections are shown in the table below.

<b>Indicators 1&amp;2</b>	<b>2021/22 Revised £'000</b>	<b>2022/23 Estimated £'000</b>	<b>2023/24 Estimated £'000</b>	<b>2024/25 Estimated £'000</b>
<b>Capital Expenditure</b>				
General Fund	11,151	18,253	1,864	683
HRA (including New Build)	22,649	20,559	12,918	10,802
<b>Total Expenditure</b>	<b>33,800</b>	<b>38,812</b>	<b>14,782</b>	<b>11,485</b>
<b>Financed by:</b>				
Capital receipts	2,094	4,800	470	47
Capital grants & contributions	14,242	9,231	678	300
Depreciation (HRA only)	6,136	12,193	7,157	7,565
Revenue/Reserve				
Contributions	4,045	203	4,301	3,190
Borrowing need	7,282	12,385	2,176	383



### 3.0 External Debt and Prudence Prudential Indicators

3.1 **Borrowing Need** - The Council's Capital Financing Requirement (CFR) represents the Council's borrowing need. The CFR is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

3.2 The CFR also includes any other long term liabilities (e.g. finance and embedded leases) brought on to the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, they are purely accounting adjustments and include a borrowing facility, so the Council is not required to separately borrow for them. The Council has no such leases within the CFR in 2021/22. The CFR does not yet include any allowance for the planned replacement of the majority of the vehicle fleet under leasing arrangements.

3.3 Capital Financing Requirement projections are detailed below:

Indicators 3&4	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
<b>Capital Financing Requirement</b>				
General Fund	69,242	71,086	68,394	66,994
HRA	74,220	79,825	80,815	80,815
<b>Total CFR @ 31 March</b>	<b>143,462</b>	<b>150,911</b>	<b>149,209</b>	<b>147,809</b>
<b>Net movement in CFR</b>	<b>5,688</b>	<b>7,449</b>	<b>(1,702)</b>	<b>(1,400)</b>
Actual debt (borrowing & other liabilities)	126,000	139,000	140,000	136,000
Net borrowing need for the year	7,282	12,385	2,176	383
Minimum Revenue Provision (MRP)	(1,444)	(1,714)	(1,735)	(1,783)
Application of Capital Receipts	(150)	(3,223)	(2,142)	0
<b>Movement in CFR</b>	<b>5,688</b>	<b>7,449</b>	<b>(1,702)</b>	<b>(1,400)</b>

\* MRP = Minimum Revenue Provision – Statutory requirement to annually fund the repayment of General Fund borrowing.

3.4 **Estimates of External Debt** - The expected impact of the capital expenditure decisions on the Council's net debt position is shown below:

<b>Indicator 5</b>	<b>2021/22 Revised £'000</b>	<b>2022/23 Estimated £'000</b>	<b>2023/24 Estimated £'000</b>	<b>2024/25 Estimated £'000</b>
<b>External Debt</b>				
Gross Borrowing	126,000	139,000	140,000	136,000
Other Long Term Liabilities*	0	0	0	0
<b>Total Debt at 31 March</b>	<b>126,000</b>	<b>139,000</b>	<b>140,000</b>	<b>136,000</b>

\*Other Long Term liabilities include finance leases

3.5 The expected movement in the CFR over the next three years is dependent on the level of capital borrowing taken during the budget cycle. Such borrowing is the capital expenditure freedom allowed under the Prudential Code i.e. prudential borrowing which allows the freedom to enter into projects such as spend to save schemes, or decisions to allocate additional resources from revenue to capital to enable service enhancements (subject to affordability).

3.6 There are two limiting factors on the Council's ability to undertake prudential borrowing:

1. Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs. Can the Council afford the implications of the capital expenditure?
2. The Government may use a long stop control to ensure that either the total of all the Councils' plans do not jeopardise national economic policies, or in the event of an assessment by Central Government that local plans are unaffordable at a council, it may implement a specific control to limit its capital expenditure plans. No such control has been implemented during 2021/22.

3.7 **Limits to Borrowing Activity** - Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.

3.8 For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

<b>Indicator 6</b>	<b>2021/22 Revised £'000</b>	<b>2022/23 Estimated £'000</b>	<b>2023/24 Estimated £'000</b>	<b>2024/25 Estimated £'000</b>
Gross Borrowing	126,000	139,000	140,000	136,000
Investments	32,000	25,000	28,000	30,000
Net Borrowing	94,000	114,000	112,000	106,000
CFR	143,462	150,911	149,209	147,809
Net Borrowing is below CFR	<b>49,462</b>	<b>36,911</b>	<b>37,209</b>	<b>41,809</b>

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.9 A further two key prudential indicators control or anticipate the overall level of borrowing, these are:

- **The Authorised Limit for External Debt** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt, which while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.
- **The Operational Boundary for External Debt** – This indicator is based on the expected maximum external debt during the course of one year; it is not a limit and actual borrowing could vary around the boundary for short times during the year.

The level of the proposed operational and authorised limits is based on an assessment of the level of borrowing required to meet the Capital Financing Requirement (CFR) and also an allowance for temporary borrowing for working capital and also in lieu of other capital financing sources (e.g. capital receipts). The affordability and sustainability of the borrowing requirement for both have been assessed and can be contained within the Draft MTFS 2022-27. The operational and authorised limits for 2021/22 have been set to allow these.

<b>Indicator 7</b>	<b>2021/22 Revised £'000</b>	<b>2022/23 Estimated £'000</b>	<b>2023/24 Estimated £'000</b>	<b>2024/25 Estimated £'000</b>
<b>Authorised Limit</b>				
Borrowing	141,678	156,500	155,071	148,453
Other long term liabilities*	1,380	1,380	1,380	1,380
<b>Total Authorised Limit</b>	<b>143,058</b>	<b>157,880</b>	<b>156,451</b>	<b>149,833</b>

<b>Indicator 8</b>	<b>2021/22 Revised £'000</b>	<b>2022/23 Estimated £'000</b>	<b>2023/24 Estimated £'000</b>	<b>2024/25 Estimated £'000</b>
<b>Operational Boundary</b>				
Borrowing	135,738	148,523	149,448	145,723
Other long term liabilities*	1,200	1,200	1,200	1,200
<b>Total Operational Boundary</b>	<b>136,938</b>	<b>149,723</b>	<b>150,648</b>	<b>146,923</b>

\*Other Long Term liabilities include finance leases

3.10 **Borrowing in advance of need** – The Council has some flexibility to borrow funds this year for use in future years. The Chief Finance Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Chief Finance Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 36 months in advance of need

3.11 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

#### **4.0 Affordability Prudential Indicators**

4.1 The 8 statutory indicators above cover the overall capital and control of borrowing, but in addition, within this framework, there are further indicators that assess the affordability of the capital investment plans. These indicators provide an indication of the impact of the capital investment plans on the Council's overall finances. For 21/22 and 22/23 the figures used to calculate these indicators have been adjusted to reflect one-off adjustments in respect of business rates as a result of the Covid 19 pandemic. The adjusted calculations are shown below:

<b>Indicators 9 &amp; 10</b>	<b>2021/22 Revised</b>	<b>2022/23 Estimated</b>	<b>2023/24 Estimated</b>	<b>2024/25 Estimated</b>
General Fund	26.8%	28.9%	28.1%	25.6%
HRA	32.4%	31.6%	30.5%	29.8%

### **Minimum Revenue Provision (MRP) Policy**

1.0 The Council is required to pay off an element of the accumulated General Fund borrowing each year through a revenue charge (the Minimum Revenue Provision), and is also allowed to undertake additional voluntary payments (VRP).

1.1 DLUHC Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided so long as there is a prudent provision. The MRP policy takes into account recent changes to guidance issued by DHLUC.

1.2 Members are recommended to approve the following MRP Statement:

For capital expenditure incurred:

(A) Before 1<sup>st</sup> April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

**Existing practice** - MRP will follow the existing practice outline in former CLG Regulations, but on a 2% straight-line basis, i.e. provision for the full repayment of debt over 50 years;

(B) From 1<sup>st</sup> April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

**Asset Life Method** – MRP will be based on the estimated life of the assets on either a straight line or annuity basis (as deemed most appropriate for capital expenditure being financed through borrowing). Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(C) The Council has set aside £750k of capital receipts to the Capital Adjustment Account instead of applying these receipts to new expenditure in order to reduce the total debt liability (£150k per annum over the period 2017/18 to 2021/22). The Council will reduce the MRP provision for the year by the same amount. The application of these capital receipts to the Capital Adjustment Account will be complete in 2021/22 and will not apply to 2022/23 and future years.

## **Treasury Management Strategy 2022/23**

### **1.0 Introduction**

- 1.1 Treasury Management is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. The prudential indicators in Appendix 1 cover the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992. There are 5 specific statutory treasury management prudential indicators and 8 local indicators.
- 1.2 The treasury management service performs the borrowing and investment activities of the Council and effectively manages the associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management - Revised December 2017). The adoption of the Code is one of the 12 statutory Prudential Indicators. This Council adopted the Code of Practice on Treasury Management on 2<sup>nd</sup> March 2010. As a result of adopting the Code, the Council also adopted a Treasury Management Policy Statement on 2<sup>nd</sup> March 2010.
- 1.3 The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. Further reports are produced; a mid-year monitoring report and a year-end report on actual activity for the year (Annual Treasury Management Stewardship Report). In addition, Treasury Management Practice (TMPs) documents are also maintained by the Chief Finance Officer. The TMPs have been reviewed and updated to reflect any changes in the Treasury Management Strategy and are attached as appendix 4.
- 1.4 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. This strategy covers:
- The Council's debt and investment projections;
  - The expected movement in interest rates;
  - The Council's borrowing strategy;
  - The Council's investment strategy;
  - Treasury Management prudential indicators and limits on activity;
  - Local Treasury issues

### **2.0 Debt and Investment Projections 2021/22 – 2024/25**

- 2.1 The borrowing requirement comprises the expected movement in the Capital Financing Requirement (CFR) and any maturing debt that will need to be re-financed. The table below shows the anticipated effect on the treasury position over the current and next three years based on the current capital programme.

The expected maximum debt position during each year represents the Operational Boundary prudential indicator (for borrowing only) and so may be different from the year-end position. It also highlights the expected change in investment balances.

	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
<b>External Debt</b>				
Debt at 1 April	123,448	125,738	138,523	139,448
Expected change in debt	2,290	12,785	925	(3,725)
Debt at 31 March	<b>125,738</b>	<b>138,523</b>	<b>139,448</b>	<b>135,723</b>
Operational Boundary (debt only)	135,738	148,523	149,448	145,723
<b>Investments</b>				
Total Investments at 31 March	32,000	25,000	28,000	30,000
Investment change	(3,000)	(7,000)	3,000	2,000

Expected borrowing has been profiled to take out loans before current low borrowing interest rates are forecast to rise significantly.

2.2 The related impact of the above movements on the revenue budgets are:

	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
<b>Revenue Budgets</b>				
Total interest payable on borrowing	3,975	4,075	4,200	4,210
Related HRA charge	2,500	2,615	2,650	2,665
Net General Fund interest payable	1,475	1,460	1,550	1,545
Total investment income	61,650	71,729	86,532	94,085
Related HRA income share	28,712	38,706	45,835	49,051
Net General Fund income	32,938	33,023	40,697	45,034

### 3.0 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Link central view and paragraph 3.1 gives Link's view on economic prospects.

Annual Average %	Bank Rate	PWLB Rates*		
		5 year	25 year	50 year
March 2021	0.25	1.50	1.90	1.70
March 2022	0.75	1.70	2.20	2.00
March 2023	1.00	1.90	2.30	2.10
March 2024	1.25	2.00	2.50	2.30

\* Borrowing Rates

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its meetings until raising it to 0.25% on 16<sup>th</sup> December 2021.

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

#### **4.0 The Council's Borrowing and Debt Strategy 2022/23**

4.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing.

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

4.3 If it was felt that there was a significant risk of a sharp fall in long term rates e.g. due to a marked increase of risks around a relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

4.4 If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates remain low.

4.5 The Council's overall core borrowing objectives will remain uniform and follow a similar pattern to previous years as follows:

- To reduce the revenue costs of debt in line with the targets set for the Chief Finance officer (see local indicators).
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing.
- To effect funding at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.
- To monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements.
- To proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the



General Fund and the Housing Revenue Account.

- To manage the day-to-day cash flow of the Council in order to, where possible, negate the need for short-term borrowing. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

4.7 There is unsupported borrowing in the General Fund Investment Programme (GIP) as detailed in the Capital Strategy – the requirement to produce a Capital Strategy was introduced in 2018. The Council expects to take out loans for the General Fund however, will continue to use internal balances whilst interest rates on investments remain low. Officers are continually evaluating the cost effectiveness of borrowing as opposed to selling capital assets. Proposals are presented to Members when borrowing becomes more cost effective.

4.8 During the next MTFS period borrowing is planned for the HRA investment programme.

4.9 The strategy allows for additional borrowing in line with the expected movement in the Capital Financing Requirement (CFR), should it become necessary for cash flow requirements. The Council will consider PWLB loans, Market loans, the Municipal Bond Agency and other financial institutions, if attractive rates are offered. In addition, should schemes be identified that benefit the Council's strategic aims and be deemed cost effective, i.e. Invest to Save schemes where the income streams more than pay for the borrowing costs, unsupported borrowing will be considered.

## **5.0 The Council's Investment Strategy 2022/23**

5.1 The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, ensuring adequate liquidity, with the investment return being the final objective.

The intention of the strategy is to provide security of investment and minimisation of risk.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

In line with this aim, the Council will ensure:

- It maintains a policy covering the types of specified and unspecified investments it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the paragraphs below.
  - Specified Investments – these are high security investments (i.e. high credit quality) and high liquidity investments in sterling with a maturity of no more than one year.
  - Non-specified Investments – investments that do not fall into the category of Specified Investments, representing a potential greater risk (e.g. over one year).

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

## 5.2 Risk benchmarking

Yield benchmarks are widely used to assess investment performance. Discrete security and liquidity benchmarks are also requirements to Treasury Management reporting, although the application of these is more subjective in nature. Additional background in the approach taken is shown at the end of this appendix.

- 5.3 These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

## 5.4 Security

The Council's expected security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.012% historic risk of default when compared to the whole portfolio.

## 5.5 Liquidity

In respect of this area the Council seeks to maintain:

- Bank overdraft - £nil.
- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.08 years.

## 5.6 Yield

Local measure of yield benchmark employed is:

- Investments – return above the 7 day SONIA rate – This measure has been revised following the cessation of the use of LIBOR and associated LIBID rates at the end of 2021.

## 5.7 Investment Counterparty Selection Criteria

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

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

Specified and Non-Specified investment sections below.

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

- 5.8 The Chief Finance Officer will maintain a counterparty list in compliance with the criteria set out in the table contained within this appendix and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which chooses Specified and Non-Specified investments as they provide an overall pool of counterparties considered high-quality which the Council may use rather than defining what its investments are.
- 5.9 Following the reductions to the Council's grant funding settlement and ongoing financial pressures, the identification of savings and income generation are critical to the delivery of the Medium Term Financial Strategy. Treasury Management is an important area for further income generation and therefore, the main theme of the Council's investment strategy must continue to be to maximise interest from investments, after ensuring adequate security and liquidity. The Investment Strategy 2022/23 seeks to achieve this objective by establishing a pool of counterparties available for investment whilst still containing overall risk within acceptable levels.
- 5.10 The Council uses Link Group' creditworthiness service. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard and Poor's.

In accordance with the guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

As with previous practice, ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, engaging with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the creditworthiness methodology provided by Link Group . The result is a colour coding system, which shows the varying degrees of suggested creditworthiness.

Alongside the credit ratings other information sources are used and include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process with regard to the suitability of potential investment counterparties.

The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;

- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

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

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to part-government owned UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

The Link Group creditworthiness service uses a wider array of information than primary ratings alone and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

- 5.11 Typically, the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

The credit ratings specified above are defined as follows:-

- F1 (short term rating) – Highest credit quality
- A- (long term rating) – High credit quality, denoting a very strong bank

- 5.12 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Link's creditworthiness service.

- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's counterparty list.

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

### 5.13 Country and sector considerations

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:

- No more than 50% will be placed with any non-UK country at any time (see below).
- Group limits have been set to ensure that the Council is not exposed to excessive risk due to concentration of investments within any one institution or group. These are detailed in the Investment Counterparty Limits table contained within this appendix.

Although the strategy sets a limit for investment in non-UK countries at no more than 50%, the Council has been operating a tighter operational strategy in the light of the Eurozone difficulties and has not been investing outside the UK. This operational restriction will continue until the problems in the Eurozone economy have been sufficiently resolved.

- 5.14 In the normal course of the Council's cash flow operations it is expected that both Specified and Non-specified investments will be used for the control of liquidity as both categories allow for short-term investments. The Chief Finance Officer will strive to keep investments within the Non-specified category to a prudent level (having regard to security and liquidity before yield). To these ends the Council will maintain a maximum of 75% of investments in Non-specified investments.
- 5.15 The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. The investment in longer-term instruments is also limited by the prudential indicator 14 shown in paragraph 6.3, which gives the maximum amount to be invested over 1 year, as well as the limits on the amounts that can be placed with the categories within the non-specified range of investments (see above paragraph 5.14).
- 5.16 Expectations on shorter-term interest rates, on which investment decisions are based, reflect the fact that an increase in the current 0.25% Bank Rate is likely after June 2022. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.
- 5.17 There are operational challenges arising from the ongoing economic conditions. Ideally investments would be invested longer to secure better returns, however shorter dated investments provide better security.
- 5.18 The criteria for choosing counterparties set out above provide a sound approach to investment in difficult market circumstances.

## 5.19 Sensitivity to Interest Rate Movements

The Council's Statement of Accounts is required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 0.5% increase/decrease in the average interest rates for investments for next year. That element of the debt and investment portfolios, which are of a longer term, fixed interest rate nature, will not be affected by interest rate changes. There will be no effect on borrowing costs as all the Council's existing debt is fixed rate and the additional borrowing planned will also be fixed rate and has been included within the budget figures in this report at the forecast rate for 2021/22.

£000	2022/23 Estimated + 0.5%*	2022/23 Estimated - 0.5%
<b>Revenue Budgets</b>		
Investment income	62,478	0
Related HRA Income	28,805	0
Net General Fund/Other Income	33,674	0

\*This assumes that the rise of 0.50% would be reflected in the rates available to invest– in practice a rate rise of 0.50% would not equal an increase in the rates available. As the rates of interest on investments assumed in the MTFs are lower than 0.50% a reduction of 0.50% would result in Nil income.

## 6.0 Treasury Management Limits on Activity

6.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these is to contain the activity of the treasury function within certain limits, thereby managing the risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunity to reduce costs. The indicators are:

- **Upper limit on variable rate exposure** – this identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- **Upper limit on fixed rate exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- **Maturity structures of borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing at the same time and are required for upper and lower limits.
- **Total principal sums invested for periods longer than 1 year** – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

6.2 In addition, the Chief Finance Officer has set eight additional local indicators. The aim of these indicators is to increase the understanding of the treasury management indicators.

6.3 The 4 treasury limits above together with the adoption of the Code of Practice indicators are shown below:

<b>Indicator 11</b>	<b>2022/23 Target £m</b>	<b>2023/24 Target £m</b>	<b>2024/25 Target £m</b>
<b>Upper Limit on variable interest rate exposure</b>	55.4	55.8	54.3

<b>Indicator 12</b>	<b>2022/23 Target £m</b>	<b>2023/24 Target £m</b>	<b>2024/25 Target £m</b>
<b>Upper Limit on fixed interest rate exposure</b>	132.3	132.4	128.2

<b>Indicator 13</b>	<b>2022/23</b>		<b>2023/24</b>		<b>2024/25</b>	
<b>Maturity Structure of fixed borrowing</b>	<b>Lower</b>	<b>Upper</b>	<b>Lower</b>	<b>Upper</b>	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	40%	0%	40%	0%	40%
12 months to 2 years	0%	40%	0%	40%	0%	40%
2 years to 5 years	0%	60%	0%	60%	0%	60%
5 years to 10 years	0%	80%	0%	80%	0%	80%
10 years and above	10%	100%	10%	100%	10%	100%

<b>Indicator 14</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>
<b>Maximum principal sums invested for longer than 1 year</b>	7	7	7

<b>Indicator 15</b>
<b>CIPFA Code of Practice for Treasury Management in the Public Services (Revised December 2017) adopted by Council on 2<sup>nd</sup> March 2010.</b>

6.4 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury management function over the year. The Chief Finance Officer has therefore set 8 local indicators, which are believed to add value and assist the understanding of the main prudential indicators. These indicators are:

- Debt – Borrowing rate achieved against average 7 day SONIA.\*
- Investments – Investment rate achieved against average 7 day SONIA.\*
- Average rate of interest paid on the Councils Debt – this will evaluate performance in managing the debt portfolio to release revenue savings.

- Amount of interest on debt as a percentage of gross revenue expenditure.
- Limit on fixed interest rate investments
- Limit on fixed interest rate debt
- Limit on variable rate investments
- Limit on variable rate debt

\*See paragraph 5.6 above

6.5 The 8 indicators are shown below:

	<b>2022/23 Target</b>	<b>2023/24 Target</b>	<b>2024/25 Target</b>
<b>Debt - Borrowing rate achieved i.e. temporary borrowing (loans of less than 1 year) *</b>	less than 7 day SONIA rate	less than 7 day SONIA rate	less than 7 day SONIA rate

\*See paragraph 5.6 above

	<b>2022/23 Target</b>	<b>2023/24 Target</b>	<b>2024/25 Target</b>
<b>Investment rate achieved*</b>	Greater than 7 day SONIA	Greater than 7 day SONIA	Greater than 7 day SONIA

\*See paragraph 5.6 above

	<b>2022/23 Target</b>	<b>2023/24 Target</b>	<b>2024/25 Target</b>
<b>Average rate of Interest Paid on Council Debt (%)</b>	4.25%	4.25%	4.25%

	<b>2022/23 Target</b>	<b>2023/24 Target</b>	<b>2024/25 Target</b>
<b>Interest on Debt as a % of Gross Revenue Expenditure</b>	5.2%	5.2%	5.2%

	<b>2022/23 Target</b>	<b>2023/24 Target</b>	<b>2024/25 Target</b>
<b>Upper Limit on fixed interest rate Investments</b>	100%	100%	100%

	<b>2022/23 Target</b>	<b>2023/24 Target</b>	<b>2024/25 Target</b>
<b>Upper Limit on fixed interest rate debt</b>	100%	100%	100%

	<b>2022/23 Target</b>	<b>2023/24 Target</b>	<b>2024/25 Target</b>
<b>Upper Limit on variable interest rate investments</b>	75%	75%	75%

	<b>2022/23 Target</b>	<b>2023/24 Target</b>	<b>2024/25 Target</b>
<b>Upper Limit on variable interest rate debt</b>	40%	40%	40%



## 6.6 Treasury Management Advisers

The Council has engaged the services of Link Group as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt rescheduling advice surrounding the existing portfolio;
- Credit ratings/market information service comprising the three main credit rating agencies.

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

## 6.7 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers.

This Council has addressed this important issue by:

- Member Training – Our treasury management advisers provided training to the Audit Committee prior to the consideration of this year's strategy. They also provided training to the Performance Scrutiny Committee to support their consideration of the mid-year report. The training needs will be regularly reviewed and updated as necessary in 2022/23.
- Staff Training – training needs for staff engaged in treasury management are addressed through the appraisal process. Training is provided both by the Council's treasury management advisers, other external providers and internally. In addition, the Council encourages staff engaged in treasury to undertake a professional accountancy qualification and ensures that the day-to-day trading is overseen by a professionally qualified accountant following the CIPFA Code of Practice.

## 7.0 Breakdown of Investment Categories with Maximum Amounts and Periods

The Chief Finance Officer, in accordance with TMP 1 (1) within the Council's Code of Practice, is authorised to invest funds surplus to immediate requirements with the following types of institutions subject to the minimum ratings produced by the three credit rating agencies Fitch, Moody's and Standard & Poor's. The Link Group creditworthiness service is applied to determine a list of suitable counterparties available for investment. The minimum ratings applied by Link Group in compiling their recommended counterparty list are set out in section 5.11 of the investment strategy.

All counterparty ratings are updated on a regular basis on the advice of the Council's Treasury Consultants. Notifications of rating changes are received as they happen.

## Investment Counterparty Limits

Institution	Minimum credit criteria/colour band	Maximum limit per group or institution £ million	Maximum maturity period
<b>SPECIFIED INVESTMENTS</b>			
UK Bank <sup>*1</sup>	Orange/Blue Red Green	£7 million	1 year 6 months 100 days
Non-UK Banks <sup>*1</sup> Sovereign rating AA	Orange Red Green	£7 million	1 year 6 months 100 days
Building Society <sup>*2</sup>	Orange Red Green	£5 million	1 year 6 months 100 days
Money Market Fund <sup>*3</sup>	Yellow	£7 million	Liquid
UK Government <sup>*4</sup>	Yellow	unlimited	6 months
UK Local Authority <sup>*4</sup>	Yellow	£3 million	1 year
<b>NON-SPECIFIED INVESTMENTS</b>			
UK Bank <sup>*1</sup>	Purple	£7 million	2 years
Non-UK Banks <sup>*1</sup> Sovereign rating AA	Purple	£7 million	2 years
Building Society <sup>*2</sup>	Purple Yellow	£2 million	2 years 5 years
UK Local Authority <sup>*4</sup>	Yellow	£3 million	5 years
Lincoln Credit Union	N/A	£10K	N/A
Council's own bank <sup>*5</sup> (operational cash limit in addition to investment group limit)	N/A	£500K	Overnight

**\*1**Where the term 'Bank' is used, this denotes a UK or European Bank authorised to accept deposits through a bank account incorporated within the UK banking sector. The maximum amount indicated is the 'Group total' and covers the total amount that can be invested when spread over any number of subsidiaries within that group.

**\*2** Where the term Building Society is used, this denotes a UK Building Society.

**\*3** Money market funds (MMF) are mutual funds that invest in short-term high quality debt instruments. The assets are actively managed within very specific guidelines to offer liquidity and competitive returns. Recently MMFs have changed from a constant net asset value basis to a low volatility net asset value. Although money funds are regarded as short-term investments the rating agencies use a classification system based on long-term debt ratings.

**\*4** The UK Government (i.e. HM Treasury and its Executive Agency, the Debt Management Office) and Local Authorities, although not rated as such, are classified as having the equivalent of the highest possible credit rating.

**\*5**This limit covers normal treasury management activities but excludes any deposits received after money market trading has closed.

It allows up to £500K of operational cash to be held in the Council's main bank account in addition to the group investment limit for the bank, if the bank is included on the Council's counterparty list.

## **Approved Investment Instruments**

In addition to determining the rating and limits of authorised counterparties TMP 4 “Approved instruments, methods and techniques” within the Council’s Code of Practice requires the Council to define the instruments that the Authority will use in undertaking its Treasury Management activities. In accordance with this, and the investment regime issued as part of the prudential capital finance system, the Instruments that the Chief Finance Officer will consider investing surplus funds in are shown below:

### **Instruments of Specified Investments \*1**

1. Gilt-edged securities issued by the United Kingdom Debt Management Office (UK DMO), an Executive Agency of HM Treasury.
2. Treasury Bills issued by the UK DMO.
3. Deposits with the Debt Management Office Debt Management Account Deposit Facility (DMADF).
4. Deposits with a Local Authority, Parish Council or Community Council.
5. Deposits with Banks and Building Societies (Including opening Business Accounts).
6. Certificates of deposit issued by Banks and Building societies.
7. Pooled investment vehicles (e.g. money market funds)

**\*1** To be defined as a Specified Investment the above instruments will have these features common to all:

- Be denominated in Sterling,
- Of not more than 1 year maturity,
- Of longer than 1 year maturity but the Council has the right to be repaid within 12 months,
- For instruments numbered 5 to 7 these must be with institutions of high credit quality.

### **Instruments of Non-Specified Investments \*2**

1. Deposits with Banks, Building Societies and their subsidiaries.
2. The Council’s own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.
3. Certificates of deposit issued by Banks and Building Societies.

**\*2** To be defined as a Non-Specified Investment the above instruments will have these features common to all:

- Denominated in Sterling,
- Of more than 1 year maturity,
- Of less than 1 year maturity with an institution that does not meet the basic security requirements under Specified Investments e.g. a deposit with a non-credit rated Bank or Building Society

## Security, Liquidity and Yield benchmarking

### **Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service**

A requirement for Treasury Management reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day SONIA rate- see paragraph 5.6 above.

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Benchmarks for the cash type investments are set out below and these will form the basis of reporting in this area. In other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - nil
- Liquid short term deposits of at least £5m available with a week’s notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – a shorter WAL would generally embody less risk. In this respect the proposed benchmark to be used is:

- WAL benchmark is expected to be 0.08 years.
- Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poor’s). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy.

The Council’s expected security risk benchmark from its budgeted investment strategy is:

- 0.012% historic risk of default when compared to the whole portfolio which equates to a potential loss of £2,160 on an investment portfolio of £18m. In addition that the security benchmark for each individual year is:

	1 year	2 year	3 year	4 year	5 year
Maximum	0.30%	0.30%	0.30%	0.30%	0.30%

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported

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**SUBJECT: INTERNAL AUDIT PROGRESS REPORT**

**REPORT BY: CHIEF EXECUTIVE AND TOWN CLERK**

**LEAD OFFICER: PAUL BERRY, PRINCIPAL AUDITOR**

**1. Purpose of Report**

1.1 To present the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summaries of the outcomes of audits completed during the period.

**2. Executive Summary**

2.1 The report highlights progress against the audit plan.

**3. Background**

3.1 A key requirement of public sector internal audit standards is that Internal Audit should report progress periodically to those charged with governance. The Audit Committee has within its terms of reference the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan. The latest progress report for 2021-22 is attached as the appendix to this report.

**3.2 Internal Audit Progress Report**

3.3 The Internal Audit progress report attached (Appendix A) covers the following areas :-

- Progress against the plan
- Summary of Audit work
- Current areas of interest relevant to the Audit Committee

**4. Organisational Impacts**

4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering

services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

There are no direct E and D implications arising as a result of this report.

## 5. Recommendation

5.1 The Audit Committee is asked to review and comment on the content of the latest Internal Audit Progress Report for 2021-22.

**Key Decision** No

**Do the Exempt Information Categories Apply?** No

**Call in and Urgency:** Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

**How many appendices does the report contain?** One

**List of Background Papers:** None

**Lead Officer:** Paul Berry, Principal Auditor Telephone 873836



# Internal Audit Progress Report



**City of Lincoln Council  
February 2022**

# Contents

## Key Messages

Page 2

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Introduction  
Summary  
Assurances

## Internal Audit work completed

Page 3

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Overview of Assurances  
Audit Reports at Draft  
Work in Progress

## Benchmarking

Page 5

Key Performance Indicators

## Other Matters of Interest

Page 6

## Appendices

Page 8

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1 Limited / Low Assurance Reports (None)  
2 Assurance Definitions  
3 Audit Recommendations  
4 2021/22 Audit Plan

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This report has been prepared solely for the use of Members and Management of Boston Borough Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

# Introduction

The purpose of this report is to:

- Provide details of audit work during the period December 21 – January 2022
- Advise on progress with the 2021/22 Plan
- Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

The Plan was revised in December, with some audits being removed and some being undertaken by an external providers.

58% of the revised Plan has been completed at the end of December.

Following determination of the Western Growth Corridor planning application the findings of a governance report completed in July 2021 are being reported.

## Assurances

One assurance review has been completed;

Western Growth Corridor (governance) – Substantial assurance

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.



# Substantial Assurance

The review examined a range of governance areas;

## Agreements and Board oversight

There is a joint Delivery Agreement between the landowners and a number of Boards, including the strategic Charterfields Board, the Management Board and an internal City of Lincoln Council Western Growth Corridor Programme Board.

## Resources

Resources are sourced from COLC and LWGC, including legal and financial advice, plus external consultants / contractors as required. Management have highlighted resource as a risk and are taking steps to increase administrative and project management resources.

## Communication

There have been a range of communication strategies in the past including public consultation exercises. There is a need to develop communication actions for Phase 1 infrastructure and housing.

## Conduct

Any conflicts of interest would be directed through the appropriate Boards. Officers have local guidance on conduct, interests, gifts and hospitality. Prior to the recent Planning meeting the Council provided training to cover interests, pre-determination and ward advocates.

We have been advised that the ethical wall policy to separate the Council's roles of landowner and planning authority is working well.

## Planning

Legal advice has been obtained on some Planning matters and there are separate internal lawyers advising the applicant and the LPA.

## Risk management

There is a (COLC) strategic Programme Board project risk register, which is not taken to the main Board. There is also a joint risk and opportunity schedule register which requires updating. Risks are however "actively" managed and discussed at the different Boards.

**Western  
Growth  
Corridor  
(governance)**

# Substantial Assurance

## Project and Programme Management

A detailed project plan covers Phase 1a infrastructure and COLC homes. A programme overview schedule is periodically reported to Charterfields.

## Budget / Finance

Budgets are approved by the Executive. Planned expenditure is approved via Charterfields and is appropriately authorised. Contract costs are regularly reported through to Board (WGC Programme and Charterfields). Budget monitoring is in place and supported by Finance.

## Procurement

There have been a range of joint procurement contracts for planning support and Pre-planning Phase 1a delivery - these are ongoing and are compliant with contract procedure rules. The Procurement manager (COLC) provides support.

A small number of improvement areas were identified, the key one being to periodically take the risk register to the main board.

**Western  
Growth  
Corridor  
(governance)**

## Other work

### Audits in Progress

- Visitor Information Centre – report being agreed
- Safeguarding – report being agreed
- Income – fieldwork in progress
- Rogue Landlord – in progress
- Town Deal – fieldwork in progress
- Planned Maintenance – fieldwork in progress

### Combined Assurance

Meetings have been held with Assistant Directors and service managers to refresh the Council's Combined Assurance Map. A new Combined Assurance Report will be produced for consideration by CMT before it is presented to Audit Committee in March.

### Other Audit work

- Election Claims – Three elections were held in May 21 and the expenses claims are being reviewed as they are completed. When they are all done an Advice Note will be issued
- Counter Fraud
  - National Fraud Initiative – work is ongoing on matches received and new data required
  - Fraud Policy / Strategy review – completed July 21
  - Anti-bribery Policy update – completed Dec 21
  - Whistleblowing Policy update – completed Mar 21
  - Money Laundering risk assessment – in progress
  - Fraud Risk Register update – in progress
  - Scam awareness – work undertaken as required
  - Lincolnshire Counter Fraud Partnership liaison – ongoing
- Business Grants
  - Assistance is given as required

### Amendment to the Audit Plan

Following initial discussions with the Strategic Director Communities & Environment it has been decided that the work required on Leisure Centres is not within the skillset of the IA team and will be procured from external specialists. The audit has not yet been replaced.

## Other work

### Audit work undertaken for Assurance Lincolnshire

In mid-2021 the responsibility for managing the contract to provide audit services to Boston Borough Council was passed from the City Council to the County Council, but COLC audit staff continue to provide resources as a way of reducing the cost of internal audit.

Audits completed so far include Town Deal, Housing Benefit Subsidy, Brexit and Income.

The level of resource to be provided up to the end of the year has been reduced.





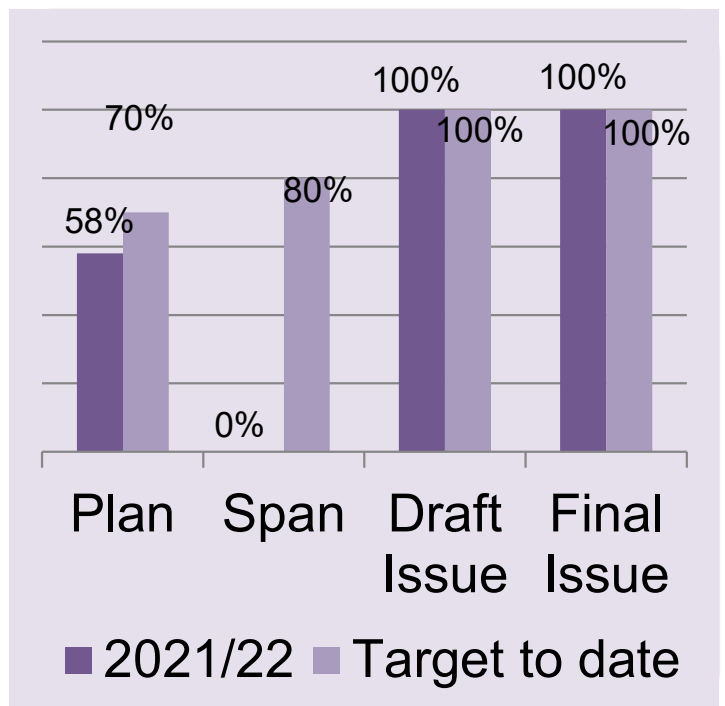
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

## Performance on Key Indicators

**Rated our service Good to Excellent**

**58% revised Plan Completed**

**Achievement of Audit KPI's to date**





## Other matters of interest

A summary of matters that will be of particular interest to Audit Committee Members.



Chartered Institute of  
Internal Auditors

### **Harnessing Internal Audit Against Climate Change Risk - Oct 21**

Below are some of the key extracts from the IIA report:-

Climate change is arguably the most acute challenge facing our planet right now and is an issue that is firmly moving up the agenda. It is one that organisations simply cannot afford to ignore or side line any longer, for those that do not take action face the genuine risk of an existential crisis.

Internal audit has a responsibility to add true value to the work of organisations on climate risk from two perspectives:

- to act as a trusted advisor to the organisation in terms of how it is identifying, managing and mitigating the risks and opportunities associated with climate change.
- to comment on and assess the measures that the organisation puts in place to reduce its environmental impact and contribution to climate change.

But the responsibility to rise to these challenges does not rest solely on the shoulders of internal audit. Audit committees need to look at their organisation and ask themselves whether they are fully prepared for climate change.

#### **Why should climate change matter to Boards?**

As well as the need to prepare for the physical impacts of climate change, Boards must help their organisations adapt to the requirements of new national and international laws and regulations that will embed sustainability in products and services.

#### **Skills and training, knowledge and resources**

It is the Audit Committees responsibility to ensure that:-

- its internal audit activity has the right combination of resources, skills and training to address climate change risk
- an appreciation of climate change risk is embedded within an organisation's strategy
- they begin having conversations about climate change preparedness with their internal audit teams.

A copy of the full report is available on request.



### Department for Levelling Up, Housing & Communities

The Department for Levelling Up, Housing and Communities (DLUHC) has announced a package of measures to tackle delays in local audit, following the news that only 9% of 2020-21 local authority audited accounts met the 30 September 2021 deadline.

The planned measures include:

- A consultation in early 2022 on reforms to the Key Audit Partner (KAP) eligibility criteria, including the introduction of alternative routes for experienced Responsible Individuals.
- Development of additional support for audit firms including a technical advisory service and additional training.
- An additional £45m of funding over the three-year Spending Review period to support local authorities to invest in finance teams and meet the costs of audits.
- Strengthened guidance for local authority audit committees including a clear recommendation for the inclusion of independent members with a view to making this a statutory requirement in future. To further strengthen the capability and skills of audit committee members the LGA will establish a number of targeted forums.
- Specific grants for training for audit committee chairs.
- Agreement with CIPFA/LASAAC on a project to improve the presentation of local authority accounts in time for the 2022-23 financial year.
- A request to CIPFA/LASAAC to consider temporary changes to the Accounting Code over the valuation of operational property.
- An extended deadline for the publication of audited accounts of 30 November for 2021-22 and then a deadline of 30 September for the following five years (Council's will still have to meet the 31st May deadline to complete the accounts, they are just giving the auditors longer to audit)
- An industry-led workforce strategy for local audit.

These proposals seek to address some problems identified by the Redmond Review into local authority financial reporting and audit, including the need to improve the understandability of local authority accounts and to strengthen local authority audit committees.

There are none.

**High**

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

**Substantial**

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

**Limited**

Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

**Low**

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

The next recommendation update will be provided in March.

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Annual IA Report	Audit opinion & coverage for 2020/21	Q1	May	June	Completed
Partnership Governance	Consultancy to assist in providing assurance for management & Audit cttee	Removed as part of Dec 21 Plan review - no IA input required.			
Housing Benefit Subsidy	Detailed testing on behalf of External Audit	Q1-2	May 21	Sept 21	High assurance
Housing Benefit & CTS	Assurance that HB, CTS, DHP & CTS Hardship Fund are administered correctly	Q1	May 21	Sept 21	High assurance
Leisure Centres	Assurance that appropriate contingency planning is being undertaken	To be undertaken by external specialists.			
Planned Maintenance (being undertaken by Julia Raftery Consulting Ltd)	Assurance on the closedown of the Kier contract and the establishment of new arrangements	Q4	Jan		In progress
Elections / Electoral Registration	Review of the 2021 expenses claim & maintenance of the electoral register	Q2	May 21		2 claims completed & 1 still to do.
Safeguarding	Review of Protecting Vulnerable People processes during Covid	Q2	Sept		Report being agreed
Visitor Information Centre	Assurance on the operation of the service	Q2-3	Aug 21		Report being agreed
Western Growth Corridor	Assurance on partnership governance and programme management arrangements for Phase 1a	Removed as part of Dec 21 Plan review			
Rogue Landlord	Consultancy work on the PIR	Q3-4	Dec		In progress
Health & Safety	Risk assessment processes	Q4			
Income	Assurance on income controls in key areas	Q3	Oct		In progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Stores	Assurance on the changeover of contractor	Q3-4			To be undertaken by Julia Raftery Consulting Ltd
Combined Assurance	Update the assurance map and produce a 2022 Combined Assurance report	Q4	Dec		In progress
IA Strategy & Planning	Produce a 2022/23 Audit Plan	Q4			
Town Deal (being undertaken by Julia Raftery Consulting Ltd)	Assurance on governance, programme & project management arrangements	Q4	Jan		In progress.
ICT – Projects & Programmes	Assurance on general project management plus specific projects for PSN and IT security training	Q4			Will include input from AuditOne, an external ICT auditor
ICT – Disaster Recovery	Assurance on IT DR planning, incident response & infrastructure resilience	Q4			To be undertaken by AuditOne, an external ICT auditor
Medium Term Financial Strategy	Assurance that assumptions, reserve levels, etc are appropriate and there is integration with other strategic documents	Removed as part of Dec 21 Plan review			
Performance Management	Assurance that the revised PM Framework enables the Council's performance to be effectively monitored.				To be undertaken by Julia Raftery Consulting Ltd
Housing Repairs	Assurance on the operation of the new repairs process and the void repairs process	Removed as part of Dec 21 Plan review			

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<b>SUBJECT:</b>	<b>REVIEW OF CODE OF CORPORATE GOVERNANCE 2022</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>REPORT AUTHOR:</b>	<b>PAT JUKES, BUSINESS MANAGER CORPORATE POLICY</b>

## 1 Purpose of Report

- 1.1 To inform Audit Committee of the outcome of the annual review of the Code of Corporate Governance January 2022.

## 2 Executive Summary

- 2.1 City of Lincoln Council adopted a new Code of Corporate Governance in March 2017, agreeing to review this annually to ensure it remains current.
- 2.2 A decision was taken in 2021 to complete a significant review to simplify the format of the code whilst still being able to provide all of the information, but in an easier and accessible format. Neither this format, nor any of the key content has been changed, the only changes are minor wording changes to reflect ongoing Covid-19 management

## 3 Main Body of Report

- 3.1 City of Lincoln Council must ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to secure continuous improvement in the way our functions are exercised, having regard to economy, efficiency and effectiveness.
- 3.2 In discharging this overall responsibility, the council must put in place proper governance arrangements for our affairs.
- 3.3 A new code consistent with the CIPFA/SOLACE Framework Delivering Good Governance in Local Government was approved by Executive Committee in March 2017, with an agreed annual review.
- 3.4 Internal Audit and Corporate Policy undertook a full assessment of the council's governance framework commencing March 2021 through a review of the Council's Code of Corporate Governance (policies and processes) and its use in the review process to develop the AGS to identify any significant issues, or other areas that may require monitoring.
- 3.5 These changes were incorporated into the code as part of that review and a lighter touch review this year has revealed that apart from minor wording changes to reflect that Covid-19 activities are still ongoing, there were no further changes required (**See Appendix A**). It is proposed the next review should be in Feb 2023.

## 4 Strategic Priorities

- 4.1. Vision 2025 and the vision, priorities and core values contained within it form a part of the Code of Corporate Governance.

## 5 Organisational Impacts

### 5.1 Finance (including whole life costs where applicable)

The Code identifies procedures in place to ensure compliance with legislation and reduce risk as well as adhere to the Financial Management Code.

### 5.2 Legal Implications including Procurement Rules

The Code of Corporate Governance identifies processes in place to ensure compliance with legislation and reduce risk.

### 5.3 Equality, Diversity & Human Rights

The Code of Corporate Governance identifies processes are in place to ensure compliance with E&D legislation and reduce risk.

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

## 6 Recommendation

- 6.1 That Audit Committee notes the review has taken place with no significant changes made and agrees to the next annual review date of February 2023.

<b>Is this a key decision?</b>	No
<b>Do the exempt information categories apply?</b>	No
<b>Does Rule 15 of the Scrutiny Procedure Rules</b>	No
<b>How many appendices does the report contain?</b>	One – Appendix A
<b>List of Background Papers:</b>	None
<b>Lead Officer:</b>	Pat Jukes, Business Manager, Corporate Policy



## City of Lincoln Council Code of Corporate Governance

To February 2023

## Document Control

<b>Organisation</b>	City of Lincoln Council
<b>Title</b>	Code of Corporate Governance
<b>Author – name and title</b>	Heather Grover, Principal Policy Officer
<b>Owner – name and title</b>	Business Manager, Corporate Policy
<b>Date</b>	February 2018
<b>Approval date</b> (by Council/ Executive)	13 <sup>th</sup> February 2018
<b>Filename</b>	COLC Code of Corporate Governance – Updated on to new template 2019
<b>Version</b> (V0.1 is draft and then to V.02 V1.0 is the final version)	V1.4
<b>Next Review Date</b>	From February 2023

## Document Amendment History

<b>Revision</b>	<b>Originator of change</b>	<b>Date of change</b>	<b>Change description</b>
V0.1	Heather Grover	01/8/17	Initial draft
V1	Heather Grover	20/8/17	Final Version
V1.1	Heather Grover	14/9/17	Single Data Set changed to read Single Data List, Customer Access Strategy changed to read Customer Experience Strategy and six monthly Strategic Plan delivery monitoring changed to Quarterly Strategic Plan/Vision 2020 delivery monitoring
V1.2	Scott Lea	18/12/18	Updated and moved on to the new document control template.
V1.3	Pat Jukes	15.04.19	Updated to include minor wording changes and addition of Modern Slavery process and Statement
V1.4	Heather Grover/Pat Jukes	8/3/21	Full review to ensure documents referred to are up to date considering any changes made as a result of Covid-19 and any externally required changes and reformat to meet web accessibility requirements
V1.5	Pat Jukes	18.01.22	Update review - no significant changes found

## Introduction

City of Lincoln Council must ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded, and used in accordance with our duty under the Local Government Act 1999 to secure continuous improvement in the way our functions are exercised, having regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, we must put in place proper governance arrangements for our affairs. This document is our code of corporate governance. It is consistent with the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of our Code is on our website at [www.lincoln.gov.uk](http://www.lincoln.gov.uk)

## The purpose of this Code

Governance is about how we ensure that we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner.

This Code of Corporate Governance sets out the documentation, systems, and processes by which the authority transparently controls its activities. It enables us to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The code is based on the set of seven core principles of Delivering Good Governance in Local Government Framework (CIPFA/Solace 2016):

- Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Core Principle B: Ensuring openness and comprehensive stakeholder engagement
- Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes
- Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Core Principle F: Managing risks and performance through robust internal control and strong public financial management
- Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Each principle is considered and in the following section documentation, systems and processes are identified under four categories; Regulatory, Finance, Human Resources and Corporate, demonstrating good governance in practice.

In 2020-21 some policies were amended to include specific action to be taken in relation to mitigation measures to manage the Covid-19 pandemic – e.g. many HR policies were updated to reflect the way that staff work from home as this is expected to become a feature of the future.

Corporate Governance Framework – Documents and processes

<p><b>Principle A</b></p> <ul style="list-style-type: none"> <li>Behaving with integrity</li> <li>Demonstrating strong commitment to ethical values</li> <li>Respecting the rule of law</li> </ul>	<p><b>Principle B</b></p> <ul style="list-style-type: none"> <li>Openness</li> <li>Engaging comprehensively with institutional stakeholders</li> <li>Engaging with individual citizens and service users effectively</li> </ul>	<p><b>Principle C</b></p> <ul style="list-style-type: none"> <li>Defining outcomes</li> <li>Sustainable economic, social and environmental impacts</li> </ul>	<p><b>Principle D</b></p> <ul style="list-style-type: none"> <li>Determine interventions</li> <li>Plan interventions</li> <li>Optimise achievement of intended outcomes</li> </ul>	<p><b>Principle E</b></p> <ul style="list-style-type: none"> <li>Develop the entity's capacity</li> <li>The capability of the entity's leadership and individuals are developed</li> </ul>	<p><b>Principle F</b></p> <ul style="list-style-type: none"> <li>Manage risk</li> <li>Manage performance</li> <li>Robust internal control</li> <li>Manage data</li> <li>Strong public financial management</li> </ul>	<p><b>Principle G</b></p> <ul style="list-style-type: none"> <li>Good practice in transparency</li> <li>Good practice in reporting</li> <li>Assurance and effective accountability</li> </ul>
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Regulatory						
Appointment of statutory officers – Chief Executive (Head of Paid Service), Section 151 Officer (Chief Finance Officer) and Monitoring Officer (City Solicitor)	A				E	F G
Audit Committee	A		C		E	F G
Committee Report Template		B	C	D		F
Constitution (including contract procedure rules) and regular review	A	B	C	D	E	F G
Ethics & Engagement Committee	A				E	G
Executive Committee	A					G
Executive work Programme	A	B	C			
Freedom of Information Policy	A	B	C	D	E	F G
Member training programme & records	A	B	C	D	E	
Pre-meets with Committee Chairs		B				
Procedures for Part 'B' (Confidential) reports		B				
Publication scheme					E	
Scrutiny Committees	A		C			G
Annual Vision priority reports to Scrutiny & Executive		B	C		E	
Regular liaison meetings between statutory officers and external audit	A					F
Fortnightly Councillor Briefing	A	B				G

Finance						
Annual Audit Plan						F
Annual budget cycle						F G
Annual Governance Statement						F G
Annual Statement of Accounts						F G
Counter Fraud and Anti-Corruption Policy/Strategy, Tenancy Fraud Strategy and Fraud Response Plan	A					F
Budget Holder Manual			C			
Business Support Grant Service			C			
External Audit Value for Money conclusion						F
Financial Code self-assessment						G
Financial management arrangements conform to CIPFA Statement on Role of Chief Financial Officer in Local Government (2010)	A		C			G
Housing Revenue Account 20 Year Business Plan				D	E	
Medium Term Financial Strategy			C	D		
Monthly financial monitoring with budget holders	A		C			F
Procurement through dedicated experienced internal resource	A		C	D	E	
Revenues and Benefits Shared Service Delegation Agreement					E	
Quarterly performance & finance reporting		B	C	D	E	G
Transformation programme				D		
Treasury Management Strategy			C			
Value for Money statement						F
Compliance with the CIPFA Financial Management Code						F G
Internal Audit External Quality Assessment						F G
Internal Audit Manager compliance with CIPFA Head of Internal Audit Requirements 2019						F G
Compliance with CIPFA Prudential Code for Capital Finance						F G

HR						
Health and Safety Policy	A					
HR Policy Handbook - terms and conditions	A	B	C		E	F G
HR Health & well-being champion					E	
Job descriptions					E	
Joint Consultative Committee (with unions)					E	
Online staff training programmes					E	
People Strategy	A	B			E	G
Programme of management development					E	
Recruitment & selection procedures & processes	A	B			E	
Regular staff briefings					E	G
Staff appraisal system and one to ones	A	B			E	
Staff induction process					E	
Risk management training						F

70

<b>Principle A</b>	<b>Principle B</b>	<b>Principle C</b>	<b>Principle D</b>	<b>Principle E</b>	<b>Principle F</b>	<b>Principle G</b>
<ul style="list-style-type: none"> <li>Behaving with integrity</li> <li>Demonstrating strong commitment to ethical values</li> <li>Respecting the rule of law</li> </ul>	<ul style="list-style-type: none"> <li>Openness</li> <li>Engaging comprehensively with institutional stakeholders</li> <li>Engaging with individual citizens and service users effectively</li> </ul>	<ul style="list-style-type: none"> <li>Defining outcomes</li> <li>Sustainable economic, social and environmental impacts</li> </ul>	<ul style="list-style-type: none"> <li>Determine interventions</li> <li>Plan interventions</li> <li>Optimise achievement of intended outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Develop the entity's capacity</li> <li>The capability of the entity's leadership and individuals are developed</li> </ul>	<ul style="list-style-type: none"> <li>Manage risk</li> <li>Manage performance</li> <li>Robust internal control</li> <li>Manage data</li> <li>Strong public financial management</li> </ul>	<ul style="list-style-type: none"> <li>Good practice in transparency</li> <li>Good practice in reporting</li> <li>Assurance and effective accountability</li> </ul>

<b>Corporate</b>							
Vision 2025 (Strategic Plan) - setting out vision, priorities & core values	A	B	C	D	E	F	G
Vision 2025 Review Document		B	C	D		F	G
Vision 2025 Priority Theme Groups with regular delivery monitoring	A	B	C	D	E		G
One Council Programme	A	B	C	D			
Asset Management Plan			C				
Consultation & Engagement Strategy		B	C	D			
IT Security Policy	A					F	
Modern Slavery Act Transparency Statement & Charter against Modern Slavery	A						
Safeguarding & Domestic Abuse Policies		B					
Risk Management Strategy, Corporate Risk Management Toolkit and Strategic (& departmental) risk register	A		C	D		F	
Customer Experience Strategy		B	C				
Data Protection Policy, Data processing agreements and Data Sharing Protocols	A					F	
NET Consent - ensuring key documents are read and updated (quarterly review of Strategy and Policy register)	A				E		
Data transparency monitoring		B					G
Retention & Disposal Guidelines	A					F	
Central Lincolnshire Joint Strategic Planning Committee & Local Plan			C		E		
City Centre Master Plan			C				
City Centre Recovery Group			C				
Growth Conference (* when appropriate)		B					
Local Performance Management Framework		B	C			F	
Performance & Information Management System (PIMS)				D			
Benchmarking (e.g. CIPFA & LG Inform) through Lincoln City Profile			C		E	F	
Compliance with National Single Data List			C				
Data Quality Policy						F	
Partnership Policy and Guidance	A	B		D	E		G
Partnership & Service Level Agreements							G
CX meetings with leadership & opposition leader and regular Portfolio Holder/senior officer meetings	A	B	C	D	E	F	G
Corporate Management Team (CX & Directors - CMT), Corporate Leadership Team (Assistant Directors & CMT), Directorate Management Teams, Service Managers Forum & Team Meetings	A	B	C	D	E	F	G
Monthly summary of emerging government policy & guidance considered by CLT/CMT	A						
Service planning			C	D			
LGA Peer Review, service area external peer assessment and internal review	A				E		G
Neighbourhood Working in defined areas			C	D			
Equality and Diversity Policy	A	B	C	D			
Equality objectives, action plan and annual journal monitored through Equality & Diversity Advisory Panel	A	B	C	D			
Equality Analyses	A	B	C	D		F	
Intranet/HUB	A	B	C		E		
Website (e.g. Councillor complaints, code of conduct and register of interests, data transparency)	A	B	C	D	E	F	
Public Consultation (e.g. through Citizens Panel, On-line, 'Home' tenants magazine and social media)		B	C	D	E		

71

## Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The Council is responsible for using public resources to provide services for our citizens. We are accountable for how much we spend and for the way we use the resources with which we have been entrusted. In addition, we have an overarching mission to serve the public interest, by adhering to the requirements of legislation and government policies.

Ethical values and standards are defined in the Council's Constitution and should form the basis for all our policies, procedures and actions as well as the behaviour of our Members and staff.

Council officers are often involved with interpreting laws and this demands a high standard of conduct to prevent the council being brought into disrepute. We must demonstrate a strong commitment to the rule of law as well as compliance with all relevant laws.

It is therefore essential that we can demonstrate the integrity of all our actions and that we have mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels.

1. The Council will maintain shared values including leadership values (openness, support and respect) both for the Council and its officers. These are defined in the constitution and reflect public expectations about the conduct and behaviour of individuals.
2. We use shared values as a guide for decision making and as a basis for developing positive and trusting relationships within the Council. We demonstrate this by adhering to the constitution.
3. We have adopted formal codes of conduct setting out standards of personal behaviour for Members and Officers.
4. We have an Audit Committee to raise awareness and take the lead in ensuring high standards of conduct are embedded within the Council's culture.
5. We have put in place arrangements to ensure that Members and staff of the Council are not influenced by prejudice, bias or conflicts of interest when engaging and making decisions with different stakeholders. Appropriate processes are in place to ensure that these arrangements are workable, including declaration of interests and anti-corruption policies.
6. We ensure that systems and processes for financial administration and control, together with protection of the Council's resources and assets, comply with ethical standards and are subject to monitoring of their effectiveness.
7. We will ensure availability of professional advice on matters that have legal or financial implications and this is recorded in advance of decision making if appropriate.
8. Officers will actively recognise the limits of lawful activity placed on them but at the same time work to utilise their powers to the full benefit of their communities.
9. Officers must observe all specific legislative requirements placed upon the Council, including any temporary or longer term requirements brought in as a result of the COVID-19 epidemic, as well as the requirements of general law, and



in particular integrate the key principles of administrative law into procedures and decision making.

10. We have put in place effective systems to protect the rights of staff. We ensure that policies for whistle-blowing are in place and are accessible to staff and those contracting with the Council, as well as arrangements for the support of whistle-blowers.
11. We will publish an Annual Governance Statement, signed by the Chief Executive and the Leader of Council to confirm that we are satisfied that we have effective governance arrangements in place.

## Core Principle B: Ensuring openness and comprehensive stakeholder engagement

The council operates for the public good, and we make sure partners, in the private, public and voluntary sector as well individual citizens and service users are engaged in and have full access to information relating to decisions made. We therefore expect reports to decision makers to be open, provide all the necessary material to ensure informed decisions in the best interests of everyone in the city, and to have engaged stakeholders and service users in arriving at proposals under consideration. We must demonstrate that we act in the public interest at all times to maintain public trust and confidence. We will demonstrate clear reasoning for decision making and ensure that this is formally recorded for retrospective public scrutiny.

1. Vision 2025, which includes the council's vision, strategic direction, priorities, core values and action plan, has been through a robust development process, as well as consultation with key stakeholders, and is widely promoted. We will ensure that the Council's vision, strategic plans, priorities and aims are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.
2. We will maintain a culture of accountability so that Members and Officers understand to whom they are accountable and for what.
3. We will strive to engage with stakeholders on an individual and collective basis to demonstrate that we deliver services and outcomes that meet the needs and expectations of the public. These arrangements will recognise that different sections of the community have different priorities and establish robust processes for dealing with these competing demands.
4. We will publish reports providing progress on Vision 2025 during the period of the plan.
5. An annual summary of financial statements, performance and the Annual Governance Statement will be published.
6. We will deliver effective scrutiny of the Council's business as appropriate and produce an annual report on the activities of scrutiny function.
7. We will ensure that the Council as a whole is open and accessible to the community, service users and staff and we are committed to openness and transparency in all dealings. We will attempt to publish all committee agenda items under "Part A" unless there is the need to preserve confidentiality where it is proper and appropriate to do so, when we will make use of "Part B".

## Core Principle C: Defining outcome in terms of sustainable economic, social, and environmental benefits

Vision 2025 is a five year strategy and delivery plan, developed following wide consultation, and has an inclusive vision to deliver Lincoln's ambitious future. Progress towards achieving the vision, aligned with the key priorities, will be reported to and monitored by senior management and elected members. Service areas within directorates, and under the guidance of assistant directors, will be responsible for delivering individual projects to agreed timescales and budgets, with consideration for economic, social and environmental benefits which collectively will achieve our priorities. Reprofiting of the delivery plan has been started following the COVID-19 pandemic to focus on those areas of greatest need, whilst ensuring we achieve our vision in the longer term.

We also have in place the One Council approach, which is a programme of projects being undertaken to transform the way the council works ensuring we have the right tools, the right people and the right ways of working in place.

In addition, the council produces a Medium Term Financial Plan which is a financial representation of the Council's Vision and supports the priorities and a People Strategy which demonstrates how we will develop the capability and capacity to deliver the priorities. These will be reviewed on a regular basis to ensure they continue to reflect the vision of the Council and any significant changes caused as a result of COVID-19 pandemic.

1. We have made a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning.
2. We will publish a report each time we update the Vision to communicate the Council's activities and achievements, its financial position and performance.
3. We will ensure that those making decisions are provided with financial and non-financial information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.
4. We will identify and monitor service performance indicators which demonstrate how the quality of service for users is to be measured. This will include a phased introduction of an effective data collection system for all priority services.
5. We maintain a prudential financial framework, balance commitments with available resources; and monitor income and expenditure levels to ensure this balance is achieved.
6. We ensure compliance with the CIPFA codes regarding a Prudential Framework for Capital Finance and Treasury Management.

## Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council clearly defines its priorities and plans which are aimed at delivering the outcomes that the Council intends. These will focus on delivering effective and efficient services for the residents. We assess the risks of not achieving those outcomes and ensure that there are mitigating actions in place to support the

achievement of intended outcomes. The Council's financial management arrangements ensure that there is adequate resource available to deliver those outcomes. The Council reviews progress against delivering those outcomes through its performance management arrangements.

1. We have made a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning.
2. We have risk management arrangements in place including mitigating actions to support the achievement of the Council's intended outcomes.
3. We have a local performance management framework in place which provides effective arrangements to monitor service delivery.
4. We will put in place effective arrangements to deal with a failure in service delivery and explore options for improving service delivery and outcomes for our residents.
5. We have prepared contingency arrangements including a disaster recovery plan, business continuity plans and arrangements for delivering services during specific emergency situations.
6. We provide senior managers and Members with timely financial and performance information.
7. We ensure that budget calculations are robust and reserves are adequate.
8. The Lincoln Project Management Model provides a framework for effective management of all projects.

## Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council has a programme of review, linked to its financial sustainability programme aiming to ensure continual improvement. It also benchmarks, both at strategic and service level to ensure services operate efficiently and effectively.

As part of the One Council work – the Organisational Development Pillar will ensure the workforce have the necessary skills and behaviours to deliver the vision for the city and are effectively engaged to champion the council's priorities.

The Council will develop and retain a management structure that provides leadership and creates the opportunity for staff to work effectively and efficiently to achieve the Council objectives. We will provide training and support to enable staff to develop their skills so they can achieve their full potential.

1. Through the constitution we have set out a clear statement of the respective roles and responsibilities of the Council's Executive Committee and individual Members.
2. We have set out a clear statement of the respective roles and responsibilities of all other committees and senior officers.
3. We have developed protocols to ensure effective communication between Council Members and officers in their respective roles.
4. We have developed protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in their relationship and that a shared understanding of roles and objectives is maintained.

5. We have set out the terms and conditions for remuneration of Members and officers and publish an Annual Pay policy statement in accordance with the requirements of the Localism Act 2011.
6. We have determined a scheme of delegated and reserved powers within the constitution and ensure that the scheme is monitored and updated when required.
7. We will ensure that effective management arrangements are in place at the top of the organisation.
8. The Chief Executive is responsible and accountable to the Council for all aspects of operational management.
9. The Chief Finance Officer is the Section 151 Officer and is responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.
10. The Chief Finance Officer will lead the promotion and delivery of good financial management, safeguarding public money and ensuring appropriate, economic, efficient and effective use of funds, together with professional accountability for finance staff throughout the Council
11. The City Solicitor is the council's Monitoring Officer and responsible to the Council for ensuring that the constitution is adhered to.
12. We will assess the skills required by Members including the understanding of financial systems. We will agree a personal development plan to develop skills and address any training gaps, to enable roles to be carried out effectively.
13. We will assess the skills required by officers through the appraisal process and address any training gaps, to enable roles to be carried out effectively.
14. We will develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.
15. We will ensure that the statutory officers have the skills, resources and support necessary to effectively perform in their roles and that these roles are properly understood throughout the Council.
16. We will ensure policies are kept up to date and refresher training is provided and taken up by staff where appropriate.
17. We ensure compliance with the CIPFA code for Financial Management

## Core Principle F: Managing risks and performance through robust internal control and strong public financial management

The Council recognises the need to implement an effective performance management system that will allow us to deliver services effectively and efficiently. We understand that risk management, internal control and strong financial management are essential for us to achieve our objectives and we have put appropriate arrangements in place.

1. We will maintain an effective Audit Committee which is independent of the executive and scrutiny functions.
2. We will enable the Chief Finance Officer to bring influence to bear on all material decisions and provide advice on the levels of reserves and balances to be retained.

3. We will ensure that risk management is embedded into the culture of the Council, with Members and managers at all levels recognising that risk management is part of their job. The council has a risk management strategy, a Strategic Risk Register, directorate risk registers in place and all managers have received risk management training.
4. Internal control in the form of anti-fraud and whistle blowing policies as well as robust ICT security measures are in place. The council also has data management and data sharing policies and ensures compliance with the Local Government Transparency Code.
5. Performance is managed in accordance with the Local Performance Management Framework which has a 'golden thread' linking through from strategic to individual performance.
6. The council has an effective scrutiny function with three scrutiny committees (Performance, Community Leadership and Policy) and an overarching co-ordinating group, in addition to a separate Audit Committee. Members scrutinise both internal decisions and external matters of concern in the community.
7. We will ensure our arrangements for financial and internal control and management of risk are formally addressed within the annual governance reports.
8. We will ensure effective internal control arrangements exist for sound financial management systems and processes.
9. We ensure compliance with the CIPFA code for Financial Management

### Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Council recognises that effective accountability is concerned not only with reporting on actions completed but ensuring stakeholders are able to understand and respond as the Council plans and carries out its activities in an open, transparent and proportionate manner.

1. We comply with the local government transparency code and publish all required information in a timely manner.
2. We have established a medium term business and financial planning process in order to deliver - a financial strategy ensuring sustainable finances, a robust annual budget process ensuring financial balance and an adequate monitoring process, all of which are subject to regular review.
3. We have put in place effective transparent and accessible arrangements for dealing with complaints.
4. We will maintain an effective, scrutiny function which encourages constructive challenge and enhances the Council's performance overall.
5. We will maintain an effective Audit Committee which is independent of the Executive and Scrutiny committees.
6. We will ensure an effective internal audit function is resourced and maintained.
7. We will maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.
8. We will attempt to publish all committee agenda items under "part A" unless there is the need to preserve confidentiality where it is proper and appropriate to do so.

9. We will put in place arrangements for whistle-blowing to which staff and all those contracting with the Council have access.
10. We will produce clear, timely, complete and accurate information for budget holders and senior officers relating to the budgetary and financial performance of the Council.
11. We will maintain effective arrangements for determining the remuneration of senior staff and publish an Annual Pay Policy statement in accordance with the requirements of the Localism Act 2011.

## Annual Review of Corporate Governance

At the end of each financial year, the Council formally reviews the governance arrangements in place and produces an Annual Governance Statement.

The statement addresses any actions arising from the previous years' Annual Governance Statement and highlights any actions arising from the year under review. It also assesses the effectiveness and application of the Local Code of Governance and identifies any necessary changes and makes any relevant recommendations to the Council.

The review of effectiveness is a comprehensive piece of work and is informed by a range of sources of information including:

- Internal and External Audit Reports
- Council's performance in managing risk
- The council's overall performance management
- Assurances from third parties such as inspections
- The views of the Head of Internal Audit
- Individual views of senior management including CFO and CS
- Complaints received
- Ethics and standards issues

**Appendix 1 and 2** below illustrate the full range of information sources that are utilised in that review. Appendix 2 also incorporates the quality assurance process the Annual Governance Statement passes through prior to adoption.

As part of the Audit Committee's governance role, the formal annual review will be undertaken by the Audit Committee on behalf of the Council.

The Annual Governance Statement is signed by the Leader of Council and the Chief Executive and is published with the Council's annual Statement of Accounts.

Further information on the operation of this code is available from:

Chief Finance Officer  
Chief Executive's Dept.  
City Hall, Beaumont Fee  
Lincoln, LN1 1DD  
Tel: 01522 873258

Email: [Jaclyn.gibson@lincoln.gov.uk](mailto:Jaclyn.gibson@lincoln.gov.uk)



**1. Establish principal obligations and organisational obligations and organisational objectives**

Mechanism established to identify statutory obligations and establish organisational objectives. Corporate governance arrangements are embedded within the authority. Performance management arrangements are in place.

**2. Identify principle risks to achievement of objectives**

Authority has robust systems and processes in place for identification and management of strategic and operational risk

*These are the seven principles as set out in this Local Code of Corporate Governance.*

**3. Identify and evaluate key controls to manage principle risks**

Authority has robust system of internal control including systems and procedures to mitigate principle risks.

**4. Obtain assurance on effectiveness of key controls**

Authority has identified appropriate sources of assurance and appropriate Assurance statements are received from designated internal and external assurance providers.

**5. Evaluate assurances and identify gaps in control/assurances**

Authority has made adequate arrangements to evaluate reports from defined internal and external assurance providers to identify areas of weakness in controls

**6. Action plan to address weakness and assure continuous improvements of the system of corporate governance**

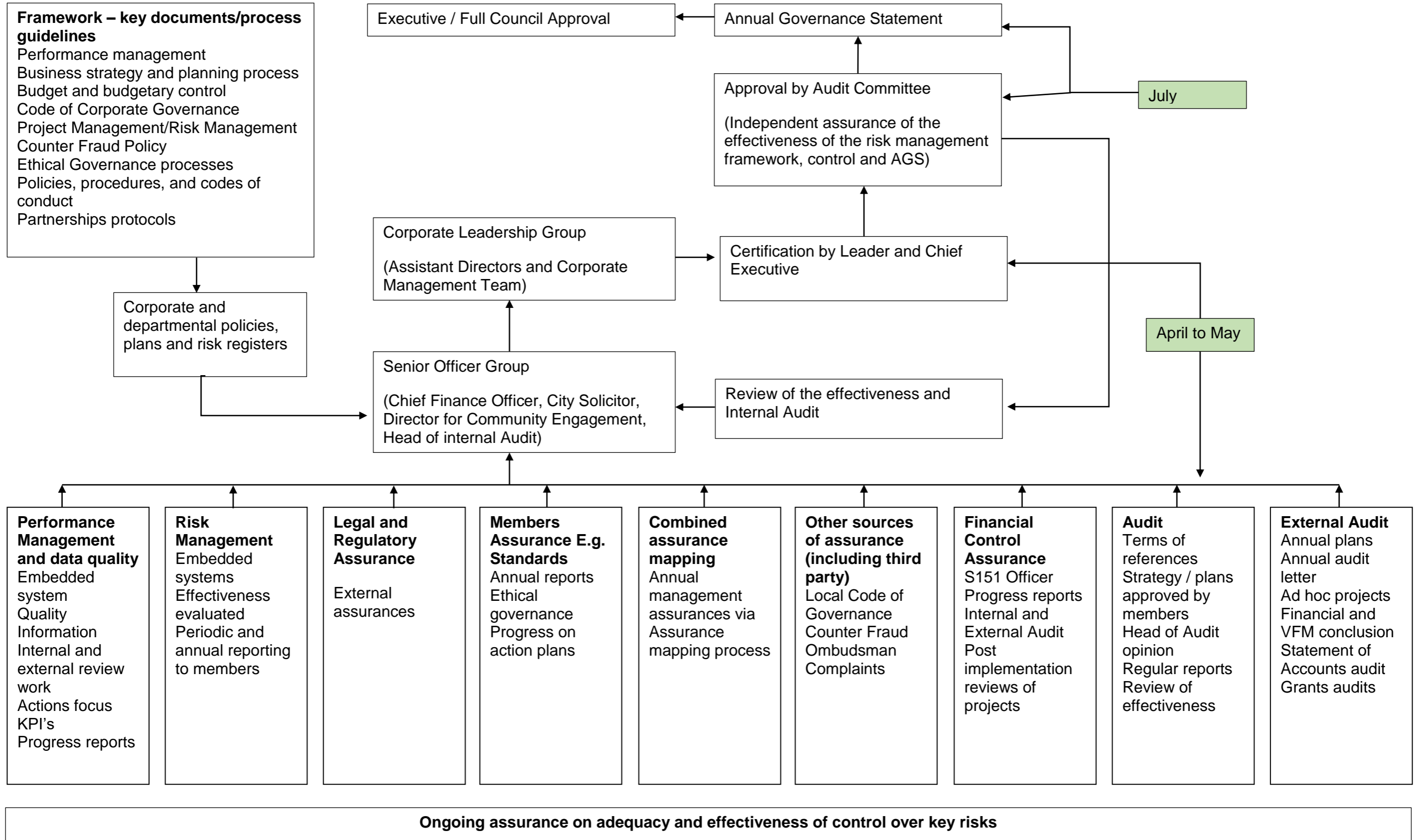
A robust mechanism exists to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored

**7. Annual Governance Statement**

An annual governance statement has been drafted in accordance with statutory requirements and timetable set and is in accordance with CIPFA guidance

**8. Report to Audit and Executive Committee**

Annual report on the Annual Governance Statement is presented in accordance with the CIPFA pro-forma





**AUDIT COMMITTEE****1 FEBRUARY 2022**

**SUBJECT:               AUDIT COMMITTEE WORK PROGRAMME**

**DIRECTORATE:       CHIEF EXECUTIVE**

**REPORT AUTHOR:   JACLYN GIBSON, CHIEF FINANCE OFFICER**

**1. Purpose of Report**

1.1 To provide details of the Audit Committee work programme for 2021/22.

**2. Background**

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the purpose of an Audit Committee, in its Practical Guidance for Local Authorities and Police 2018 Edition, as providing those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In local authorities, audit committees are necessary to satisfy the wider requirements for sound financial and internal control. Accounts and Audit (England) Regulations 2015 state ‘the relevant authority must ensure that it has a sound system of internal control which; facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk’. With a known work plan, and appropriate and timely learning and development for Members, the committee will be well prepared and members will gain the knowledge and experience needed to carry out their role effectively.

2.2 The Audit Committee approves a work programme each year and monitors progress against it. Any changes to the work programme are reporting to the Committee.

**3. 2021/22 Work Programme**

3.1 The proposed work programme is attached at Appendix B. Since last reporting to this Committee, the following changes have been made to the work programme (as shown in red/italics in Appendix B):

- **1<sup>st</sup> February Meeting**

- **Deferrals**

- Audit Committee Terms of Reference – the ToR were last presented to Committee in February 2021 and will be reviewing in Spring 2022 following publication of revised CIPFA guidance on Audit Committees. This will be scheduled for an Audit Committee in the new Mayoral Year.
    - CIPFA Financial Management Code – this was reported to Committee in March 2021 with an action plan in place for 2021/22. An update will therefore be provided to the 22<sup>nd</sup> March meeting.

### **Removals**

- Counter Fraud Policies – this is a generic heading used for any required policy updates. Next policy due for renewal is September 2022
- Internal Audit Charter – the Charter was last presented to Committee in February 2021 and will be reviewed in future in line with any changes to Public Sector Internal Audit Standards or Internal Audit arrangements
- Internal Audit/Audit Committee Review of Effectiveness – this was last considered by Audit Committee in July 2021 and is undertaken every 2-3 years.

### **Additions**

- Outstanding Audit Recommendations: Licensing – As requested at Audit Committee 14<sup>th</sup> December 2021.
- Code of Corporate Governance – deferred from 14<sup>th</sup> December 2021 meeting.

## ● **22<sup>nd</sup> March Meeting**

### **Additions**

- CIPFA Financial Management Code – deferred from 1<sup>st</sup> February 2022 meeting.

### **Deferrals**

- Risk Management Annual Report/Strategy – this was last reported to Committee in July 2021 and will be next presented in July 2022.
- Whistleblowing Policy – this was last presented to Committee in September 2020 and is due for review every two years, it will be next presented in September 2022.

3.2 A copy of the Audit Committee's terms of reference is attached at Annex A

## **4. Learning and Development**

4.1 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.

4.2 Members need to consider annually their learning and development plan to support them in delivery of their roles. During 2021/22 Members have received the following training:

- 10<sup>th</sup> June 2021 – General Audit Committee Awareness
- 22<sup>nd</sup> July 2021 – Local Government Financial Statements
- 1st February 2022 – Treasury Management

Counter Fraud learning, which was scheduled for December 2021, is on hold pending the development of a training package through the Lincolnshire Counter

Fraud Partnership and will be rolled out as soon as this is available. In terms of the Audit Committee effectiveness training, this is being considered as part of the wider training needs and development of the Audit Committee and in conjunction with Assurance Lincolnshire. In addition, it has been announced that the Local Government Association will establish a number of targeted forums to further strengthen the capability and skills of audit committee members, these forums will be taken into consideration as part of the training programme.

## **5. Strategic Priorities**

- 5.1 The Internal Audit Service and Audit Committee contributes to the Council's strategic priorities, by helping to manage risk and achieve its objectives.

## **6. Organisational Impacts**

- 6.1 Finance – There are no direct financial implications arising as a result of this report.
- 6.2 Legal Implications including Procurement Rules – There are no direct legal implications arising as a result of this report.
- 6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

Due to the nature of the report, no specific Equality Impact Analysis is required.

## **7. Risk Implications**

- 7.1 By identifying the key topics to be considered at the Audit Committee meetings and receiving appropriate learning and development sessions in respect of their roles and responsibilities, Audit Committee Members can undertake their duties effectively and deliver them to a high standard, thereby adding to:

- the robustness of the risk management framework;
- the adequacy of the internal control environment and
- the integrity of the financial reporting and annual governance of the Council.

## 8. Recommendation

8.1 Audit Committee are asked to comment on and agree on the work programme for 2021/22.

Key Decision No

Do the Exempt Information Categories Apply? No

Call in and Urgency: **Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?** No

How many appendices does the report contain? Two

List of Background Papers: None

Lead Officer: Jaclyn Gibson, Chief Finance Officer  
Jaclyn.gibson@lincoln.gov.uk

**9.1 Audit Committee**

The Council will appoint an Audit Committee.

**9.2 Composition**

Audit Committee

- (a) The Audit Committee will comprise • seven Councillors • one independent member
- (b) The seven councillors of the Audit Committee should include the Chair of Performance Scrutiny Committee.
- (c) A member of the Executive may not be a member of this Committee

**9.3 Statement of purpose**

(a) The Audit Committee will have the following roles and functions:

- (b) The audit committee is a key component of the City of Lincoln's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- (c) The purpose of the Audit Committee is to provide independent assurance to the Council members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the City of Lincoln's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
- (d) To decide upon and authorise allowances to the Committee's Independent Member.

**Governance, risk and control**

- (a) To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- (b) To engage with relevant committees to help support ethical values and reviewing arrangements to achieve those values as appropriate
- (c) To appoint Lead Member to monitor and oversee Information Governance practices within the Council along with the Information Governance Board.
- (d) To monitor the effectiveness of the Authority's risk management Arrangements (development and operation),
- (e) To monitor the Council's anti-fraud and anti-corruption arrangements (including an assessment of fraud risks);
- (f) To monitor the counter-fraud strategy, actions and resources.
- (g) To monitor progress in addressing risk-related issues reported to the committee.
- (h) To maintain an overview of the Council's constitution in respect of contract procedure rules and financial procedure rules;
- (i) To review any issue referred to it by the Chief Executive, a Strategic Director, Monitoring Officer, Chief Financial Officer or any Council body as the Chair considers appropriate within the general Terms of Reference of the Committee
- (j) To review the Authority's assurance statements, including the Annual Governance Statement prior to approval, ensuring it properly reflects the risk environment and

supporting assurances (including internal audit's annual opinion on governance, risk and control)

- (k) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- (l) To review the Council's arrangements for corporate governance, including the local Code of Corporate Governance and agreeing necessary actions to ensure compliance with best practice (the good governance framework, including the ethical framework)
- (m) To review the governance and assurance arrangements for significant partnerships or collaborations.
- (n) To consider the Council's compliance with its own and other published standards and controls;
- (o) To report and make recommendations to Executive or Council on major issues and contraventions;
- (p) To have rights of access to other Committees of the Council and to strategic functions as it deems necessary.
- (q) To receive on an annual basis a report on the Treasury Management Strategy before approval by the Executive and Full Council.
- (r) To be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **Internal audit**

- (a) Receive and consider the annual report and opinion of the Internal Audit Manager including conformance with Internal Audit Standards
- (b) Review a summary of internal audit activity including internal audit reports on the effectiveness of internal controls, seeking assurance that action has been taken where necessary on the implementation of agreed actions;
- (c) To consider summaries of specific internal audit reports as requested by the Audit committee.
- (d) To Approve (but not direct) internal audit's risk-based annual audit plan including resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those sources.
- (e) Audit Committee Chair to approve significant interim changes to the risk based internal audit plan and resource requirements followed by report to Audit Committee.
- (f) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- (g) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments
- (h) To monitor audit performance, including QAIP results and any nonconformance with PSIAS and LGAN.
- (i) To consider whether the non-conformance is significant enough that it must be included in the AGS
- (j) Consider the annual review of effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations
- (k) To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years
- (l) To receive reports outlining the action taken where the Audit manager has concluded that management has accepted a level of risk that may be

unacceptable to the authority or there are concerns about progress with the implementation of agreed actions

(m) To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

(n) To have the right to call any officers or Members of the Council as required to offer explanation in the management of internal controls and risks.

(o) To approve the internal audit charter.

### **External audit**

(a) To consider the reports of external audit and inspection agencies, including the external auditor's annual letter, relevant reports, and the report to those charged with governance

(b) To consider specific reports as agreed with the external auditor.

(c) To advise and recommend on the effectiveness of relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

(d) To comment on the scope and depth of external audit work and to ensure it gives value for money.

(e) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

(f) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

(l) To commission work from internal and external audit, as required, and as resources allow;

### **Financial reporting**

(a) The Audit Committee, as the Committee "Charged with Governance" should consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts

(b) To review the annual statement of accounts. The Committee should consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

c) The Committee will monitor management action in response to any issues raised by external audit 151

### **Accountability arrangements**

(a) To report to full council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

### **9.4 Proceedings of the Audit Committee**

(1) The Audit Committee must conduct its proceedings in accordance with Rules 6-8, 12.3 to 12.7, 14 -17 and 18-28 (but not Rule 23.1 or 26 of the Council Procedure Rules set out in Part 4 of this Constitution.

### **9.5 Quorum**

#### **Audit Committee**

The quorum for any meeting of the Audit Committee shall be three Councillors.

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## AUDIT COMMITTEE AUDIT WORK PROGRAMME FOR 2021/22

Meeting dates	Audit Items – Revised Agenda	Training (Suggested)
10 <sup>th</sup> June		Training, Member Development
6 July 21	<ul style="list-style-type: none"> <li>• Annual Internal Audit Report</li> <li>• Annual Governance Statement (Draft)</li> <li>• Counter Fraud Policies – Counter Fraud Strategy</li> <li>• Annual Counter Fraud report</li> <li>• Code of Corporate Governance</li> <li>• External Audit - Audit Completion report (19/20)</li> <li>• External audit – annual audit letter (19-20)</li> <li>• Audit Committee Work Programme</li> <li>• Statement of Accounts 19/20</li> </ul>	
15 July 21	<ul style="list-style-type: none"> <li>• Grant audit – approval</li> </ul>	(Additional meeting)
22 July 21	<ul style="list-style-type: none"> <li>• External Audit Progress report</li> <li>• Internal Audit Progress report</li> <li>• Audit recommendations.</li> <li>• Risk Management Annual Update</li> <li>• Review of effectiveness (IA/Audit Committee)</li> <li>• Statement of Accounts (Draft)*</li> <li>• EQA report (approach)</li> <li>• Audit Committee Work Programme</li> </ul>	Local Government Financial Statements explained

23 Sept 21	<ul style="list-style-type: none"> <li>• Internal Audit progress report</li> <li>• Annual Complaints report</li> <li>• Information Governance Update</li> <li>• Audit Committee Work Programme</li> <li>• IT Disaster Recovery update report</li> <li>• Assessment of going concern status</li> </ul>	
14 Dec 21	<ul style="list-style-type: none"> <li>• Code of Corporate Governance (update)</li> <li>• Audit Committee Work Programme</li> <li>• Internal Audit progress report</li> <li>• Annual Governance Statement - monitoring</li> <li>• Audit recommendations report</li> <li>• Counter Fraud policies – Anti bribery policy review</li> <li>• Internal Audit Plan 21-22</li> <li>• Partnership Governance</li> <li>• Statement of Accounts (including Annual Governance Statement) (Final) –</li> <li>• External Audit – Audit Completion report (ISA 260 and Letter of Representation)</li> <li>• External Audit – Progress Report</li> </ul>	
1 Feb 22	<ul style="list-style-type: none"> <li>• Internal Audit Progress report</li> <li>• Treasury management policy and strategy (consultation prior to approval by Council)</li> <li>• <del>Code of Corporate Governance</del></li> <li>• <del>Counter fraud policies</del></li> <li>• <del>Terms of Reference review – Internal Audit (Audit Charter)</del></li> </ul>	<ul style="list-style-type: none"> <li>• Treasury Management</li> </ul>

	<ul style="list-style-type: none"> <li>• <del>Terms of Reference review – Audit Committee</del></li> <li>• <del>Audit / Audit Committee effectiveness</del></li> <li>• Audit Committee Work Programme</li> <li>• <del>CIPFA Financial Management Code Assessment</del></li> <li>• Outstanding Licensing Audit Recommendations</li> </ul>	
<p>22 Mar 22</p>	<ul style="list-style-type: none"> <li>• Internal Audit Progress report</li> <li>• Audit recommendations report</li> <li>• Combined Assurance report</li> <li>• Fraud risk register</li> <li>• Annual Governance Statement –update report</li> <li>• Internal Audit Strategy and Plan 22-23</li> <li>• <del>Risk Management Strategy / annual report</del></li> <li>• Statement on Accounting Policies</li> <li>• External Audit Inquiries – 20/21 Statement of Accounts (those charged with governance)</li> <li>• IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations</li> <li>• External Audit plan update report</li> <li>• Information Governance update</li> <li>• Audit Committee Work Programme</li> <li>• EQA final report</li> <li>• <del>Whistleblowing policy update 2021/2022</del></li> <li>• Partnership Governance</li> <li>• CIPFA Financial Management Code</li> </ul>	
<p>Date to be agreed</p>		<ul style="list-style-type: none"> <li>• <i>Counter Fraud (e-learning)</i></li> <li>• <i>Audit Committee effectiveness (general audit committee training and</i></li> </ul>

		<i>knowledge/skills)</i>
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*A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.*