

AUDIT COMMITTEE

Tuesday, 30 January 2024

6.00 pm

Committee Room 1, City Hall

Membership:	Councillors Chris Burke (Chair), David Clarkson, Thomas Dyer, Gary Hewson, Clare Smalley, Calum Watt and Emily Wood (Vice-Chair)
Substitute member(s):	Councillors Natasha Chapman, Martin Christopher, Pat Vaughan and Aiden Wells
Independent Member:	Jane Nellist
Officers attending:	Democratic Services, Jaclyn Gibson, Laura Shipley and Amanda Stanislawski

A G E N D A

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	
1. Confirmation of Minutes - 12 December 2023	3 - 10
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.	
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5. Prudential Indicators 2023/24 to 2026/27 and Treasury Management Strategy 2024/25	65 - 154
6. Anti-Bribery Policy	155 - 166
7. Review of the Effectiveness of the Audit Committee	167 - 202
8. Independent Member	203 - 206

Present:	Councillor Emily Wood (<i>in the Chair</i>)
Councillors:	David Clarkson, Thomas Dyer, Gary Hewson, Clare Smalley, Calum Watt and Pat Vaughan
Independent Member:	Jane Nellist
Apologies for Absence:	Councillor Chris Burke

31. Change to Order of Business

RESOLVED that the order of business be changed to run as follows:

- Confirmation of Minutes – 8 November 2023
- Declarations of Interest
- Information Governance Update
- Exclusion of Press and Public
- Information Governance Update
- Inclusion of Press and Public

The agenda to continue unchanged from item 3 of the agenda

32. Confirmation of Minutes - 8 November 2023

Councillor Vaughan commented that his attendance as a substitute at the meeting had not been recorded.

The Chair confirmed that minutes would be amended to reflect his attendance at the meeting.

RESOLVED that the minutes of the meeting held on 8 November 2023 be confirmed as a true record subject to the above amendment.

33. Matters Arising

Councillor Clarkson referred to minute number 30 and asked if the amount of compensation paid to Active Nation had been circulated to the committee.

Jaclyn Gibson, Chief Finance Officer advised the committee of the amount that had been paid to Active Nation in compensation.

34. Declarations of Interest

Councillor Pat Vaughan declared a Personal Interest with regard to the agenda item titled 'Internal Audit Progress Report'. His granddaughter worked in the Finance Department of the City of Lincoln Council.

35. Information Governance Update

Sally Brooks, Data Protection Officer:

- a) presented a report to update Audit Committee on progress made with Information Governance monitoring the Council's compliance with data protection legislation including the General Data Protection Regulation, the Data Protection Act 2018 and the Freedom of Information Act 2000
- b) highlighted that update reports were submitted to Audit Committee on a bi-annual basis. The last report was provided on 6 June 2023
- c) provided details of the following key areas:
 - Data Protection Training (Risk 1)
 - Data Protection Reform (Risk 3- Policies and Procedures)
 - Retention and Disposal of Personal Data (Risk 5)
 - Data Subject's Rights (Risk 8)
 - Freedom of Information Requests
 - Annual Governance Statement (AGS)
- d) invited members' questions and comments:

Question: Would the face to face data protection training for members replace the online training?

Response: Members could complete either face to face or online data protection training. Comments previously received from members were that they would like face to face training to be available.

Question: Would the training be held for members individually or as a group?

Response: An all member training session would be held in February 2024.

Question: What was meant by cleansing the staff list?

Response: It meant removing people from the staff list who no longer worked for the authority. This would help to achieve a higher and more accurate completion rate for the data protection training.

Question: Some of the outstanding audit recommendations referred to the issues identified in the data protection report. Had work been done to ensure that the dates linked up?

Response: They were all Council wide projects that had been discussed at internal working groups which ensured that the dates linked together.

Question: Had there been any incidents of the QR code scams at the City of Lincoln Council (CoLC) car parks?

Response: No, there had not been any incidents the CoLC car parks. Officers were aware that this had happened elsewhere and there had been discussions to look at ways that it could be prevented.

Question: Personal information was circulated to members and officers about individuals who had been placed on the red alert register. Were these individuals aware that their information was being circulated?

Response: Under the Data Protection Act information could be shared on safeguarding issues. The individual would receive a letter to inform them that they had been added to the red alert register.

Comment: Deliberate sharing of data by staff with malicious intent was not covered within the risks.

Response: Inappropriate sharing of data was covered within the malicious risk. Communication and training was provided to mitigate this risk. If an employee shared inappropriate data it would be addressed via HR processes.

RESOLVED that the content of the report be noted.

36. 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.

37. Information Governance Update - Appendix A

Minute number 35 included details of the discussion associated with this item.

(Only Appendix A Information Governance Risk Register was contained here as exempt information.)

RESOLVED that Appendix A (Exempt Information) be accepted.

38. Inclusion of Press and Public

RESOLVED that the press and public be included back into the meeting.

39. Internal Audit Progress Report

Amanda Stanislawski, Audit Manager:

- 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 July 2023 to November 2023, 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) updated that a Principal Auditor had been appointed and would start in February 2024. The Auditor post was currently out to recruitment and there had been more applications received than previous recruitment exercises
- e) invited members' questions and comments:

Question: Some of the audits within the Audit Plan did not have any details included. Could an update be provided?

Response: The audits that did not have details provided were still to be undertaken but had not yet been scheduled in.

Question: In future could there be an update provided for example “in discussion” being added to the table rather than leaving it blank.

Response: This would be considered.

Question: Was the Audit Plan on track for completion?

Response: Yes

Question: Would the team be fully staffed once the auditor post was appointed to?

Response: Yes, the team would be fully staffed.

Question: What was the difference between an Auditor and a Principal Auditor?

Response: The Principal Auditor would have more responsibilities and undertake more technical audits.

Question: In relation to Housing Repairs, were tenants informed of the reasons why a job had not been completed within the required timescale?

Response: Yes, tenants were made aware.

Question: Did you often find that policies were not reviewed in accordance with timescales?

Response: We asked for a table to be included at the end of a policy to clearly show when they had been reviewed and were due for next review. Sometimes we found that policies had been reviewed but there was no evidence of this.

RESOLVED that the report be accepted.

40. **Internal Audit Recommendations Follow Up**

Amanda Stanislawski, Audit Manager:

- a) presented an update to Audit Committee on outstanding agreed actions
- b) referred to Appendix A attached to the report which provided details of relevant audits, outstanding recommendations, agreed actions and the current position
- c) invited members' questions and comments:

Question: Were you happy with the progress being made with the recommendations?

Response: Yes there had been progress, the new process that had been implemented had helped.

Question: Did Officers need any support from the Committee?

Response: Not at the moment with the current recommendations.

Question: Did the issues with the Housing Allocations software relate to bespoke software or packaged software?

Response: It related to an upgrade of the current piece of software that was causing issues.

Question: Would it take two years for amendments to be made to the tenancy agreements for utility costs?

Response: Yes, due to consultation and legal timescales.

RESOLVED that the Audit Recommendations November 2023 be agreed.

41. Six Monthly Fraud and Error Report

Amanda Stanislawski, Audit Manager:

- a) presented a report to update committee on the performance against the 2023/24 Counter Fraud Work Plan and the outcomes of pro-active fraud work and investigations
- b) summarised the number of fraud cases during 2023/24 compared to the previous year as detailed at Appendix A
- c) gave an overview of the progress that had been made against completing the actions within the Counter Fraud Action Plan as detailed at paragraph 3.3 of the report
- d) further updated members on the following areas of work that had been undertaken as detailed within the report:
 - Housing Benefit/ Council Tax Support
 - Council Tax – Single Person Discount/ Empty Properties
 - NNDR
 - Housing Tenancy
 - Payroll and Human Resources
 - Other Fraud/Fraud Attempts
- e) invited members' questions and comments:

Question: When would members be receiving the face to face fraud training?

Response: When the training was made available by Lincolnshire Counter Fraud Partnership.

Question: Were there any slides from previous fraud training sessions that could be circulated to members whilst waiting for the face to face training to be delivered?

Response: The staff fraud training slides could be circulated to members following the meeting.

RESOLVED that the contents of the report be accepted.

42. Review of the Effectiveness of Internal Audit

Amanda Stanislawski, Audit Manager:

- a) presented a report to review the effectiveness of internal audit benchmarking against best practice and audit standards and the Chartered Institute of Public Finance and Accountancy (CIPFA) statement on the role of the Head of Internal Audit
- b) advised that the results of the review and progress on the action would be fed into the Annual Report and the Annual Governance Statement
- c) referred to Appendix A of the report which provided a summary of the assessment against the Public Sector Internal Audit Standards (PSIAS) and advised that overall the section conformed with most of the requirements

- d) explained that the action plan at Appendix C set out the improvements required to conform to all aspects of the PSIAS. This included improvements around the Quality Assurance and Improvement Programme (QAIP)
- e) highlighted the assessment against the CIPFA statement contained within Appendix B of the report. There was a good level of compliance overall and any improvements that were required had been included in the Action Plan at Appendix C of the report.

RESOLVED that the points raised from the review of effectiveness be noted.

43. Review of the Effectiveness of the Audit Committee

Jaclyn Gibson, Chief Finance Officer:

- a) presented a review of the effectiveness of the Audit Committee against the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on Audit Committees 2022
- b) advised that the results of the review and the progress on the actions would be fed into the Annual Report and the Annual Governance Statement
- c) explained that an initial review of the effectiveness of the Audit Committee had been carried out by the Chief Finance Officer and the Audit Manager and the results had been circulated to the Audit Committee Chair, Vice Chair, Leader of the Opposition and the Independent Member for comment
- d) advised that the next stage of the process was to hold a roundtable discussion with a group of the Audit Committee Members to feed into the final review document
- e) requested that the Committee select a group of four members to include the Chair of Audit Committee and at least one member from the non controlling groups to attend a roundtable discussion to finalise the document for presentation at the January Audit Committee.

RESOLVED that Councillor C Burke, Councillor Wood, Councillor Clarkson, Councillor Smalley and Jane Nellist be nominated to attend the roundtable discussion week commencing 8 January 2024.

44. Audit Committee Terms of Reference

Amanda Stanislawski, Audit Manager:

- a) presented a report to obtain comments on an update to the Audit Committee terms of reference, based on best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), prior to referral to Executive and subsequently Full Council for approval
- b) reported that the terms of reference should be amended to reflect a recent update by CIPFA on their guidance on Audit Committees

- c) outlined the main changes to the terms of reference as detailed at paragraph 4 and Appendices A and B of the report
- d) requested members' consideration of the revised terms of reference for Audit Committee.

Comment: CIPFA recommended that Audit Committees be chaired by an Independent Member, it would be easier to recruit an Independent Member if they were paid for chairing duties.

Response: It was not a recommendation of CIPFA that Audit Committees be chaired by an Independent Member. CIPFA provided guidance for best practice and not all suggestions had to be implemented

Question: CIPFA guidance was that the Chair of Audit committee could not be a member of Executive within the last 2 years. The Chair of this committee was a member of Executive six months ago.

Response: Officers identified this as part of the recent assessment. We were not aware at the time when the Chairs of committees were allocated. This was guidance and was more easily implemented in larger authorities with a greater number of elected members. However, the guidance would be taken into consideration in the future.

Question: Could members be provided with a copy of the CIPFA Guidance?

Response: All of the documentation would be provided to members of the roundtable discussion group.

Comment: It would be good to recruit a second Independent Member.

Response: A second Independent Member would be good from a backup perspective.

Comment: An Independent Member as Chair would provide continuity for the committee when elections took place.

Question: "The Chair of Performance Scrutiny Committee should be a member on the Audit Committee" had been removed from the Terms of Reference. Could that member still sit on Audit Committee?

Response: Yes, they could still be a member of Audit Committee.

Question: Why would approval from the Chair be needed to review issues referred to the Audit Committee. Could the Chair prevent items being added to the agenda?

Response: The Chair ultimately agreed the agenda. However, the Audit Manager did have a right to call a private meeting with the committee if there were concerns.

The committee discussed in detail whether to have an Independent Member as Chair, it was put to the vote and decided that an Independent Member as Chair would not be investigated.

RESOLVED that

1. The revised terms of reference be agreed and referred to Executive and subsequently Full Council for adoption.
2. That an additional Independent Member be appointed to the Audit Committee.

45. 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 2023/24 as detailed at Appendix B of the report.
- b) referred to paragraph 3 of the report which highlighted the changes to the work programme.
- c) advised that the Audit Committee Terms of Reference was attached at Appendix A of the report for information.

The committee considered the contents of the report.

RESOLVED that the contents of the Audit Committee work programme 2023/24 be noted.

SUBJECT: EXTERNAL AUDIT – ANNUAL AUDITOR’S REPORT 2021/22

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 To receive and comment on the Annual Auditor’s Report for 2021/22, attached as Appendix A.

2. Executive Summary

- 2.1 The Annual Auditor’s Report summarises the outcome of the 2021/22 external audit of City of Lincoln Council.
- 2.2 Although the report is addressed to the Council, it is also designed to be read by a wider audience, including members of the public and other external stakeholders. A copy will therefore be placed on the Council’s website.
- 2.3 The annual audit itself covers the Statement of Accounts for 2021/22, Value for Money (VFM) arrangements and wider reporting responsibilities.
- 2.4 The report will be presented at the meeting by the Council’s External Auditors for 2021/22, Mazars.

3. Strategic Priorities

- 3.1 There are no direct implications for the Council’s strategic priorities. The external audit of the Council’s financial statements is a statutory requirement and as such contributes towards the fitness for purpose of the Council’s governance arrangements.

4. Organisational Impacts

- 4.1 Finance (including whole life costs where applicable)

The planned fee in respect of work under the Code of Audit Practice for 2021/22 was £36,332, in addition Mazars have applied a fee variation to cover additional work required; to reflect the Council’s designation as a EU Public Interest Entity; for additional testing as a result of changes rising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme; for additional testing as a result of new auditing standards, for additional testing as a result of the pension triennial valuation; and additional work as a result of the new Code of Audit Practice and VFM reporting. These additional fees are estimated to be £25,660, bringing the total fee for 2021/22 to £61,992.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications. The External Auditor is required to satisfy themselves that the Council's accounts comply with statutory requirements and that proper practices have been observed in compiling them.

4.3 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

There are no specific equality, diversity and human rights issues arising as result of this report.

5. Risk Implications

- 5.1 There are no specific risk implications arising as a direct result of this report. The Annual Auditor's Report sets out the key risks, as identified by the External Auditor, relevant to the audit of the financial statements, the work that was carried out on those risks and their conclusions.

6. Recommendation

- 6.1 The Audit Committee are asked to note and comment on the attached Annual Auditor's 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? One

List of Background Papers: None

Lead Officer: Jaclyn Gibson, Chief Finance Officer
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Auditor's Annual Report

City of Lincoln Council – year ended 31
March 2022

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January 2024



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for City of Lincoln Council (‘the Council’) for the year ended 31 March 2022. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

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Opinion on the financial statements

We issued our audit report on 13 December 2023. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued, on 13 December 2023, we reported that we had not completed our work on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council’s arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



Wider reporting responsibilities

The National Audit Office has not yet finalised their requirements in relation to the Council’s Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Council’s financial statements.



02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

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

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2022 and of its financial performance for the year then ended.

Our Audit Completion Report to the November 2022 Audit Committee included an update on the audit status, our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit.

The issue of the audit opinion was though significantly delayed beyond November 2022 due to a national issue relating to the Pension Fund 2022 Triennial Valuation which impacted all audits which were in progress when the valuations were reported in March 2023. The valuations showed material movements in the estimated 31 March 2022 net liability valuation, largely due to updated membership details. The Regulators and audit suppliers confirmed in May 2023 the way forward to address this. Councils were required to obtain updated IAS19 valuation reports and amend the draft financial statements for the new figures. Pension Fund auditors also needed to complete testing on the reliability and accuracy of the updated pension fund membership data used by the Actuary as part of the 2022 Triennial valuation. The additional work was completed in September 2023 and the adjustments required to the draft financial statements agreed with Management.

We issued a follow-up letter to our Audit Completion Report in September 2023 which updated the Audit Committee on the matters originally reported in November 2022 and the matters identified since then. Our audit report, issued on 13 December 2023 gave an unqualified opinion on the updated financial statements for the year ended 31 March 2022.

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary

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3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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

Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services

Governance - How the Council ensures that it makes informed decisions and properly manages its risks

Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. We did not identify any risks of significant weakness, or actual significant weakness, in the Council's arrangements.

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Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	11	No	No
Governance	14	No	No
Improving economy, efficiency and effectiveness	17	No	No

3. VFM arrangements – Overall summary

Context of the Auditor’s Annual Report

Our Auditor’s Annual Report summarises the work we undertook as the auditor for City of Lincoln Council for the year ended 31 March 2022. At the time of reporting in December 2023 we recognise that the social, political and economic environment has continued to change and local government is facing significant ongoing challenges including:

- **Cost of Living:** With most people experiencing financial pressure, spending habits are changing. High energy costs and increasing food prices have impacted on levels of disposable income. With wage (and potentially benefit) increases failing to keep pace with inflation, more people will be facing hardship.
- **Added budget pressures:** With inflation soaring, the cost of goods, services and resources are becoming more expensive. Local authorities are not immune to the increasing cost of energy supply, although the government announcements on energy caps help, many local authorities are still facing higher costs. Local authorities typically budget for modest salary increases year on year, but expectations and demands on salary increases have changed and consideration on how they are to be funded is required.
- **Cost of Borrowing:** After a long period of low rates the Bank of England base rate rose from 0.25% at the start of 2021/22 to 5.25% at August 2023 (where it remains) meaning that the cost of borrowing has increased significantly.
- **Contractors and Suppliers:** The cost-of-living crisis has resulted in business failures. Although government support has been announced, some businesses will continue to struggle, with a greater risk of supplier failure. Supply failures anywhere in the supply chain will have a knock-on effect.
- **Service Delivery:** Likely budget reductions and savings plans are going to impact the ability of local authority services to maintain levels of delivery, particularly at a time of increased demand.

We maintain a watching brief over the key issues facing the Council and, should we identify a risk of significant weakness in arrangements, will follow the process as described at page 9 to promptly raise these with management and issue any reports to the Audit Committee as part of our reporting on the arrangements for 2022/23.

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3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the Council’s operating environment in 2021/22

The Council entered 2021/22 with the Covid-19 pandemic still significantly impacting daily lives although the national restrictions and safety measures were steadily being relaxed as the Country sought to recover from a very difficult period. The Council was continuing to deal with a wide range of issues to support local residents and businesses and had an improving understanding of the issues faced in the emerging post-pandemic environment.

2021/22 Financial statement performance

We have carried out a high level analysis of the audited financial statements, including the Comprehensive Income and Expenditure Statement, the Balance Sheet and Movement in Reserves Statement.

The Council's financial position as reported in the balance sheet does not give us cause for concern relating to financial stability. Net current assets were £17.4m (£19.7m at end of previous year), with cash and short term investments increasing by £15.2m.

The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability (being a deficit position) of £84.9m, down from £106.1m in the prior year. This reflects the £5.1m reduction in the estimated present value of the pension obligation and the £16.0m increase in the estimated Council's share of the Pension Fund assets. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of longer term financial challenge for local authorities.

The Council's useable reserves totalled £50.1m at the end of 2021/22 (£52.4m at the end of the previous year), with:

- General Fund and Earmarked Reserves of £21.2m (£28.7m in previous year); and
- Capital Receipts and Grants Reserves of £7.8m (£8.5m in previous year)
- Housing Revenue Account Balances of £21.1m (£15.2m in previous year).

These reserves provide some mitigation against future financial challenges, and include specific reserves

(COVID Recovery Reserve £1.1m, COVID Response Reserve £0.3m Invest to Save Reserves £0.4m, Vision2025 £0.7m) to address future volatility, investment and support savings and efficiencies plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps. Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council's arrangements for ensuring financial sustainability.

Financial planning and monitoring arrangements

In March 2021 the Council set balanced General Fund and Housing Revenue Account budgets for the 2021/22 financial year. During the year the Council reported its financial position through the quarterly financial performance reports and the Executive and Performance Scrutiny Committee maintained close oversight on performance. We reviewed a sample of reports presented for 2021/22, which contain detail on any significant variances to budget and budget revisions, use of earmarked reserves and updates on performance against savings targets. The reports also contain relevant information on progress against the approved capital programme. We have further considered the arrangements in place in respect of budget management as part of the Governance criteria on page 14 and not identified any significant weaknesses.

Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Strategy (MTFS) is a current plus four year plan which sets out the Council's commitment to provide services that meet the needs of people locally and that represent good value for money within the overall resources available to it. A key part of the strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to both capital and revenue spending as well as assessing sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFS is prepared alongside other plans and strategies (for example the workforce planning and Capital and Investment Strategies). There is a process in place for challenging any growth items and agreeing the achievability of planned savings.

There is a 30 year Housing Business Plan in place to shape the Council's Housing service. The Business Plan is linked to the Council's MTFS and Capital Strategy.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Arrangements and approach to 2022/23 financial planning

The arrangements for the 2022/23 budget setting process largely followed the arrangements in place for 2021/22.

Balanced 2022/23 General Fund and Housing Revenue Account budgets were approved at the March 2022 Council meeting with any required savings expected to be covered by actions in hand.

The Executive has reviewed budget performance, progress against the savings programme and approved any budget updates as part of its quarterly reviews during 2021/22. We have reviewed these reports and not identified any significant concerns regarding the 2021/22 financial plans and performance to date which indicate weaknesses in the Council's arrangements. There was an acknowledgement in preparing the MTFP that the roll over of the Local Government Funding Settlement meant that some of the expected changes from the Fair Funding Review and in relation to New Homes Bonus and any Business Rates reset were not enforced. **On** changes in these areas were regarded as a risk through expected loss of funding so their deferral represented a gain to the Council's immediate financial position.

Alongside this the report highlights the challenging national economic position with pay and price inflation, particularly for fuel and utilities, already high and forecast to rise to increase to potentially record levels. These factors and the continuing uncertainty makes strategic financial planning difficult for Councils. The Council has delivered significant savings over the life of its Towards Financial Sustainability Programme and the MTFS acknowledges the increasing difficulty in finding additional efficiency savings. The Programme focuses on the two strands of exploiting opportunities through 'One Council' working, and withdrawing from or reducing the level of service in non-priority or unaffordable areas. The updated MTFS approved in March 2022 identified that the savings requirement by 2026/27 was around £1.5m, with £0.8m already delivered. As described above, the Council has established reserves to support its planned transformation and savings process, has identified the need to invest in regeneration and growth to increase the underlying tax bases. and is focused on measures to reduce it's net cost base to ensure it has a sound and sustainable financial position.

The Executive and Performance Scrutiny Committee quarterly monitoring process has continued throughout 2022/23, a period in which inflation, increasing energy prices and nationally agreed pay settlements placed significant cost pressures on the Council's budgets. At the end of Q2 these and other factors were contributing to a forecast General Fund deficit for the year of £0.9m. The Council took a number of steps to mitigate these difficulties and at the end of Q2 the 2022/23 forecast deficit had improved to £70k. The report sets out the

budget risks going forwards and summarises progress against the capital programme and the steps being taken to rephase the profile of the projects to reflect the updated expected delivery timescale.

Based on the above considerations we are satisfied there are no significant weaknesses in the Council's arrangements in relation to financial sustainability.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. Management monitor controls and processes through supervisory reviews, checks and system reporting. There are Strategic and Directorate Risk Registers in place, together with specific programme and project registers for major initiatives. The Strategic Risk Register is kept up to date by the Corporate Leadership Team and reported to the Executive. The Strategic Risk Register is reviewed to ensure it reflects the circumstances in which the Council operates and the different challenges and opportunities it faces. The Audit Committee reviews the effectiveness of the Council's arrangements and receives an annual risk management report.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Council has an Internal Audit team, which also works in partnership with Assurance Lincolnshire to deliver internal audit services to other councils. The Audit Manager acts as Head of Internal Audit and the service has been externally assessed against the Public Sector Internal Audit Standards. The annual Internal Audit plan is reviewed and agreed by the Audit Committee at the start of the year.

The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2021/22 and 2022/23 and confirmed they are consistent with the risk based approach.

Internal Audit progress reports are presented to each Audit Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Audit Manager (as Head of Internal Audit) provides an Annual Report including an opinion, based on the work completed during the year, on the overall adequacy and effectiveness of the council's control environment. For 2021/22 the Audit Manager concluded that the Governance, Risk, Internal Control and Financial Control arrangements were 'performing well' and there were no concerns that significantly affected the governance framework and successful delivery of the Council priorities. Internal control was assessed as 'performing adequately', based on the ratings for the reports issued in they year. These 2021/22 ratings were unchanged from the previous year.

The Council has a Counter Fraud Policy and a Whistle Blowing Policy. These policies and the Fraud Risk Register have been reviewed by the Audit Committee during 2021/22. The Council carries out proactive anti-

fraud work and partakes in the bi-annual National Fraud Initiative. The Council is a member of the Lincolnshire Counter-Fraud Partnership. We have reviewed the counter fraud arrangements in place for 2021/22 and have not identified any significant concerns.

Throughout the year we have attended Audit Committee meetings and confirmed that the committee receive regular updates on both internal audit progress and risk management. We have seen active Member engagement from the Audit Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the budget setting rules and financial procedures. The framework includes:

- Clear responsibilities, including the role of the Section 151 Officer in leading the budget setting process and providing professional advice, and the reservation of the approval of the Budget to the Council.
- Budget setting guidance to managers, with the process normally starting well ahead of the year-end to get an early understanding of the key relevant factors and future budget requirements. Although existing budgets are in most cases used as a basis determining the next year's estimates they are not merely rolled forward with early challenge to staff number assumptions and growth and savings proposals.
- Close working between the finance team and with external advisors and neighbouring councils to agree the key budget assumptions, which are challenged and agreed through the budget review process by Management, Executive and Council.

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team. Budget monitoring reports are produced on a monthly basis and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. Budget holders have on-line access to live financial information through the general ledger. There are rules in place regarding the reporting of budget variances and budget changes.

There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting. The Treasury Management, Capital and Investment Strategies are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

Arrangements for budget setting and budgetary control (continued)

Quarterly Financial performance monitoring reports are presented to the Departmental and Corporate Management Teams, Performance Scrutiny Committee and then the Executive. The reports cover General Fund, Housing Revenue Account and Housing Repairs Service spend and income to date and forecast against budget and Capital Programme progress. Forecasted significant variations are investigated and reported on, together with any corrective action being taken. The reports also cover progress against savings targets and planned use of or contributions to reserves. The finance reports are presented alongside quarterly service performance reports so they can be reviewed against the relevant operational context. Our review of the relevant meeting minutes confirmed there was challenge and scrutiny of the process.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the FM code was 2021/22. We reviewed the Chief Finance Officer's report to the Audit Committee setting out their assessment of the Council's compliance in 2021/22 with the standards set out in the Code, and considered the disclosures made in the 2021/22 Annual Governance Statement. The assessments show that the Council complies with the majority of the Code requirements already and management is continuing to work to address the small number of areas for improvement identified. The Audit Committee received an update on continuing progress at its March 2023 meeting and no significant weaknesses were identified.

Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). We reviewed the AGS and observed the Audit Committee's review of the AGS and monitoring of actions throughout the year in relation to any significant governance issues.

The governance structure, as described in the AGS includes the Council's Code of Corporate Governance, the Constitution and the scheme of delegation which shows the levels of authority required for all key decisions, the Council's Strategic Plan (Vision 2025) and supporting delivery plans.

The Council's Code of Corporate Governance sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The Code identifies the arrangements in place to enable the Council to meet the good governance principles identified. The Code has

been reviewed and updated in 2022 and 2023. There are arrangements in place for ensuring Councillors are aware of the behaviours expected under the Member Code of Conduct, and for investigating and considering any complaints made about Councillors. The Member code of Conduct is overseen by the Ethics and Engagement Committee.

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution includes the Budget and Policy Framework Procedure Rules, Financial and Contract Procedure Rules, Officer Employment Procedure rules, and the Member and Officer Codes of Conduct. The Constitution also sets out the rules and process for Decisions to be 'called in' by Committees.

The Scrutiny Committee arrangements have been shaped to reflect Council priorities with there being four themed Committees to review and scrutinise the discharge of the Executive's functions and the effectiveness of the Council's functions. The Audit Committee provides further focus on risk, governance and control matters. The Scrutiny Committees have work programmes in place to steer their coverage of services and Executive key decisions and issue Annual Reports on their activities. We have reviewed the Scrutiny Committees' minutes throughout the year and not identified any concerns.

Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council's governance arrangements. We reviewed the Local Government and Social Care Ombudsman's (LGSCO) 2021/22 report The report does not highlight any significant concerns in relation to the Council's governance arrangements.

Based on the above considerations we are satisfied there are no significant weaknesses in the Council's arrangements in relation to governance.

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Performance Management

The Council's Strategic Plan, Vision 2025, sets out the Council's priorities and objectives for the five year period covered by the plan, including the values which underpin the overarching vision of 'delivering Lincoln's ambitious future'. The Plan provides a basis for Council's service and financial planning arrangements. The Vision has 5 strategic priorities which cover economic growth, inequality, housing, climate change and 'place'. The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation.

The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. The Vision 2025 Annual Delivery Plan feeds directly into service plans. The Council has a Performance Information Management System. It holds a set of 82 measures which are assessed quarterly or annually. There is quarterly reporting on these measures, alongside the quarterly budget monitoring, to the Performance Scrutiny Committee and Executive. These quarterly reports take the form of a dashboard and identify whether the performance is acceptable, above or below target. The quarterly reports include an appropriate commentary to explain any significant factors which are affecting performance and actions being taken to correct performance.

On an annual basis, the Council's overall performance is summarised in the Narrative Report as part of the Statement of Accounts. This outlines the Council's progress against its ambitions, highlighting key actions that have been made in response to their progress. This provides the public with an overall assessment of the Council activities for the financial year.

We have reviewed a sample of the quarterly performance reports and the Executive and Performance Scrutiny minutes which show member challenge of the reported performance. The quarterly reports demonstrate that performance has been managed throughout the 2021/22 year and any significant variances have been justified, with no major unexpected gaps in performance at the year end. The performance management framework has continued to operate as expected in 2022/23. The latest performance reports do not highlight any major concerns, with management focused on improving any areas at risk of not being on target by the end of the year. Overall, we believe there is sufficient evidence to demonstrate adequate arrangements for performance monitoring and management at the Council.

Partnerships

There are a number of significant partnership arrangements in place, through which the Council works to deliver services in line with its ambitions and priorities. These include a collaborative arrangement with North Kesteven and West Lindsey District Councils to provide the Central Lincolnshire Joint Planning Unit as well as an arrangement with North Kesteven to provide a shared Revenue and Benefits Service. This shared service is hosted by the City of Lincoln Council. Both of these arrangements are governed through a Joint Committee representing each of the partner authorities. There is Partnership Guidance in place to support managers and provide a framework for the Council's work with partners. Mechanisms have been established to manage the performance of the authority's significant Partnerships and for the Audit Committee to consider annual assurance assessments. The Council is the accountable body for the Lincoln Town Deal programme and governance and performance management arrangements have been established to progress the associated projects. We reviewed a sample of the minutes and reports of the Town Deal Board during 2021/22 and to date and not identified any concerns regarding the arrangements in place.

Procurement

The Council's Contract Procedure Rules form part of the Council's Constitution, this takes into account latest legislative and operational changes at the Council, and provide a corporate framework for the procurement of goods, works and services. This is set to be reviewed in light of the Transforming Public Procurement Green Paper. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability. The Council's Internal Audit team gave an 'substantial' assurance rating following their latest review of the Procurement Service. There are regular contract management meetings lead by council officers to ensure major contracts are being delivered as expected and if needed to escalate any concerns at an early stage. Post implementation reviews are regularly carried out by officers on specific major projects to ensure the expected benefits have been achieved and any significant lessons learned to inform future contracts.

Based on the above considerations we are satisfied there are no significant weaknesses in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

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

We have not yet completed the procedures required by the National Audit Office in relation to the Council's Whole of Government Accounts. We will update the Council when this work has been completed.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum and Audit Completion Report presented to the Audit Committee in July and December 2021 respectively. We expect our final audit fees to be as follows.

Area of work	2020/21 fees	2021/22 fees
Scale fee in respect of our work under the Code of Audit Practice	36,332	36,332
Additional work to reflect the Council's designation as a Public Interest Entity	5,000	5,000
Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme	7,067	7,100
Additional testing as a result of the implementation of new auditing standards	2,800	2,800
Additional testing as a result of the pension triennial valuation	-	3,900
Additional testing as a result of COVID-19 grant income	1,500	-
Additional work as a result of the new Code of Audit Practice and VFM reporting	9,293	8,000
Total fees	61,992	63,132

* Fee variations subject to approval and confirmation by Public Sector Audit Appointments Limited.

4. Other reporting responsibilities and our fees

Fees for other work

We confirm that we undertook the following non-audit services for the Council in the year.

Certification of the 2020/21 Housing Benefit Subsidy Claim	£6,900
Pooling of 2020/21 Housing Capital Receipts Return	£3,250

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*where permitted under applicable country laws.

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SUBJECT: EXTERNAL AUDIT – ANNUAL AUDITOR’S REPORT 2022/23

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 To receive and comment on the Annual Auditor’s Report for 2022/23, attached as Appendix A.

2. Executive Summary

- 2.1 The Annual Auditor’s Report summarises the outcome of the 2022/23 external audit of City of Lincoln Council.
- 2.2 Although the report is addressed to the Council, it is also designed to be read by a wider audience, including members of the public and other external stakeholders. A copy will therefore be placed on the Council’s website.
- 2.3 The annual audit itself covers the Statement of Accounts for 2022/23, Value for Money (VFM) arrangements and wider reporting responsibilities.
- 2.4 The report will be presented at the meeting by the Council’s External Auditors for 2022/23, Mazars.

3. Strategic Priorities

- 3.1 There are no direct implications for the Council’s strategic priorities. The external audit of the Council’s financial statements is a statutory requirement and as such contributes towards the fitness for purpose of the Council’s governance arrangements.

4. Organisational Impacts

- 4.1 Finance (including whole life costs where applicable)

The planned fee in respect of work under the Code of Audit Practice for 2022/23 was £50,920, in addition Mazars have applied a fee variation to cover additional work required; from the introduction of new auditing standards (ISA 540 estimates); from the introduction of new auditing standards (ISA 315); and in respect of the VFM commentary. These additional fees are estimated to be £15,300, bringing the total fee for 2022/23 to £66,220.

- 4.2 Legal Implications including Procurement Rules

There are no direct legal implications. The External Auditor is required to satisfy themselves that the Council’s accounts comply with statutory requirements and

that proper practices have been observed in compiling them.

4.3 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

There are no specific equality, diversity and human rights issues arising as result of this report.

5. Risk Implications

- 5.1 There are no specific risk implications arising as a direct result of this report. The Annual Auditor's Report sets out the key risks, as identified by the External Auditor, relevant to the audit of the financial statements, the work that was carried out on those risks and their conclusions.

6. Recommendation

- 6.1 The Audit Committee are asked to note and comment on the attached Annual Auditor's 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? One

List of Background Papers: None

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

Auditor's Annual Report

City of Lincoln Council – year ended 31
March 2023

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January 2024



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- 02 [Audit of the financial statements](#)
- 03 [Commentary on VFM arrangements](#)
- 4004 [Other reporting responsibilities](#)

[Appendix A: Further information on our audit of the financial statements](#)

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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01

Section 01: **Introduction**


1. Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for the City of Lincoln Council (‘the Council’) for the year ended 31 March 2023. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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


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Opinion on the financial statements


Our audit report, issued 22 December 2023, gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

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



Value for Money arrangements

In our audit report, we reported that we had not completed our work on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council’s arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



Wider reporting responsibilities

At the date of reporting our work on the Council’s Whole of Government Accounts return remains incomplete whilst we wait for final instructions from the National Audit Office

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

At Appendix A, we have set out the main financial statement risks addressed in our audit – detailed findings were presented to the Audit Committee.

In the table below, we set out the main audit outcomes for 2022/23.

Audit Area	Outcomes
Financial Statements	<p>The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2023 and of its financial performance for the year then ended.</p> <p>Our audit report, issued in December 2023, gave an unqualified opinion on the financial statements for the year ended 31 March 2023.</p>
Qualitative aspects of the Council's accounting practices	<p>We reviewed the Council's accounting policies and disclosures and concluded they complied with the 2022/23 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.</p>
Internal Control Recommendations	<p>As part of our audit, we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We did not identify any 'High – level 3' recommendations for 2022/23.</p>
Annual Governance Statement	<p>We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.</p>
Wider responsibilities	<p>Our powers and responsibilities under the 2014 Act are broad and include the ability to:</p> <ul style="list-style-type: none">• issue a report in the public interest;• make statutory recommendations that must be considered and responded to publicly;• apply to the court for a declaration that an item of account is contrary to law; and• issue an advisory notice under schedule 8 of the 2014 Act. <p>We have not exercised any of these powers as part of our 2022/23 audit.</p>

03

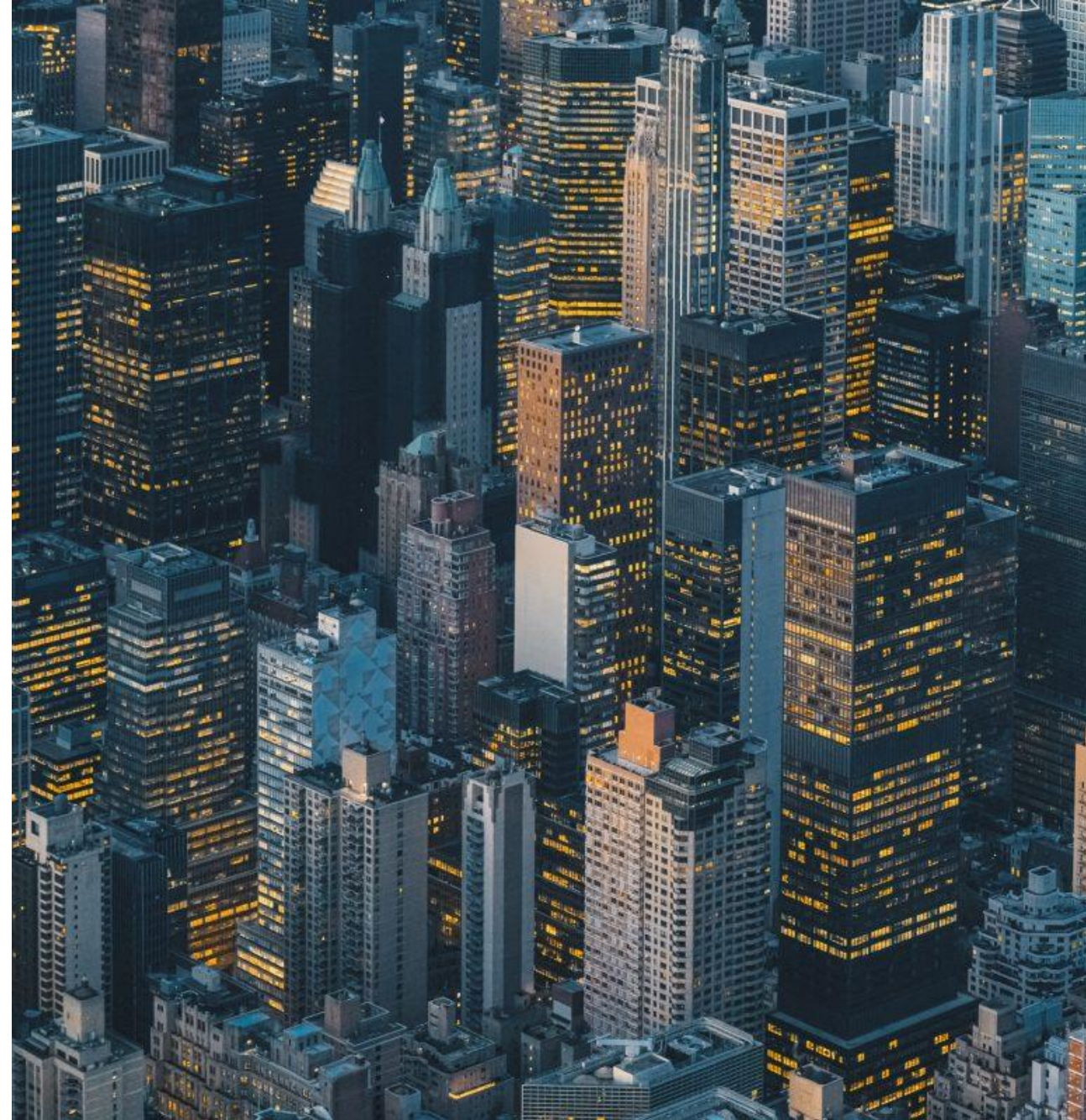
Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary

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3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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



Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services



Governance - How the Council ensures that it makes informed decisions and properly manages its risks



Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria		Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
	Financial sustainability	11	No	No	No
48 	Governance	15	No	No	No
	Improving economy, efficiency and effectiveness	18	No	No	No

3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Significant weakness in 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

Position brought forward from 2021/22

We reported in our Annual Auditor’s Report for 2021/22, that we had:

- Reviewed the 2021/22 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements;
- Reviewed the 2022/23 General Fund and Housing Revenue Account Budget.
- Reviewed the Council's Annual governance Statement for any significant issues; and
- Considered the general findings from our audit work in other areas.

As set out in the table above, there are no indications of a significant weakness in the Council’s arrangements for financial sustainability brought forward from 2021/22. The Council’s underlying arrangements in relation to financial sustainability are not significantly different in 2022/23.

Overall responsibilities for financial governance

We have reviewed the Council’s overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2022/23. These confirm the Council undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plans to best meet the needs of the Council’s service users.

The Council’s financial planning and monitoring arrangements

Through our review of Council and committee reports, meetings with Officers and relevant work performed on the financial statements, we are satisfied that the Council’s arrangements for budget monitoring remain appropriate, including regular reporting to Members and well-established arrangements for year-end financial reporting.

2022/23 Budget Setting and the Medium-Term Financial Strategy

We considered the 2022/23 budget setting process, including the Medium Term Financial Strategy as part of our work on the 2021/22 review of arrangements, with no significant concerns arising. We were satisfied that, the Budget Report for 2022/23 adequately explains revenue and capital budgets, with a sufficient link to specific business units, as well as an explanation on the impact to the general fund balance. The Council reported its financial outturn position in the 2022/23 Statement of Accounts, which highlighted a total net budget variance of £1k after making an additional £157k contribution to general fund balances (£218k actual vs £61k planned).

There is no indication of excessive use of capital flexibilities to support revenue expenditure, nor has our work on the financial statements highlighted any concerns regarding the Council’s policy for setting the Minimum Revenue Provision. Furthermore, there is no indication that the Council’s Medium Term Financial Strategy and budget setting process is not aligned to supporting plans given the Council has a track record of delivering against budget.

2022/23 Statement of Financial Position

We carried out a high-level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement and the Balance Sheet, our work to date has not highlighted any risks of significant weakness in arrangements or indicators of a risk to the Council’s financial sustainability.

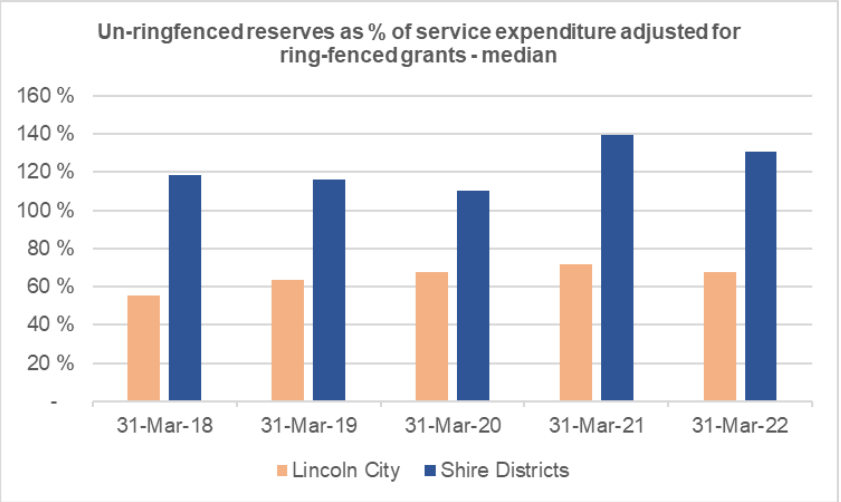
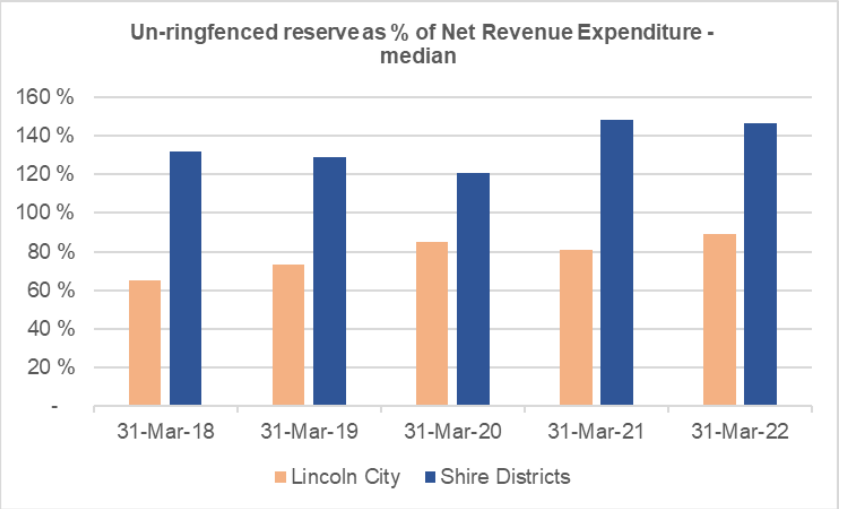
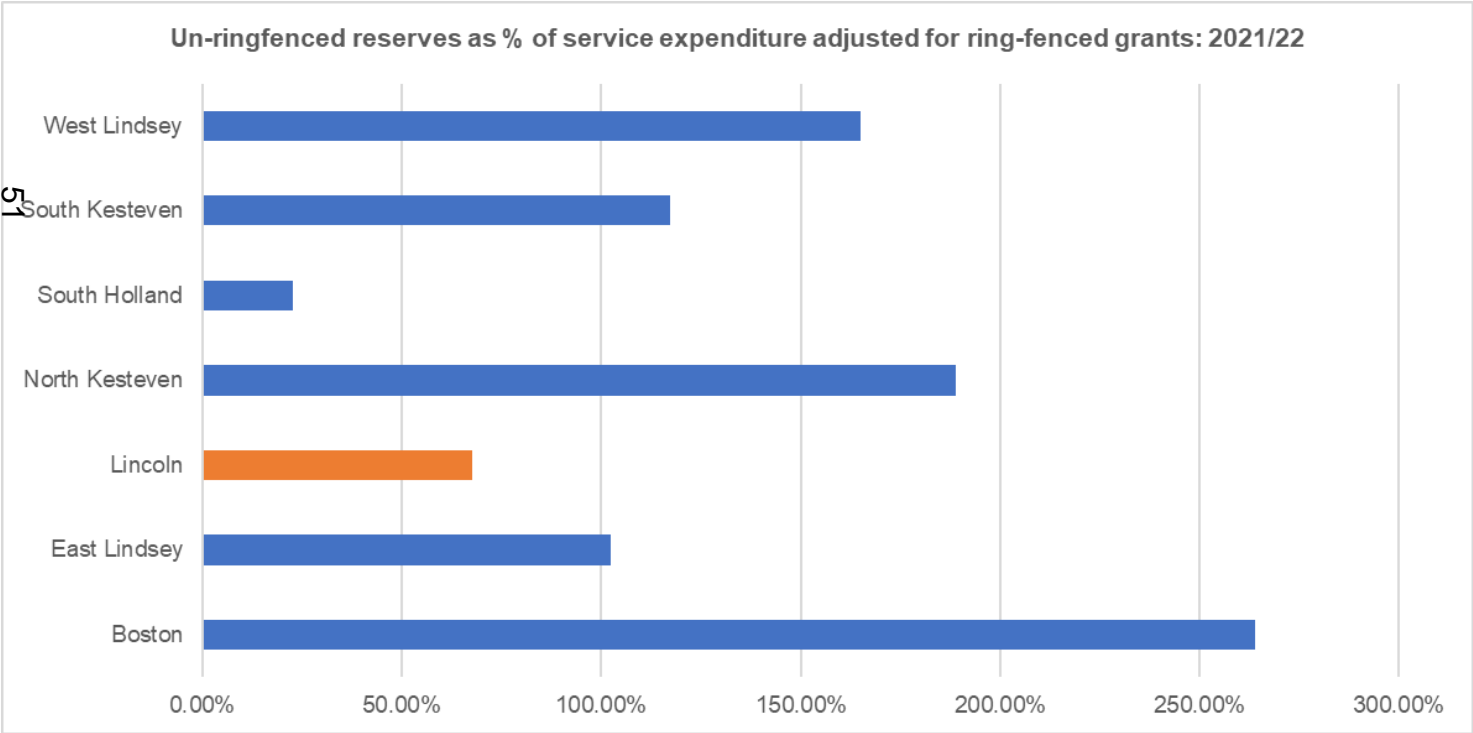
In 2022/23, the Council spent £19.4m on capital additions per Note 15 of the financial. Our testing of these balances did not identify any concerns relating to the Council’s arrangements.

VFM arrangements – Financial Sustainability

Financial sustainability and revenue reserves

We have also performed a more detailed review of the Council's revenue reserves. We reviewed data published in May 2023 by the Department for Levelling Up, Housing and Communities on Local authority general fund earmarked and unallocated reserve levels, 2017-18 to 2021-22.

The Council's reserves have generally been below the median compared to shire districts since 2018 (charts right), and lower than most other Lincolnshire district councils.



Details on the definitions and data quality arrangements are available here: <https://www.gov.uk/government/publications/local-authority-general-fund-earmarked-and-unallocated-reserve-levels-2017-18-to-2021-22>

VFM arrangements – Financial Sustainability

Financial sustainability and reserves (continued)

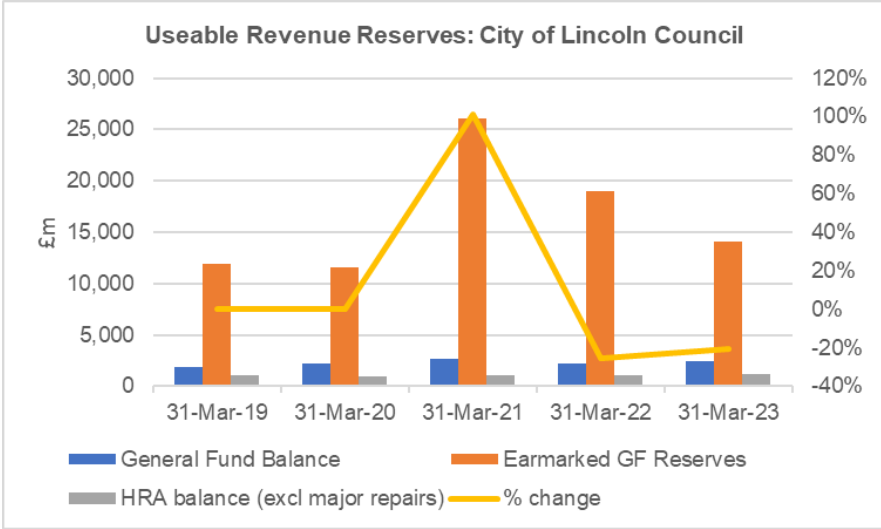
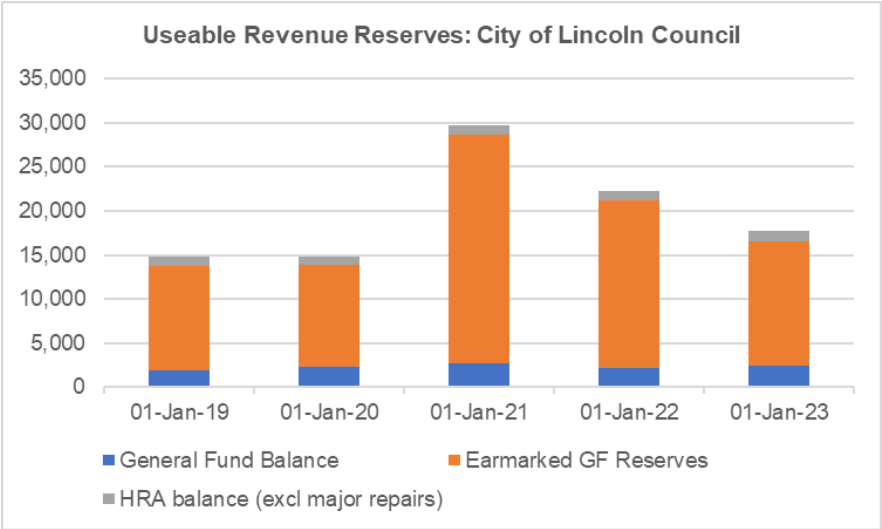
The purpose of the Council’s general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to ‘smooth’ expenditure on a one-off basis across years. Whereas earmarked reserves, are set aside for specific purposes.

Through a review of the financial statements, we have considered the Council’s revenue reserves over time:

- As set out on the previous page, the Council’s opening revenue reserves are slightly below the median for district councils.
- Whilst reserves remain relatively stable, they are finite. The Council’s General Fund Balance has increased by 30% since 31 March 2019 from £1.8m to £2.4m, but overall revenue reserves are decreasing.

Overall, we are satisfied that the Council’s Reserves position does not give rise to an immediate risk of significant weakness in arrangements to secure financial sustainability but is something that needs to be monitored and managed through savings programmes going forwards.

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Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to financial sustainability for the year ended 31 March 2023.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

53



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Significant weakness in 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Council’s arrangements for financial sustainability brought forward from the previous year.

The Authority’s governance structure

Based on our work, we are satisfied that the Council has established governance arrangements, consistent with previous years, in place. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit.

Our review of corporate governance arrangements confirms the Council has an agreed Constitution, setting out how it operates, how decisions are reached and what procedures are followed to ensure that these are transparent and accountable to local people.

Our review of Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, risks, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

2023/24 Budget Setting and the Medium-Term Financial Strategy

The Council’s budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year audits. The arrangements in place for budget setting and updating the Medium-Term Financial Strategy are as expected for a District Council, with arrangements for: consultation, scrutiny, evaluation of financial risk, alignment to business plans and sources of funding.

We reviewed the Council’s balanced budget for 2023/24 as set by Council in February 2023, which approved a 2.91% increase in Council Tax.

We read the assumptions underpinning the Medium-Term Financial Strategy (MTFS) as included in reports to the Executive. In our view, these include an adequate level of detail over the assumptions and cost pressures facing the council, which are consistent with our experience at similar sized authorities and not unreasonable. In addition, there is sufficient narrative to explain the rationale and key financial risks.

Over the duration of the MTFS, the general fund show an estimated balance of £1.5m by the end of 2027/28. Proposals to achieve this outcome are laid out in the report and include the need to deliver annual savings of £1.75m, of which the Council had identified (Feb 2023) £0.2m. The phasing of the savings are back-ended giving the Council time to firm up plans: £0.3m to be achieved in 2024/25 and the remaining £1.25m between 2025/26 an 2027/28. Over 2023/24 and 2024/25, the use of general fund and earmarked reserves to support the revenue budget are not significant but does increase from 2025/26 onwards to c£1.1m.

The MTFS was, of course, approved early in 2023 and the Council has the benefit of a further year to this point to develop and implement its strategy. We reflected on the progress in 2023/24 by reviewing the budget monitoring report to the November 2023 meeting of the Executive covering the period to Quarter 2 of 2023/24. The report gives an overview of the financial position, supported by adequate detail available within the appendices, ultimately showing that at the end of the financial year, the full savings target of £185k will be achieved and the General Fund is expected to be underspent by £118k against its budget, albeit with some risk in the second half of the year. Overall, the Council’s reported financial performance at Quarter 2 does not indicate any risk of significant weakness in the Council’s arrangements in setting the 2023/24 MTFS.

Key observation: The Council recognises that planned use of reserves is not a sustainable option and is in the process of developing its MTFS for 2024 to 2029, which will influence the timing and extent of savings required to deliver against the Council’s priorities. Ensuring these are well developed, achievable and deliverable during 2024 will be key to support the 2025/26 budget.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation.

The Audit Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Executive. We have attended meetings of the Committee and reviewed minutes and reports presented during the year, including matters relating to risk. From our attendance at meetings and review of the minutes, we are satisfied there is sufficient evidence of Member oversight of risk management, including holding Officers to account.

The Annual Governance Statement is a critical component of the Council's governance arrangements. It is an evidenced self-assessment by the Council on the Council's governance, assurance and internal control frameworks for the financial year. No significant weaknesses in internal control have been identified from our work to date and Internal Audit have not identified or raised any significant concerns. We reviewed the Annual Governance Statements as part of our work on the financial statements with no significant issues arising.

Audit Committee

The Council has an established Audit Committee. We have reviewed supporting documents and confirmed the Committee meets regularly and reviews its programme of work to maintain focus on key aspects of governance and internal control. Our attendance at Audit Committee has confirmed there is an appropriate level of effective challenge.

Internal Audit

We have met with management and the Head of Internal Audit regularly during the year, reviewed Audit Committee reports and attended Committee meetings to observe the performance of Internal Audit and the Audit Committee. We also confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement. No issues arose from our review to indicate there is a significant weakness in the Council's arrangements for governance.

Overall, we have not identified any indicators of a significant weakness in the Council's arrangements relating to the Governance criteria for the year ended 31 March 2023.

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Significant weakness in 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Council's arrangements brought forward from the prior year.

Performance Monitoring

The Council's arrangements are consistent with the prior year, which were deemed adequate, with the Council's Strategic Plan (Vision 2025) setting out what it wants to achieve for local residents and communities and is published on its website. The Council's overall financial objectives and strategy are documented in the Council's budget and Medium-Term Financial Strategy which is reviewed and updated annually.

Our review of minutes and reports confirms Members receive regular reporting on performance measures. We reviewed the performance outturn for 2022/23 as evidence of the Council's approach to evaluating performance. In our view, reports contain sufficient narrative, including the appendices, to demonstrate that there are adequate arrangements to assess performance and identify areas for action.

Partnerships and Commissioning

Through our work on the financial statements, our testing of expenditure, and consideration of key financial controls, has not identified any issues relating to procurement.

As in 2021/22, the Council continues to be the accountable body for the Lincoln Town Deal programme and governance and performance management arrangements are largely unchanged from the prior year to progress the associated projects. Our work on the financial statements included testing expenditure recognised in 2022/23 with no issues arising.

Overall, we have not identified any indicators of a significant weakness in the Council's arrangements relating to the Improving Economy, Efficiency and Effectiveness criteria for the year ended 31 March 2023.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. As at the date of writing, instructions regarding sampled components have not yet been received.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2021/22 Actual fees	2022/23 fees*	2023/24
Planned fee in respect of our work under the Code of Audit Practice	36,332	50,920	139,722
Additional work to reflect the Council's designation as a Public Interest Entity	5,000	-	-
Additional fees in respect of additional testing undertaken to comply with increased regulatory requirements relating to: IAS19 pension liabilities; and valuation of land, buildings and investment properties.	7,100	N/A included in revised scale fee	N/A included in revised scale fee
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 540 estimates)	2,800	2,800	N/A included in revised scale fee
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 315)	-	5,000**	-
Other additional testing (effect of the triennial pension review)	3,900	N/A	N/A
Additional fees in respect of the VFM Commentary	8,000	7,500	N/A included in revised scale fee
Sub-total: variations	26,800	15,300	TBC
Total fees	63,132	66,220	TBC

*These costs are subject to PSAA review and approval. The Council received **£18,729** of grant funding to meet rising audit costs.

**At the time of issuing this report, the additional fees for 2022/23 have not been agreed with the Council.

Fees for other work

In 2022/23, we were engaged to provide assurance related services on the pooling of housing capital receipts (c£3,500) and Housing Benefits Assurance (c£7,000)



Appendix

Appendix A: Further information on our audit of the financial statements

Main financial statement audit risks and findings

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment. Following the risk assessment, we identified risks relevant to the audit of financial statements and the significant audit risks and conclusions reached are set out below:

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.	Significant risk: an area that, in our judgment, requires special audit consideration.	We addressed the risk through performing work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to test accounting journals.	There are no significant matters to report.
Valuation of the net pension liability The defined benefit liability relating to the Local Government and Fire-Fighter's pension Scheme represents significant balances on the Council's balance sheet and involves a high degree of estimation uncertainty. The Council uses two actuaries to provide an annual valuation of these liabilities in line with the requirements of accounting standards.	Significant risk	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none">critically assessing the competency, objectivity and independence of each actuary;liaising with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the valuation is complete and accurate;reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuations, including comparing them to expected ranges using a consulting actuary;agreeing the data in the valuation report provided by the Fund Actuaries for accounting purposes to the financial statements; andconsidering whether the pension asset should be capped.	Following amendments to the financial statements to take account of updated information from the pension fund actuary, there are significant matters to report.
Valuation of land & buildings, council dwellings and investment properties Land, Building and Investment Property assets are significant balances on the Council's balance sheet and the valuation of these assets is complex and is subject to a number of management assumptions and judgements.	Significant risk	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none">considering whether the overall valuation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends;critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation are materially correct; andengaging our own valuation expert to support our testing of a sample of individual valuations back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied.	There are no significant matters to report.

Mark Surridge, Key Audit Partner

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

*where permitted under applicable country laws.

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AUDIT COMMITTEE

30 JANUARY 2024

**SUBJECT: PRUDENTIAL INDICATORS 2023/24 TO 2026/27 AND
TREASURY MANAGEMENT STRATEGY 2024/25**

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: LAURA SHIPLEY, FINANCIAL SERVICES MANAGER

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:

- Treasury Management Strategy 2024/25;
- Prudential Indicators;
- Minimum Revenue Provision (MRP) Policy;
- Treasury Management Practices (TMP's).

2. Background

2.1 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).

3. Key Prudential Indicators

- 3.1 The table below summarises the key prudential indicators that have been incorporated into the 2024/25 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.

Key Prudential Indicators	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
Capital Expenditure				
General Fund	18,772	15,090	7,566	1,052
HRA	16,187	20,487	15,955	14,834
Total	34,959	35,577	23,521	15,886
Capital Financing Requirement (CFR)				
General Fund	71,379	76,664	70,236	69,433
HRA	78,511	79,111	79,711	80,311
Total CFR	149,890	155,775	149,947	149,744
Movement in CFR	3,787	5,885	-5,828	-203
Actual external debt				
Borrowing at 31st March	109,242	113,017	110,937	110,701
Gross Debt & the CFR				
Under Borrowing	40,648	42,758	39,010	39,043
Operational Boundary for external debt				
Operational Boundary	120,442	124,217	122,137	121,901
Authorised Limit for external debt				
Authorised Limit	125,454	129,856	129,023	125,479
Upper limit for fixed interest rates	100%	100%	100%	100%
Upper limit for variable interest rates	40%	40%	40%	40%
Upper limit for investments >365 days	£7m	£7m	£7m	£7m
Current treasury investments as at 31/12/2023 in excess of 1 year maturing in each year	-	-	-	-

Note: These figures are based on the draft MTFS and may be subject to change based on the final version of the MTFS.

4. Minimum Revenue Provision (MRP) for Debt Repayment

- 4.1 In accordance with the Local Government Act 2003, the Council is required to pay off an element of accumulated General Fund capital expenditure each year through a revenue charge known as Minimum Revenue Provision (MRP).

The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued in 2018 by MHCLG (now renamed DLUHC). The Guidance gives four ready-made options for determining MRP which it considers to be prudent but does not rule out alternative approaches.

The overriding requirement of the Guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The Guidance 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.

Changes to the 2003 MRP regulations being implemented from April 2024 make it explicit that (i) capital receipts may not be used in place of the revenue charge, and (ii) there should be no intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. It is not foreseen that these changes will significantly impact the council.

There has been no Minimum Revenue Provision made within the MTFS relating to Western Growth Corridor due to the scheme related to housing provision / regeneration of the city and borrowing related to this scheme will be short term (2 years) and repaid using capital receipts.

5. Treasury Management Strategy

- 5.1 The Treasury Management Strategy covers both capital and treasury management issues, which are intrinsically linked.

The treasury management function ensures that cash flow is planned, so that cash is available when it is needed. Surplus monies are invested in line with the Council's low risk appetite, considering security and liquidity before maximising the return on investment.

Capital plans provide a guide to the borrowing need of the council, essentially long term cash flow planning, to ensure the council can meet its capital spending obligations. The management of the capital plan may involve arranging loans or utilising cash flow surpluses, whilst taking into consideration the implications on revenue budgets.

6 Investment Strategy

- 6.1 The council's investment strategy is geared to provide security of investments whilst minimising risk through investing only with highly creditworthy counterparties. The council uses external financial advisors (Link Group) to assess credit worthiness and provide due diligence before investing with an entity.

Using these carefully selected counterparties the council will look to make investments which maximise the return / yield in line with its low risk appetite.

The council will ensure adequate liquidity of its investments to cover its cash flow needs.

7. Environmental, Social and Governance (ESG) Considerations

- 7.1 Changes to the CIPFA Treasury Management Code 2021 incorporates ESG considerations into Treasury Management Practice 1. The Council will invest, where possible, in sustainable investment opportunities.

8. Strategic Priorities

- 8.1 The Medium Term Financial Strategy and supporting Capital Strategy and Treasury Management Strategy underpin the policy and financial planning framework. They set out the overall framework on which the Council plans and manages its financial resources to ensure that they fit with, and support, the direction of the Council's vision and strategic priorities.

9. Organisational Impacts

9.1 Finance

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

9.2 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 DLUHC Investment Guidance when carrying out their treasury management functions

9.3 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.

10. Risk Implications

- 10.1 The Local Government Act 2003, the Prudential Code and the Treasury Management Code of Practice include a key principle 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

11. Recommendation

The Audit Committee are recommended to:

- 11.1 Review and recommend to full Council the Treasury Management Strategy 2024/25 including the Prudential Indicators;
- 11.2 Review and recommend to full Council the Minimum Revenue Provision Policy 2023/24.
- 11.3 Review and recommend to full Council the Treasury Management Practices.

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? 5

List of Background Papers: Medium Term Financial Strategy 2024-29
CIPFA Code of Practice
CIPFA Prudential Code
Treasury Management Strategy
Treasury Management Practices

Lead Officer: Laura Shipley – Financial Services Manager
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**CITY OF LINCOLN COUNCIL
TREASURY MANAGEMENT STRATEGY
2024/25**

TREASURY MANAGEMENT STRATEGY

Contents

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1. BACKGROUND

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

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.1 Treasury Management Reporting

The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a. **Prudential and treasury indicators and treasury strategy** (this report) – which includes:
 - Prudential Indicators to ensure that the Council's capital plans are affordable, prudent and sustainable (as required by CIPFA's Prudential Code).
 - a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time as required by DLUHC's MRP Guidance)
 - the Treasury Management Strategy before the start of each financial year (as required by CIPFA's Treasury Management Code); and
 - an Annual Investment Strategy before the start of each financial year (as required by DLUHC's Investment Code).
- b. **A mid-year treasury management report** – This is a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not

have to be reported to Full Council but do require to be adequately scrutinised. These reports will be provided as part of the quarterly monitoring process to Performance Scrutiny and Executive Committees.

1.2 Treasury Management Strategy for 2024/25

The Strategy for 2024/25 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

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

1.3 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The Chief Finance Officer is responsible for this function.

Furthermore, the Code states that it expects “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The Council will carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and relevant council members.
- Require treasury management officers and relevant council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and relevant council members, encouraging them to highlight training needs on an ongoing basis.

Training provided to Performance Scrutiny and Audit Committee will consist of two one hour sessions provided by the Council's external treasury management advisors, with additional training arranged as required.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained within the Human Resources system. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Democratic Services.

1.4 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors. Responsibility for treasury management decisions remains with the Council at all times. Although the council will from time to time require the services of specialists, consultants and advisers in order to acquire access to specialist skills, undue reliance will not be placed upon the services and advice provided.

2. THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

Indicators 1 & 2 - Capital Expenditure	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
General Fund	18,772	15,090	7,566	1,052
HRA (including New Build)	16,187	20,487	15,955	14,834
Total Expenditure	34,959	35,577	23,521	15,886
Financed by:				
Capital receipts	2,004	2,008	6,667	449
Capital grants & contributions	16,066	7,643	1,146	852
Depreciation (HRA only)	7,601	13,603	12,006	10,183
Revenue/Reserve Contributions	4,633	5,509	2,901	3,602
Borrowing need	4,654	6,814	800	800
Total Financing	34,959	35,577	23,521	15,886

2.2 The Council's Borrowing Need – the Capital Financing Requirement (CFR)

The CFR is 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.

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

The CFR includes any other long-term liabilities (e.g. Finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The CFR includes an allowance for the replacement of the majority of the vehicle fleet under leasing. The CFR has 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.

Based on the capital expenditure plans above the CFR for 2023/24 to 2026/27 is projected to be:

Indicators 3 & 4 - Capital Financing Requirement (CFR)	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
General Fund	71,379	76,664	70,236	69,433
HRA	78,511	79,111	79,711	80,311
Total CFR	149,890	155,775	149,947	149,744
Movement in CFR	3,787	5,885	-5,828	-203

Net borrowing need for the year	4,655	6,813	802	800
Minimum / Voluntary Revenue Provision (MRP/VRP)	-867	-928	-970	-1,003
Application of Capital Receipts	0	0	-5,659	0
Movement in CFR	3,787	5,885	-5,828	-203

Indicator 5 - External Borrowing	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
Borrowing	109,242	113,017	110,937	110,701

2.3 Liability Benchmark (LB)

The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years as a minimum.

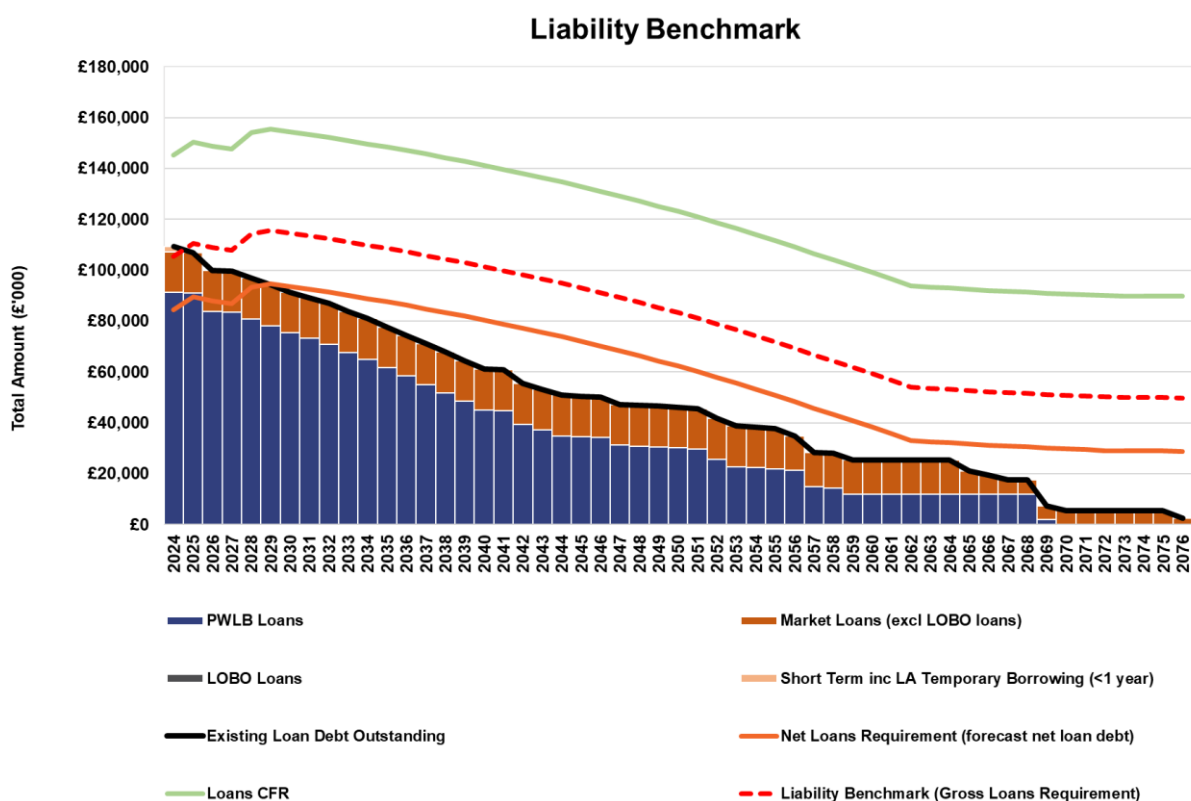
There are four components to the LB:

Existing loan debt outstanding: the Council's existing loans that are still outstanding in future years.

Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

Net loans requirement: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



The chart illustrates the council is under borrowed against CFR and liability benchmark due to utilisation of internal resources and reserves. Currently, for the term of the Medium-Term Financial Strategy the above indicates surplus cash in excess of liquidity requirements which will be invested.

2.4 Minimum Revenue Provision (MRP) Policy Statement

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).

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.

Members are recommended to approve the following MRP Statement:

- (A) For supported capital expenditure incurred before 1st April 2008, the Council will apply the Asset Life Method using an annuity calculation over 50 years.
- (B) For unsupported borrowing the MRP policy is the:
 - Asset Life Method – MRP will be based on the estimated life of the assets on an annuity basis. 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.
 - The MRP calculation will be done on an annual weighted average basis.

- The interest rate applied to the annuity calculations will reflect the market conditions at the time and will for the current financial year be the Council's weighted average borrowing rate.
- 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.
- MRP in respect of assets acquired under Finance Leases will be charged at a rate equal to the principal element of the annual lease rental.
- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory minimum revenue provision (MRP), i.e., voluntary revenue provision or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. VRP overpayments of £0.058m and £0.060m were made during the 2022/2023 & 2023/24 Financial Years respectively.

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

3.1 Current Treasury Portfolio Position

The overall treasury management position as at 31/03/23 and 2023/24 forecast outturn position are shown below for both borrowing and investments:

	31/03/23 Actuals £'000	%	31/03/24 Forecast £'000	%
Investments				
Banks	19,000	52	6,000	19
Local Authorities	3,000	8	3,000	10
Money Market Funds	14,685	40	22,300	71
TOTAL	36,685	100	31,300	100
Borrowing				
PWLB	93,962	77	91,242	83
Market Loans	16,000	13	16,000	15
Local Authorities	12,000	10	2,000	2
TOTAL	121,962	100	109,242	100

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Indicator 6 - External Debt	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
Debt as at 1 April	121,962	109,242	113,017	110,937
Expected change in debt	-12,720	3,775	-2,080	-236
Actual gross debt as at 31 March	109,242	113,017	110,937	110,701
Capital Financing Requirement	149,890	155,775	149,947	149,744
Under/(Over) Borrowing	40,648	42,758	39,010	39,043

3.2 Treasury Indicators: Limits to Borrowing Activity

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 2024-29.

The Authorised Limit for external debt - represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

Indicator 7 - Authorised Limit	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
Debt	124,074	128,476	127,643	124,099
Other long-term liabilities	1,380	1,380	1,380	1,380
Total	125,454	129,856	129,023	125,479

The Operational Boundary - boundary based on the expected maximum external debt during the course of the year.

Indicator 8 - Operational Boundary	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
Debt	119,242	123,017	120,937	120,701
Other long-term liabilities	1,200	1,200	1,200	1,200
Total	120,442	124,217	122,137	121,901

Affordability Prudential Indicators

Within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

Indicators 9 & 10 - Ratio Financing Costs : Net Revenue Stream	2023/24 Estimated %	2024/25 Estimated %	2025/26 Estimated %	2026/27 Estimated %
General Fund	11.58%	13.00%	13.79%	14.77%
HRA (including New Build)	26.50%	27.41%	26.95%	26.36%

Maturity Structure 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.

Indicator 13 Maturity Structure of fixed borrowing	2024/25		2025/26		2026/27	
	Lower	Upper	Lower	Upper	Lower	Upper
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%

3.3 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. Link provided the following forecasts on 07.11.23. These are forecasts for certainty rates, gilt yields plus 80 bps. The lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (gilts plus 40 bps)

Link Group Interest Rate View 07.11.23													
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

LINK group's central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more

affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

LINK group expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

3.4 Borrowing Strategy

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 medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by the tighter monetary policy. That is, the higher Bank Rates than have been seen in recent years.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp fall in long term 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.
- 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.

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.
- 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.

There is unsupported borrowing in the General Fund Investment Programme (GIP) as detailed in the Capital Strategy. The Council expects to take out loans for the General Fund however, it will continue to use internal balances and will only take out loans based on cashflow requirements and prevailing

interest rates. 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 or if attractive rates are offered. The Council will consider PWLB loans, Market loans, the Municipal Bond Agency and other financial institutions.

In addition, should new 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, or for the sustainment of existing income streams, or in the absence of any other funding source, then unsupported borrowing will be considered.

Officers will also continue to evaluate the cost effectiveness of borrowing as opposed to selling capital assets.

3.5 Policy on 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

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.

3.6 Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Executive at the meeting immediately following its action, in the quarterly report and in the annual review report.

4. INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

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 the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but the Council will also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

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.

4.2 Creditworthiness Policy

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.

The Chief Finance Officer will maintain a counterparty list in compliance with the criteria set out 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.

As a result of the financial pressures the Council faces, the identification of reductions in operating costs 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 2024/25 seeks to achieve this objective by establishing a pool of counterparties available for investment whilst still containing overall risk within acceptable levels.

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.

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

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.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour
Institution			Minimum credit criteria/colour band		Maximum limit per group or institution £		Maximum maturity period	
SPECIFIED INVESTMENTS								
UK Bank *1			Orange/Blue Red Green		£7 million		1 year 6 months 100 days	
Non-UK Banks*1 Sovereign rating AA			Orange Red Green		£7 million		1 year 6 months 100 days	
Building Society*2			Orange Red Green		£5 million		1 year 6 months 100 days	
Money CNAV*3	Market	Fund	Yellow		£7 million		Liquid	
Money LVNAV*3	Market	Fund						
Money VNAV*3	Market	Fund						
UK Government*4			Yellow		unlimited		6 months	
UK Local Authority*4			Yellow		£3 million		1 year	
NON-SPECIFIED INVESTMENTS								
UK Bank*1			Purple		£7 million		2 years	
Non-UK Banks*1 Sovereign rating AA			Purple		£7 million		2 years	
Building Society*2			Purple Yellow		£2 million		2 years 5 years	
UK Local Authority*4			Yellow		£3 million		5 years	
Lincoln Credit Union			N/A		£10K		N/A	
Council's own bank*5 (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.

4.3 Limits

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.
- 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.

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.

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.

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 as shown in paragraph 4.4, 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 table, section 4.2).

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.

The criteria for choosing counterparties set out above provide a sound approach to investment in difficult market circumstances.

4.4 Investment Strategy

Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to peak at 5.25% in Q4 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2023/24 (remainder)	5.30%
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. Rates used for MTFIS investment income budgets differ slightly from the above as they have been adjusted to reflect the split between fixed term investments and ones kept more liquid in Money Market Funds.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. 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.

Indicator 11 Upper Limit for Fixed Interest Rates	2024/25 £m	2025/26 £m	2026/27 £m
	100%	100%	100%

Indicator 12 Upper Limit for Variable Interest Rates	2024/25 £m	2025/26 £m	2026/27 £m
	40%	40%	40%

Indicator 14 Maximum Principal Sums Invested for longer than 365 days	2024/25 £m	2025/26 £m	2026/27 £m
	7	7	7

4.5 Investment Performance / 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.

These benchmarks are simple guides to maximum risk, 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.

Security

Counterparty risk increases as the duration of investments increases. The council will continue its policy of investing the majority of its investments with duration of less than 12 months.

The Council's maximum security risk benchmark for the current portfolio, when compared to the historic default tables is 0.03%. This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

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 less than 0.5 years, with a maximum of 1.00 years.

Yield

Local measure of yield benchmark employed is:

- Investments – return above the 7 day SONIA compounded rate.

5 APPENDICES

1. Additional local prudential indicators
2. Interest rate forecasts
3. Economic background
4. Approved countries for investments
5. Treasury Management Practices

APPENDIX 1 - ADDITIONAL LOCAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

Local Prudential Indicators

In addition to the statutory indicators set out in the Strategy, the Chief Finance Officer has set four additional local indicators aimed to add value and assist in the understanding of the main indicators.

Additional Local Indicator	2024/25 Target
1. Borrowing rate achieved(i.e. temporary borrowing of loans less than 1 year)	Less than SONIA rate
2. Investment rate achieved against the SONIA rate	Greater than SONIA rate
3. Average rate of interest paid on Council debt during the year	4.5%
4. The amount of interest on debt as a percentage of gross revenue expenditure.	Reported at year end

APPENDIX 2 - INTEREST RATE FORECASTS 2023-2026

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

PWLB forecasts are based on PWLB certainty rates.

APPENDIX 3 - ECONOMIC BACKGROUND – FROM LINK (THE COUNCIL’S TREASURY ADVISORS)

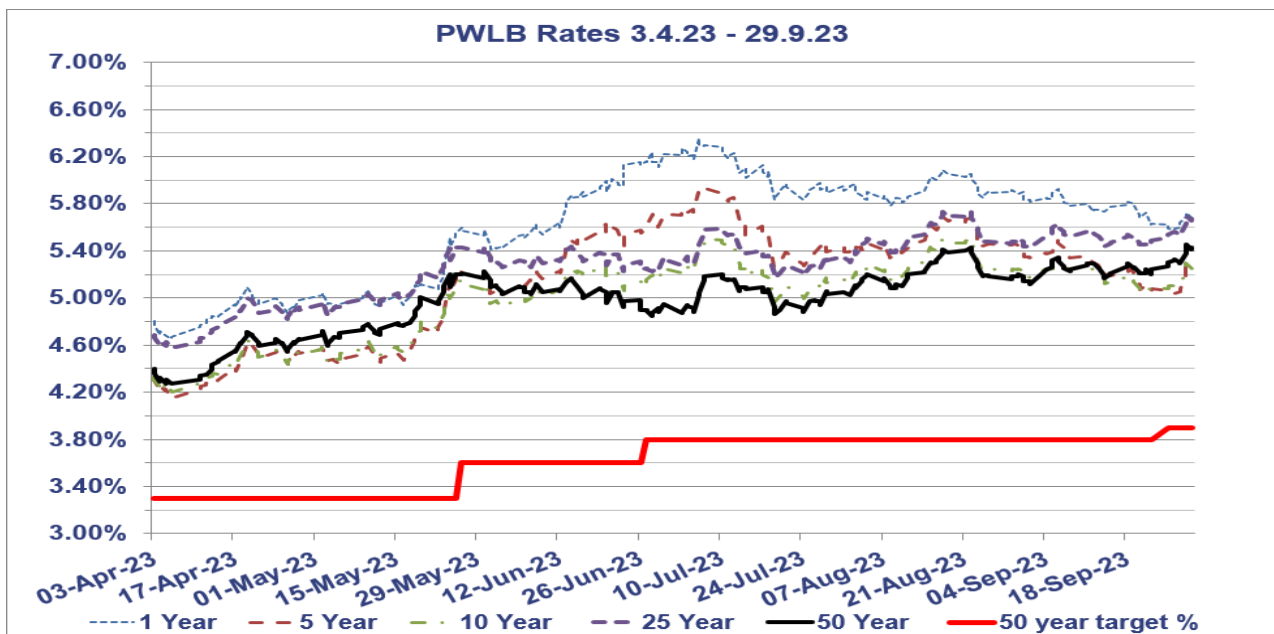
- The first half of 2023/24 saw:
 - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
 - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
 - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
 - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
 - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).
- The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England’s closely watched measure of regular annual average total pay growth for the private sector was

7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

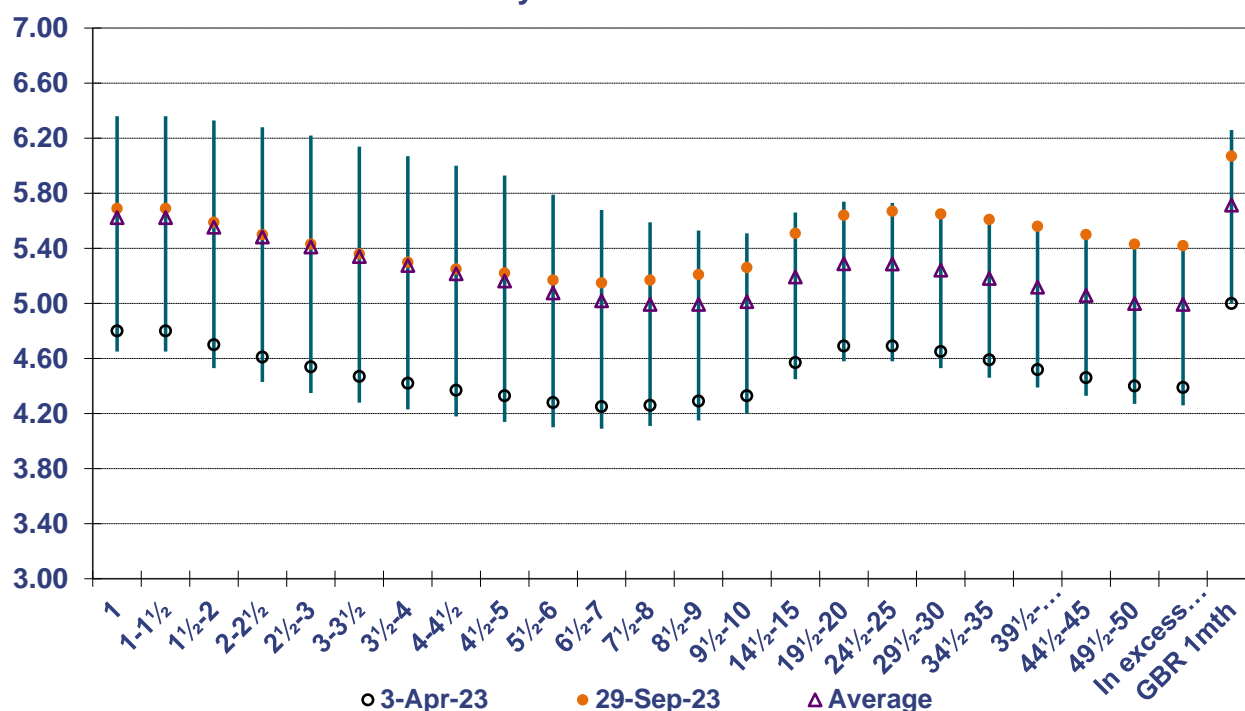
- CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.
- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23



PWLB Certainty Rate Variations 3.4.23 to 29.9.23



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

APPENDIX 4 - APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- **U.K.**

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**CITY OF LINCOLN COUNCIL
TREASURY MANAGEMENT POLICY –
CODE OF PRACTICE FOR TREASURY
MANAGEMENT
(January 2024)**

KEY PRINCIPLES

The City of Lincoln Council adopts the following three key principles identified within the *CIPFA Treasury Management in the Public Services Code of Practice* (The Code).

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2

The policies and practices should make clear that the effective management and control of risk are prime objectives of the treasury management activities and that responsibility for these lies clearly within the organisation. The appetite for risk should form part of the annual investment strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and *portfolio* liquidity when investing *treasury management* funds.

Key Principle 3

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

ADOPTED CLAUSES

In accordance with *CIPFA's Treasury Management in the Public Services Code of Practice* (The Code), the City of Lincoln Council adopts the following four clauses:

1. The City of Lincoln Council will create and maintain, as the cornerstones for effective treasury and investment management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - suitable treasury management practices (TMP's), setting out the manner in which it will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMP's will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the City of Lincoln Council materially deviating from the Code's key principles.

2. The Performance Scrutiny Committee of the City of Lincoln Council will receive reports on its treasury management policies, practices and activities, including, a quarterly review and an annual report after its close, in the form prescribed in its TMP's. The Audit Committee of the City of Lincoln Council will receive on at least an annual basis a report of the treasury management strategy before approval by the Executive and full Council. Revised strategies may be prepared and presented within the quarterly monitoring report.
3. The City of Lincoln Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Performance Scrutiny Committee, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs.
4. The City of Lincoln Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

TREASURY MANAGEMENT POLICY STATEMENT

1. The City of Lincoln Council defines its treasury management activities as:

“The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
2. The City of Lincoln Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The City of Lincoln Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The City of Lincoln Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. The schedules below follow the TM Code and have been suitably amended where necessary to reflect the Council's particular needs and circumstances.

TREASURY MANAGEMENT PRACTICES (2024-25)

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TMP1 - TREASURY RISK MANAGEMENT
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General statement

The City of Lincoln Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investments including investment properties.

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the City of Lincoln Council's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*.

[1] Credit and counterparty risk management

Credit and counter-party risk is *"The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources"*

The City of Lincoln Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Policy on the use of credit risk analysis techniques**[1] Credit and counterparty risk management (reviewed and updated annually as part of the Council's Treasury Management Strategy)**

- **Debt Management Office** – The council to use at the discretion of the Chief Finance Officer.
- **Criteria to be used for creating/managing approved counterparty lists/limits** – the type of institutions that are included on the Council's counterparty list are based on the Council's ethical policy and by reference to investment guidance. The Council uses the creditworthiness service

provided by its treasury management advisors, Link Group. 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. The credit ratings of counterparties are supplemented with overlays of credit watches and credit outlooks from credit rating agencies; Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings; and sovereign ratings to select counterparties from creditworthy countries. The criteria used for the counterparty list are based on the Council's attitude to investment risk and advice from the Council's treasury management consultants. Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalent) of F1 (highest credit quality) and a long-term rating A- (high credit quality). There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but the counterparty may still be used if consideration of the whole range of ratings available and other topical market information supports their use.

The Link Group modelling approach described above combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore 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 current minimum criteria for inclusion of counterparties on the list using the colour coding are as shown below, along with the allowable time and money limits.

Investment Counterparty Limits

Institution	Minimum credit criteria/colour band	Maximum limit per group or institution £ million	Maximum maturity period
SPECIFIED INVESTMENTS			
UK Bank ^{*1}	Orange/Blue Red Green	£7 million	Up to 1 year Up to 6 months Up to 100 days
Non-UK Banks ^{*1} Sovereign rating AA	Orange Red Green	£7 million	Up to 1 year Up to 6 months Up to 100 days
Building Society ^{*2}	Orange Red Green	£5 million	Up to 1 year Up to 6 months Up to 100 days
Money Market Fund CNAV ^{*3}	Yellow	£7 million	Liquid
Money Market Fund LVNAV ^{*3}			
Money Market Fund VNAV ^{*3}			
UK Government ^{*4}	Yellow	unlimited	Up to 6 months
UK Local Authority ^{*4}	Yellow	£3 million	Up to 1 year
UNSPECIFIED INVESTMENTS			
UK Bank ^{*1}	Purple	£7 million	Up to 2 years
Non-UK Banks ^{*1} Sovereign rating AA	Purple	£7 million	Up to 2 years
Building Society ^{*2}	Purple Yellow	£2 million	Up to 2 years Up to 5 years
UK Local Authority ^{*4}	Yellow	£3 million	Up to 5 years
Lincoln Credit Union	N/A	£10K	N/A
Council's own bank ^{*5} (operational cash limit in addition to the 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 are mutual funds that invest in short-term high quality debt instruments. The assets are actively managed within very specific guidelines to offer safety of principal, liquidity and competitive returns. 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 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 methodology for changing limits and adding/removing counterparties** - The Council's treasury management consultants compile a full list of counterparties, with their appropriate colour coding, designated as the "Credit list". This list is issued to the Council and renewed on a weekly basis. Notifications of any changes are received as they occur. The latest

position is also available on Link's Passport system. The credit rating position is updated on this system as soon as any changes are made to credit ratings. The latest position will be checked and is used as a source of reference before any investments are undertaken. If the change to a counterparty is a downgrade and no longer meets the Council's minimum criteria then its further use as a new investment will be withdrawn immediately.

- ***Full individual listings of counterparties and counterparty limits*** – the minimum creditworthiness (indicated by the colour coding) for inclusion of a counterparty is shown in the table above. Investments are categorised as specified and non-specified (in line with the investment guidelines issued in March 2010) and the maximum amounts and periods to be invested within the two categories are shown in the table above (based on the current Treasury Management Strategy).
- ***Details of credit rating agencies' services*** – The creditworthiness service provided by Link Group and used by the Council uses the three credit rating agencies, Fitch, Standard and Poor's and Moody's, which are recognised worldwide. Each of them is established in most countries and has a universal credit rating scale. These three leading international rating agencies have established a universal and open methodology of drawing up rating reports. Activities of the rating agency are public and all necessary information of rating decisions is available on the Internet.
- **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 investments to be placed in non-EU banks.
 - No more than 50% will be placed with any non-UK country.
 - 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.
- **Use of additional information other than credit ratings** - Additional requirements under the Code of Practice now require the Council to supplement credit rating information. The creditworthiness service provided by Link Group now employed by the Council fully meets this requirement as the sophisticated modelling approach combines credit ratings, credit watches and credit outlooks and then overlays CDS spreads to produce a final creditworthiness score. However, sole reliance is not placed on the use of this external service. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

In preparing the annual strategy, the City of Lincoln Council will:

- Produce a list of approved investment instruments for both Specified and Non-specified Investments,
- Identify criteria for inclusion on the Council's Counterparty List,
- Determine the minimum credit ratings required for both Specified and Non-Specified Investments and the maximum amounts and periods to be invested in Specified and Non-specified Investments.

Policy on environmental, social and governance (ESG) considerations

The Council's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the Council's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

Councils are currently recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies.

The prime consideration when assessing the suitability of counterparties and investments must continue to be Security, Liquidity and then Yield, in that order. Only then will ESG factors be considered. The Council does not invest in bond or equity markets, therefore there is currently a lack of data available on which to base ESG considerations relevant to the Council's investments. The main ratings agencies are increasingly including ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. Therefore, the incorporation of ESG risks is already being considered, to an extent, by the use of mainstream rating agencies. Our treasury advisors Link also continue to look at ways in which ESG factors can be incorporated into their creditworthiness assessment service, and they have advised clients that they will review the options and will update clients as progress is made. As the Council develops its environmental and climate change policies, including the net zero carbon target by 2030, ESG investment policies and procedures can then be developed to align with these.

[2] Liquidity risk management

This is "The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisations business/service objectives will be thereby compromised."

The City of Lincoln Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, 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.

The City of Lincoln Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day at £500,000. Borrowing or lending shall be arranged in order to achieve this aim.

- **Minimum cash balances and short-term investments** – the Council has a policy of a minimum of £5m to be deposited in instruments that can be accessed within a week but does not have set amounts for minimum cash balances to cover shortages in cash flow. A twelve-month cash flow forecast model is used as a tool to forecast cash inflows and outflows, and investments are made for specific periods, which take into account when money is required to fund cash outflows, thereby keeping short-term borrowing to an absolute minimum. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.
- **Standby facilities** – these relate to any tools that the Council has to manage its liquidity and as such are covered by short-term borrowing facilities (see below). In addition, the Council also maintains several Money Markets Funds and five Deposit accounts. These are exceptionally liquid investment instruments that offer same day access to any funds placed therein. The Council does not have a Policy of maintaining a minimum balance within any of these funds but in reality, these funds are used as an alternative to overnight and other short-term periods of investment.
- **Bank overdraft arrangements** – the Council does not currently have an overdraft facility with its bankers (currently Lloyds Bank). Accurate cash flow forecasting and immediate access to funds in Money Market Funds mean that under normal circumstances an overdraft facility is not required. On the very rare occasions that the bank balance may be overdrawn the fees charged are considerably less than the annual overdraft fee. The need for an overdraft facility is reviewed annually on August 30th and forms part of the 'Overdraft and other Facilities' agreement with the Bank.
- **Short-term borrowing facilities** – When the Council has a need to borrow short-term (up to 1 year), Money Market Brokers are contacted (currently Tradition, BGC or King and Shaxson) to obtain the necessary funds. The broker will quote a rate that is based on current market conditions. A fee is payable to the broker for this service, typically between 3 and 10 basis points.
- **Insurance/guarantee facilities** – the Council is insured in respect of loss of money or other property belonging to it or in its trust or custody under a Fidelity Guarantee with Travelers. This only relates to loss occurring as a direct result of any act of fraud or dishonesty on the part of an employee (as specified under the Policy Schedule). This Policy is renewable annually in

April. The full terms and conditions of the Fidelity Guarantee and Policy schedule including the designated Officers, the employees and sums for which they are covered are available from the Financial Services Manager.

- **Other contingency arrangements** – in line with investment guidance the Council has set maximum amounts and periods for which funds may prudently be committed to ensure it has sufficient liquidity in its investments. The limits are shown above (Investment counterparty limits) - limits are based on the current Treasury Management Strategy.

The Council has adopted the following Prudential Indicator to limit the amount that can be invested over 1 year as shown below:

Prudential Indicator No.14	2024/25 £m	2025/26 £m	2026/27 £m
Maximum principal sums invested for longer than 1 year	7	7	7

[3] Interest rate risk management

This is *“The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately.”*

The City of Lincoln Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

Approved interest rate exposure limits – in order to minimise the risk of wide fluctuations in interest rates the Council sets annually upper limits on variable and fixed interest rate exposure (based upon the debt position net of investments), please refer to the Annual Treasury Management Strategy for the current limits which are based on the following limits on borrowing and investment exposures:

- Upper limit on fixed rate investments – 100%
- Upper limit on variable rate investments – 75%
- Upper limit on fixed rate borrowing – 100%

- Upper limit on variable rate borrowing – 40%

The indicators above are set as part of the Council's annual Prudential Indicators and Treasury Management Strategy.

- ***Trigger points and other guidelines for managing changes to interest rate levels*** – the Council's current Treasury Management consultants provide regular interest rate forecasts and economic advice, which assists the Council to manage changes in interest rate levels. This forecasting and economic advice includes:
 - Regular forecasts of PWLB rates and imminent changes are given to the Council, with particular regard to the agreed underlying strategy. Continuous updates on market conditions and trends affected by economic, fiscal and political factors are also provided
 - A weekly and monthly newsletter
 - A quarterly 'Economic and Interest Rate Forecast' bulletin
- ***Minimum/maximum proportions of variable rate debt/interest*** – the Council has set the maximum proportion of variable interest rate exposure.

The Council also sets a minimum level for the proportions of variable rate debt and interest. These limits feed into the limit on the net debt position, which is based on estimated levels of debt and investments.

Policies concerning the use of instruments for interest rate management.

- a. Forward dealing
Consideration will be given to dealing from forward periods dependent upon market conditions. When forward dealing is more than 1 month forward then the approval of the Chief Finance Officer is required.
- b. Callable deposits
The Council will use callable deposits as part as of its Investment Strategy. The credit criteria and maximum periods are set out in the Schedule of Specified and Non-Specified Investments in the Investment Strategy.
- c. LOBOS (borrowing under lender's option/borrower's option)
Use of LOBOs are not currently considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by Chief Finance Officer.

[4] Exchange rate risk management

This is *“The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately.”*

City of Lincoln Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

The Council only invests and borrows funds in sterling; thereby avoiding any risk associated with fluctuations in exchange rates.

[5] Inflation risk management

This is *“The chance that the cash flows from an investment won’t be worth as much in the future because of changes in purchasing power due to inflation,”*

The City of Lincoln Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation’s inflation exposures.

[6] Refinancing risk management

“The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and / or that the terms are inconsistent with prevailing market conditions at the time.”

The City of Lincoln Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the City of Lincoln Council as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous, and the situation will be continually monitored in order to take advantage of any perceived

anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk;
- to reduce the average interest rate;
- to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Executive at the meeting immediately following its action in the quarterly report and in the annual review report.

Projected Capital Investment Requirements

The Chief Finance Officer will prepare a five-year plan for capital expenditure for the Council. The capital plan will be used to prepare a five-year revenue budget for all forms of financing charges.

In addition, the Chief Finance Officer will draw up a capital strategy report which will give a longer-term view.

The definition of capital expenditure and long-term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will also consider affordability in the longer term beyond this three-year period and assess the risks and rewards of significant investments to ensure the long-term financial sustainability of the authority.

The Council will use the definitions provided in the Prudential Code for borrowing, capital expenditure, capital financing requirement, commercial property, debt, financing costs, investments, net revenue stream, other long-term liabilities, treasury management and transferred debt.

[7] Legal and regulatory risk management

This is *“The risk that the organisation itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.”*

The City of Lincoln Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the City of Lincoln Council, particularly with regard to duty of care and fees charged.

The City of Lincoln Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the City of Lincoln Council.

References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

Statutes

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- S.I. 2004 no. 3055 [The Local Authorities \(Capital Finance and Accounting\) \(Amendment\) \(England\) \(No. 2\) Regulations 2004](#)
- S.I. 2006 no. 521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009

- S.I. 2009 no. 2272 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012
- S.I. 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
- S.I. 2012 No. 2269 [The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) \(No. 4\) Regulations 2012](#)
- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- S.I. 2015 no. 234 Accounts and Audit Regulations 2015
- *There has not been an issue of a Local Authorities (Capital Finance and Accounting) (England) Regulations statutory instrument in 2005, 2011 and 2016*
- S.I. 2017 no. 536 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017
- S.I. 2018 no. 1207 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018
- Statutory Guidance on Investments 2018
- Statutory Guidance on MRP 2018
- 2019 No. 394 Exiting the European Union financial services: The Money Market Funds (Amendment) (EU Exit) Regulations 2019
- S.I. 2019 no. 396 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2019
- S.I. 2020 no. 1212 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020
- S.I. 2021 no. 611 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2021

Guidance and codes of practice

- CIPFA Local Authority Capital Accounting - a reference manual for practitioners' latest year Edition
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004

- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2021,
- CIPFA Prudential Code for Capital Finance in Local Authorities and Guidance Notes revised 2021
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The UK Money Markets Code (issued by the Bank of England – it was formerly known as the Code of Market Conduct issued by the Financial Conduct Authority)
- The Council's Standing Orders relating to Contracts
- The Council's Financial Procedure Rules
- The Council's Scheme of Delegated Functions

Procedures for Evidencing the Council's Powers/Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

In addition, it will make available on request the following: -

- the scheme of delegation of treasury management activities which is contained in Financial Procedure Rules
- the document which sets out which officers are the authorised signatories [TMP5]

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard and Poors.

Statement on the Council's Political Risks and Management of Same

The Chief Finance Officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

Monitoring Officer

The monitoring officer is the City Solicitor; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

Chief Financial Officer

The Chief Financial Officer is the S151 Officer, the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if she has concerns as to the financial prudence of its actions or its expected financial position.

[8] Operational Risk, including Fraud, Error and Corruption

“The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.”

The City of Lincoln Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore: -

- seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

Systems and procedures to be followed – in order to minimise the possibility of fraud, error or corruption, procedures for carrying out and monitoring treasury management activities involve rigorous requirements for audit, checking, control and reporting. These requirements are detailed in the relevant schedules i.e. TMP5 – Organisation, Clarity and Segregation of Duties and Dealing Arrangements. In the event of any fraud or corruption this will be immediately reported to either the Financial Services Manager or Chief Finance Officer who will determine the appropriate course of action. Similarly, any errors, which result in the breach of procedures set down in these schedules, will be reported either to the Financial Services Manager or Chief Finance Officer.

Emergency and contingency planning arrangements – Procedures to be implemented in the event of a disaster will be contained in the Council's Business Continuity Plans and I.T. Disaster Recovery Plan.

Insurance cover details – see TMP 1[2] for details.

[9] Price risk management

“The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated TM policies and objectives are compromised, against which effects it has failed to protect itself adequately.”

The City of Lincoln Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

Approved procedures and limits for controlling exposure to investments whose capital value may fluctuate - the Council does not expose itself to this risk as it does not use investments whose capital value may fluctuate; in addition the Council does not use Fund Managers who may use investments whose capital value may fluctuate.

TMP2 - PERFORMANCE MANAGEMENT

The City of Lincoln Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the City of Lincoln Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions: -

- quarterly reviews carried out by the treasury management team
- reviews with our treasury management consultants
- annual review after the end of the year as reported to full Council
- half yearly / quarterly / other monitoring reports to committee / full Council
- comparative reviews
- strategic, scrutiny and efficiency value for money reviews

Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every 6 months to review the performance of the investment and debt portfolios.

Review reports on treasury management

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt / investment portfolios. This report contains the following: -

- total external debt (gross external borrowing plus other long-term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement
- borrowing strategy for the year compared to actual strategy
- whether or not a decision was made to defer borrowing or to borrow in advance
- comment on the level of internal borrowing and how it has changed during the year
- assumptions made about interest rates
- investment strategy for the year compared to actual strategy

- explanations for variance between original borrowing and investment strategies and actual
- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- compliance with Prudential and Treasury Indicators
- other

In addition, quarterly reports will be submitted each year to provide updates on the above.

Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- other

Benchmarks and Calculation Methodology:

Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year
- Debt portfolio compared to the debt liability benchmark

Investment

The performance of investment earnings will be measured against the following benchmarks: -

- In house investments - Average daily SONIA

Policy Concerning Methods for Testing Value for money in Treasury Management

Frequency and processes for tendering

The process for advertising and awarding contracts will be in line with the Council's Contract Procedure Rules.

Banking services

The Council's banking arrangements are to be subject to competitive tender every 5 years unless it is considered that there will be changes in the volume of

transactions in the foreseeable future which renders a shorter period appropriate.

Money-broking services

The Council use money broking services in order to make deposits or to borrow and establish charges for all services prior to using them.

An approved list of brokers has been established which takes account of both prices and quality of services [TMP11].

Consultants'/advisers' services

This Council has appointed Link Group as its professional treasury management advisers.

Policy on External Managers (Other than relating to Superannuation Funds)

The Council's policy is not to appoint external investment fund managers.

TMP3 - DECISION-MAKING AND ANALYSIS
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The City of Lincoln Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Records to be kept:

Detailed records are maintained of all borrowings and investments made by the Council.

Processes to be pursued:

- Cash flow analysis;
- Debt and investment maturity analysis;
- Ledger reconciliation;
- Review of opportunities for debt restructuring;
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money);
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

Issues to be addressed:

In respect of every Treasury Management decision made, the Council will:

- above all be clear about the nature and extent of the risks to which the Council may become exposed
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies and that limits have not been exceeded
- be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive

With the need to realise significant General Fund revenue savings to ensure that the budget is balanced and sustainable in the long term and the need to achieve efficiency savings in the Housing Revenue Account, the main theme of the borrowing and debt strategy is to reduce the individual average interest rates paid by each fund. The reduction in interest rates will be undertaken through debt restructuring opportunities and taking new borrowing with lower interest rates than the rates that have been projected in the budget estimates. However,

restructuring that increases the interest rate payable may be considered if it offers the Council the opportunity to take a discount, as part of the rescheduling exercise.

In respect of borrowing decisions, the Council will:

- consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets to ensure that its capital plans and investment plans are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.
- Less detailed evaluation will also be carried out over a longer period to ensure that plans continue to be affordable, proportionate, prudent and sustainable in the longer term.
- not borrow to invest primarily for financial return.
- not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so.
- not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council.
- increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- undertake an annual review of any investments in commercial (debt for yield) schemes with a view to identify whether such assets should be sold to provide resources to finance capital expenditure plans or refinance maturing debt.
- evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing, external grants and private partnerships.
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.
- ensure that treasury management decisions are made in accordance with good professional practice.

The main theme of the investment strategy is to ensure the security of the sums invested as a first priority and secondly to ensure that the Council has access to sufficient liquid funds. Then thirdly to maximise interest from investments, within the constraints imposed by having regard to security and liquidity, in order to contribute towards any General Fund and Housing Revenue Account savings targets as detailed above. The increase of investment income will be sought through actively undertaking investments with higher interest rates than the rates that have been projected in the budget estimates.

In respect of investment decisions, the Council will:

- consider the optimum period, in light of cash flow availability and prevailing market conditions
- consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital. The Council does not use such products
- ensure investments are included in the Councils 'approved investment instruments' (see TMP4 below)
- consider financial institutions and ensure they meet the minimum requirements for inclusion in the Council's counterparty list (see TMP1 schedule [1] above)
- ensure that the counterparty individual/group investment limits are not exceeded (see TMP1 [1] above)
- ensure the non-specified investment limit is not exceeded. The current limit is as approved in the Prudential Indicators and Treasury Management Strategy
- ensure that investments over 1 year do not exceed the limit as approved in the Treasury Management Strategy (see TMP1 schedule [1] above). This includes forward deals.

A meeting will be held for the Finance Business Partner to advise the Financial Services Manager when it is necessary to make investment and borrowing decisions where the length of the deal to be brokered has a maturity period greater than 3 months, and as necessary when other issues arise. A briefing note is prepared giving details of the proposed deal and supporting information which is discussed at the meeting. It will be signed off by the Financial Services Manager (or the Chief Finance Officer or City Solicitor in their absence) before the investment is made or any borrowing is taken.

Any investments with a maturity period greater than 364 require Chief Finance Officer approval.

TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The City of Lincoln Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk management*.

City of Lincoln Council has reviewed its classification with financial institutions under MIFID II and has set out in this schedule those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

Approved instruments for investments

- ***Listings and individual limits for the use of approved instruments*** – In accordance the Council's current treasury management strategy, the instruments (split between specified and non-specified investments) that the Council will consider investing surplus funds in are shown below (individual limits are not set for approved investment instruments):

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. Investment Schemes i.e. a Money Market Fund.

***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 that have been awarded a high credit rating by a Rating Agency.

Instruments of Non-Specified Investments *2

1. Deposits with Banks, Building Societies and their subsidiaries.

***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.

Implementation of MIFID II Requirements

Since 3 January 2018, UK public sector bodies have been defaulted to 'retail' status under the requirements of MIFID II. However, for each counterparty it is looking to transact with (eg financial institution, fund management operator, broker), there remains the option to opt up to 'professional' status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and expertise and decision making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments (eg certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorized to place investments with. Records are held of each counterparty where the Council has opted up to professional status, with details of permissions applied for, instrument and date received, and similarly a record is held of those

counterparties/investments where there is no requirement to opt up to professional status.

- **MIFID II** – the council has opted for professional status for the purposes of MIFID II. The council is registered as a professional client with:

Link Group
King and Shaxson
BGC
Tradition
Institutional Cash Distributors Ltd

Approved Techniques

- Forward dealing;
- LOBOs – lenders option, borrower's option borrowing instrument;
- The use of structured products such as callable deposits.

Approved methods and sources of raising capital finance – capital finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These could include:

	Fixed	Variable
PWLB	●	●
Market Loans (long-term)	●	●
Local Bonds	●	
Negotiable Bonds	●	●
Finance Leases	●	●
Internal (capital receipts & revenue balances)	●	●

Other methods of financing include Government and European Capital Grants, Lottery monies, Private Finance Initiative (PFI), Public-Private Partnerships (PPP), operating leases and other capital contributions from relevant partners and stakeholders.

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers, in accordance with the Officers' Scheme of Delegation within the Constitution and the Treasury Management Strategy, to borrow using the most appropriate sources.

Investment Limits

The Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

Borrowing Limits

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

Non-Treasury Management Investments

Please see Non-Treasury Management Investments Schedule at the end of this document.

TMP5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The City of Lincoln Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is a clarity of treasury management responsibilities at all times.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies, particularly regarding the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the City of Lincoln Council intends, as a result of lack of resources or other circumstances to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Chief Finance Officer will also ensure that those engaged in treasury management will, at all times, follow the policies and procedures set out.

The Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The Chief Finance Officer will fulfil all responsibilities in accordance with the City of Lincoln Council's policy statement and TMP's.

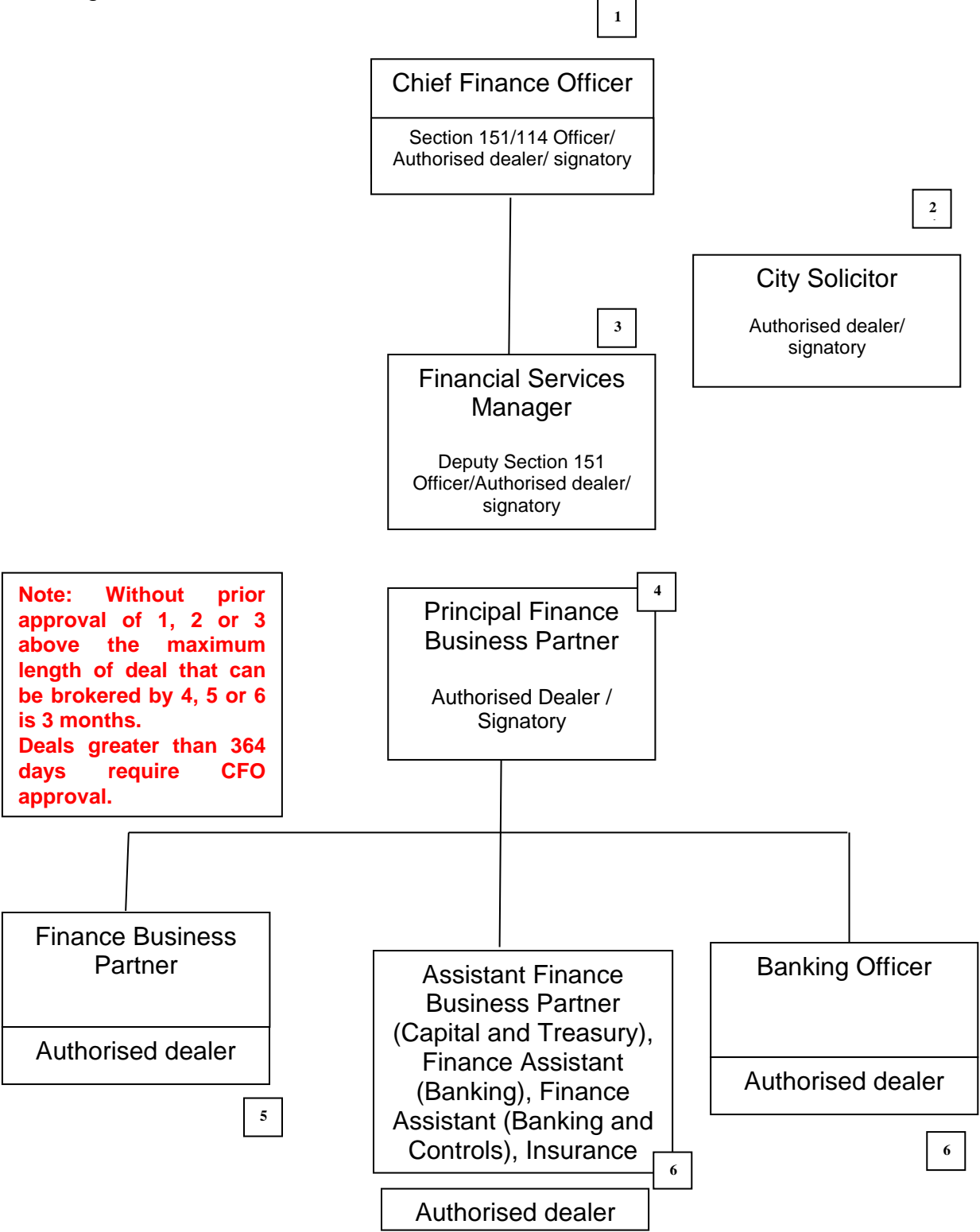
Full Board / Council

- ***Limits to responsibilities/discretion at committee/executive levels*** – in accordance with the Council's financial procedure rules, full Council is responsible for approving the annual prudential indicators and treasury management strategy, which is proposed to full Council by the Executive. All decisions on borrowing, investment or financing are delegated to the Chief Finance Officer, who is required to act in accordance with CIPFA's Code of Practice for Treasury Management in Local Authorities. A mid year report and end of year report detailing the performance against the Prudential indicators,

local indicators and treasury management activities are submitted to the Council's Performance Scrutiny Committee, Executive and full Council. Quarterly treasury management reports will be submitted to the Council's Executive and Performance Scrutiny Committee, to update Members as to the actual position against the local and Statutory Prudential Indicators, and to summarise the treasury management activities undertaken during the previous quarter.

- ***Principles and practices concerning segregation of duties*** – in order to reduce the risk of fraud and corruption, the following duties are divided between different staff:
 - As part of the procedures for making CHAPS payments (i.e. repayment of loans, depositing investments and urgent payments) three different members of staff undertake the stages of setting up the payment, approval and authorisation
 - The Financial Services Manager (or Chief Finance Officer or City Solicitor in their absence) must approve investments or borrowing for periods greater than 3 months (up to 364 days). Deals greater than 364 days deals require Chief Finance Officer approval. A briefing document giving all the details of the investment or borrowing will be presented for approval for sign off.
 - The principal and practices concerning segregation of duties is set out in the hierarchical responsibilities/duties of each post, as set out below:

Treasury Management organisation chart – the Council's current organisational chart is as follows:



▪ ***Statement of duties/responsibilities of each treasury post –***

1. Chief Finance Officer

- Duties in line with S151 and S114 responsibilities
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised Signatory

2. City Solicitor

- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised signatory

3. Financial Services Manager

- Duties in line with deputy S151 responsibilities
- Advise the Chief Finance Officer on Treasury Management matters
- Receive and review Treasury Management investment and borrowing proposals
- Review and appoint Treasury Management consultants
- Ensure that staff involved in treasury management receive appropriate training
- Ensure that the treasury management function is adequately resourced to meet current requirements
- Absence cover for the Chief Finance Officer for responsibilities detailed above.
- Ensure there is adequate internal checking and control
- Ensure the Treasury Management Strategy, the Treasury Management Outturn Report and Quarterly Monitoring Reports are prepared and complied with
- Ensure implementation of Treasury Management actions agreed by the Chief Finance Officer
- Ensure Treasury Management Practices are complied with and are reviewed at least annually
- Ensure the appropriate division of duties within the section
- Identify and recommend opportunities for improved Treasury Management Practices
- Implementation of the Treasury Management Strategy
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised signatory

4. Principal Finance Business Partner (PFBP)

- Advise Financial Services Manager on Treasury Management matters
- Receive and review Treasury Management investment and borrowing proposals
- Oversee the compilation of the yearly cash flow
- Oversee the monitoring, update, revision and reporting on the authorities cash flow
- Prepare the annual Treasury Management Strategy and Outturn Reports
- Compile mid-year treasury management reports to the Council's Performance Scrutiny Committee
- Monitor and calculate the prudential indicators/local indicators and performance against budget targets (i.e. borrowing and investment interest)
- Prepare an annual budget for Treasury Management activities (i.e. borrowing and investment interest, debt management expenses)
- Ensure implementation of Treasury Management actions agreed by the Financial Services Manager and Chief Finance Officer
- Assist the Financial Services Manager in implementation of the Treasury Management Strategy
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)

5. Finance Business Partner (FBP)

- Construction of yearly cash flow
- Advise Financial Services Manager and PFBP on Treasury Management matters
- Monitor, update, revise and report on the authority's cash flow
- Monitor and calculate the prudential indicators/local indicators and performance against budget targets (i.e. borrowing and investment interest)
- Maintain the Council's Money Market Funds and Call accounts
- Liaise with brokers on a day to day basis and monitor interest rates
- Invest short-term cash surpluses in line with Councils investment policy/strategy
- Take short-term borrowings to cover cash flow shortages in line with Council's investment policy/strategy.
- Maintain the Councils Counterparty list in line with Council's investment policy/strategy
- Action periodic interest payments on long term loans
- Instigate year-end accruals for investments and loans.
- Assist in the preparation of mid-year treasury management reports and Annual Treasury Management Strategy and Outturn Reports.

- Administer the Council's 3% Stock, war stock and local bonds
- Monitor the Council's approved Prudential Indicators/Local Indicators and percentage of investments held as Specified/Non-Specified Investments
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Production of quarterly reconciliations for all Treasury Management ledger accounts

6. Assistant Finance Business Partner (Capital and Treasury), Finance Assistant (Banking), Finance Assistant (Banking and Control) and Insurance Assistant, Banking and Controls Officer

- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
 - Absence cover for Finance Business Partners
 - Download on a daily basis the Council's bank statements in order to monitor Council's cash position.
- ***Absence cover arrangements*** – The Banking Team (within the Technical and Exchequer section) provides absence cover for the Finance Business Partner (Capital, Treasury and VAT) and the Assistant Finance Business Partner (Capital and Treasury).
 - ***Dealing Limits*** – all staff authorised to deal on behalf of the Council must comply with the Council's Counterparty list limits set out in the Treasury Management Strategy as detailed in TMP schedule 1
 - ***List of approved brokers*** –BGC Brokers, Tradition, King and Shaxson and Link Group
 - ***Policies on recording of conversations*** – Calls to Brokers are currently recorded by the Brokers only. Taping facilities from the main Council switchboard are not available at present.
 - ***Direct dealing practices*** – interest rates/risks are evaluated through comparing the rates offered by brokers and those offered direct from institution e.g. Debt Management Office. Should deals from direct institutions prove to be better value this option will be preferred.
 - ***Settlement transmission procedures*** – all funds to be remitted in respect of a treasury management transaction are via CHAPS. The Council uses the Lloyds Commercial Banking online Electronic Payments System provided by the Council's Bankers. The procedure is as follows:
 - The officer setting up the payment completes a pro-forma detailing the agreed transaction(s) together with a batch header

- An officer with the appropriate level of access (see below) sets up the transaction(s) on Lloyds Commercial Banking online
- The transaction is approved by a separate officer with the appropriate level of access (see below) on Lloyds Commercial Banking online
- The transaction is then authorised by a separate officer with the appropriate level of access (see below) on Lloyds Commercial Banking online
- Finally, the transaction is submitted via Lloyds Commercial Banking online for onward transition to the borrower/lender

Lloyds Commercial Banking Online Authorisation Levels

Post	Lloyds Commercial Banking Online Level *
Chief Finance Officer	Authorisation
City Solicitor	Authorisation
Financial Services Manager	Authorisation
Principal Finance Business Partners	Authorisation
Finance Business Partner(s)	Set up, verify and first level of approval
Assistant Finance Business Partner	Setup
Banking Officer	Set up, verify and first level of approval
Exchequer Officer	Set up, verify and first level of approval

Lloyds Commercial Banking online is the electronic banking system of the Council's bank, Lloyds.

- ***Documentation requirements*** – Money market deals are confirmed using either the Institutional Cash Distributors (ICD) treasury portal, this is an online independent trading platform, or verbally with the money market fund, counterparty or broker. All the Money market funds currently in use by the Council are registered with ICD. All deals are followed by written confirmation of the transaction from the borrower/lender i.e. amount, interest rate, period, bank account details, proceeds or liability on maturity. Deposit accounts require an email/fax instruction when placing or withdrawing funds and this must be signed by one of the Council's Authorised signatories. The Debt Management Office requires all deposits and withdrawals to be agreed verbally. In the event of the Council having temporary borrowing, the Council

will confirm in writing the transaction. In addition, for those deals carried out via a broker, the broker will send their own confirmation of the transaction.

TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The City of Lincoln Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the full Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year. Revised strategies may be presented to full Council at any point in the year if deemed necessary.
- a mid-year review;
- an annual report on the performance of the treasury management function, the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with its treasury management policy statement and TMP's.

The Performance Scrutiny Committee will receive regular monitoring reports on treasury management activities and risks. It will receive an annual report on the treasury management activities before approval by the Executive and full Council.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices. It will receive an annual report on the treasury management strategy before approval by the Executive and full Council.

The Executive will receive the Treasury Management Strategy prior to submission to Full Council, regular monitoring reports and an annual report on the Treasury Management function, on the effects of the decisions taken and the transactions executed in the past year.

The City of Lincoln Council will report the treasury management indicators as detailed in the local authority guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

Content and frequency of board/committee reporting requirements – the annual Treasury Management Strategy sets out the expected treasury activities for the forthcoming financial year. This Strategy is submitted to the Audit Committee for review and scrutiny then onto the Executive who in turn

recommends it to full Council, before the beginning of each financial year. The formation of the annual Strategy involves determining the appropriate treasury management decisions in light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise. The Strategy is concerned with the following elements:

- Prudential and Treasury Indicators
- current Treasury portfolio position
- borrowing requirement
- prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- investment strategy
- creditworthiness policy
- policy on the use of external service providers
- any extraordinary treasury issues
- the MRP strategy

The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios

The Investment Strategy

At the same time as the Council receives the Treasury Management Strategy it will also receive a report on the Investment Strategy which will set out the following: -

- The Council's risk appetite in respect of security, liquidity and optimum performance
- The definition of high credit quality to determine what are specified investments as distinct from non-specified investments
- Which specified and non-specified instruments the Council will use
- Whether they will be used by the in-house team, external managers or both (if applicable)
- The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- Which credit rating agencies the Council will use
- How the Council will deal with changes in ratings, rating watches and rating outlooks
- Limits of value and time for individual counterparties and groups
- Country limits
- Maximum value and maximum periods for which funds may be prudently invested

- Interest rate outlook
- Investment return expectations
- A review of the holding of longer-term investments
- Policy on the use of external service providers

The Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

Policy on Prudential and Treasury Indicators

The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.

The Chief Finance Officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Chief Finance Officer shall submit the changes for approval to the full Council

Quarterly and Mid-Year Reviews

The Council will review its treasury management activities and strategy on a quarterly and six monthly basis. The mid-year review will go to Full Council. This review will consider the following: -

- activities undertaken
- variations (if any) from agreed policies/practices
- interim performance report
- regular monitoring
- monitoring of treasury management and prudential indicators

The quarterly review will monitor the treasury management and prudential indicators as part of the authority's general revenue and capital monitoring.

Annual Review Report on Treasury Management Activity

- transactions executed and their revenue (current) effects
- report on risk implications of decisions taken and transactions executed
- compliance report on agreed policies and practices, and on statutory/regulatory requirements
- performance report
- report on compliance with CIPFA Code recommendations, approved policies and practices, the member approved treasury management strategy and on statutory/regulatory requirements
- monitoring of treasury management indicators.

**TMP7 - BUDGETING, ACCOUNTING AND AUDIT
ARRANGEMENTS**

The Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will as a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The form, which the City of Lincoln Council's budget will take, is set out in the schedule to this document. The Chief Finance Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The City of Lincoln Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's Treasury Management activities.

Budgets / Accounts / Prudential and Treasury Indicators

The Chief Finance Officer will prepare a five year medium term financial plan with Prudential and Treasury Indicators for Treasury Management which will incorporate the budget for the forthcoming year and provisional estimates for the following four years. This will bring together all the costs involved in running the function, together with associated income. The Chief Finance Officer will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

List of Information Requirements of External Auditors

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long-term loans taken out in the year

- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations (where used) including investment income schedules and movement in capital values.

Quarterly Budget Monitoring Report

Quarterly Budget Monitoring reports are produced for the Performance Scrutiny Committee. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of Treasury Management activities are included within this report.

TMP8 - CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the City of Lincoln Council will be under the control of the Chief Finance Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

Arrangements for Preparing/Submitting Cash Flow Statements -

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

– An up to date cash flow estimate will be maintained in order to effectively manage cash balances. The cash flow forecasts will be reviewed and discussed regularly among treasury staff (as above) and will influence the treasury management decision-making and analysis processes detailed in TMP3.

Arrangements for preparing/submitting medium to long-term forecasts of the organisation's net debt (or net investment) requirements consistent with its approved plans, eg through development of a liability benchmark -

A debt liability benchmark will be monitored on a quarterly basis to inform a long-term view of liquidity requirements. The benchmark will be analysed as part of the annual treasury management strategy and any substantial mismatches between actual loan debt outstanding and the liability benchmark will be explained.

Content and frequency of cash flow budgets

An annual cash flow forecast is produced prior to the beginning of the financial year. This forecast is reconciled to the closing ledger balance of the Council's Summary account bank statement on a daily basis. Cash flow forecasts are continually updated and revised in line with information received from a variety of sources.

The annual cash flow forecast consists of an estimate of the total income, total expenditure and Treasury Management transactions in the financial year.

Income receipts can be broken down into the following types:

- NNDR, Council Tax and Council House Rents
- Grants and Subsidy

- Capital Receipts from sale of assets
- VAT
- Debtor bills and other miscellaneous income from services provided by the Council

Expenditure can be broken down as follows:

- NNDR to DLUHC and Lincolnshire County Council
- Precepts to Lincolnshire County Council and Police and Crime Commissioner for Lincolnshire
- Pooling of Housing Capital Receipts to DLUHC
- General creditor payments for goods and services received
- Payment of Benefit to claimants
- Capital programme spend
- Monthly salary payments
- Income Tax and other deductions from salary (to HM Revenue and Customs)
- Grants
- Levies
- Insurance premiums

Treasury Management can be broken down as follows:

Investments

- Interest from maturing investments, Money Market Funds and Bank accounts
- Deposits to borrowers and investment maturities

Borrowing

- Interest payments on the Council's outstanding long-term debt
- Repayment of maturing debt including debt restructuring
- Receipt and repayment of short and longer-term loans

Listing of sources of information – the sources of information used to initially compile and regularly update the cash flow are as follows:

Income:

- DLUHC grant schedules (i.e. RSG)
- Other grant schedules (i.e. Home Office, DWP,)
- Internal Systems (i.e. Council Tax, Council House Rents, Capital Receipts, VAT, Debtors, Short and longer-term loans, Investment maturities and interest.)

Expenditure:

- DLUHC and Lincolnshire County Council payment schedules (i.e. NNDR payable)

- Lincolnshire County Council and Police and Crime Commissioner for Lincolnshire precept schedules
- Drainage Board schedules (Levies)
- Grant Forms (i.e. DLUHC pooling of Right To Buy capital receipts)
- Internal Systems (Housing Benefit Payments, Revenue and Capital Creditors, Payroll, Insurance premiums, Interest payments on the Council's outstanding debt, Investments, Maturing Debt)
- The Council's 5-year Financial Strategy to calculate the creditor payments for goods and services received (capital and revenue)

Bank statements procedures – Bank statements are available to be downloaded electronically on a daily basis from the Lloyds Commercial Banking online system. All amounts on the statements are checked to source data. Bank reconciliations are the responsibility of the Banking Team.

Payment scheduling and agreed terms of trade with creditors – Creditor payment runs are currently scheduled twice weekly. The majority of these payments (approximately 95% by total value) are paid by electronic means (primarily by BACS direct credit). The City Council aims to pay 100% of its creditors within their agreed payment terms or if no terms are quoted within 30 days of receipt of their demand for payment. The exception to this would be if the Council deems itself to be in dispute with its creditor; in which case the invoice will be paid within 30 days of that dispute being resolved. Furthermore, no invoice that is paid within 30 days to its creditor will be deemed to have been paid late for performance monitoring purposes even if the creditor's terms are less than 30 days.

Arrangements for monitoring debtor/creditor levels – The Exchequer Section is responsible for monitoring the levels of debtors and creditors. The recovery of outstanding Debtor invoices is undertaken by the Recovery Team within the Revenue and Benefits Shared Service, who follow strict recovery procedures. Recovery of debtors will be closely coordinated with the invoice issuing service area who will assist with recovery if possible.

Procedures for banking of funds – All money received by an officer on behalf of the Council will without unreasonable delay be deposited in the Council's bank account.

Practices concerning prepayments to obtain benefits - The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the Chief Finance Officer.

TMP9 - MONEY LAUNDERING

The City of Lincoln Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, procedures are maintained for verifying and recording the identity of counterparties, and reporting suspicions ensuring that staff involved in treasury activities and accepting payments are properly trained.

Money Laundering is defined as “*a process where the identity of the proceeds of criminal proceedings (dirty money) is changed through apparently legitimate transactions so that the money appears to originate from a legitimate source*”.

The City of Lincoln Council last updated its Anti-Money Laundering Policy Statement and Procedures in February 2023. The Policy is reviewed and presented to Audit Committee every two years.

The City of Lincoln Council is committed to prevent the Council and its employees being exposed to money laundering, to identify the risks where it may occur, and to comply with legal and regulatory requirements, especially with regards to reporting suspected cases.

The key message of this Policy is that if you suspect that money laundering activity may be taking place or proposed in relation to anything you are dealing with you should immediately disclose those suspicions to the Council's Money Laundering Reporting Officer (the Chief Executive). If the suspicion involves a proposed transaction (e.g. the sale of property or a significant cash receipt) you should not proceed with the transaction without approval from the Money Laundering Reporting Officer. You should defer the transaction in such a way as not to alert anyone else to your suspicions. If you believe you cannot reasonably do so, you should immediately contact the Money Laundering Reporting Officer or the Council's Monitoring Officer. There are two forms to complete depending on circumstances but in the first instance you should contact a deputy MLRO (City Solicitor or Chief Finance Officer) for advice.

Key Points

- The Council is committed to the prevention, detection and reporting of money laundering
- All employees should be vigilant for signs of money laundering
- An employee who suspects money laundering activity should report this promptly to the Money Laundering Reporting Officer
- The Council will not accept payments in cash that exceed £2,000

Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows, or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

The Money Laundering Regulations 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following: -

- identify and assess the risks of money laundering and terrorist financing
- have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures
- train relevant staff in the subject
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- report their suspicions.

Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts and may commit most of the principal offences under the POCA but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly, this Council will do the following: -

- evaluate the prospect of laundered monies being handled by them
- determine the appropriate safeguards to be put in place
- require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- make all its staff aware of their responsibilities under POCA
- appoint a member of staff to whom they can report any suspicions.
- in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the City Solicitor and it shall be a requirement that all services and departments implement this corporate policy and procedures.

▪ ***Procedures For Establishing Identity / Authenticity of Lenders***

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence, and this will be effected by following the procedures below.

The City of Lincoln Council will not accept loans from individuals. All loans are obtained from the Public Works Loan Board, other local authorities, or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA web site on www.fca.gov.uk. When repaying loans, the procedures below will be followed to check the bank details of the recipient.

• ***Methodology For Identifying Sources Of Deposit***

In the course of its treasury activities, the Council will only lend money to, or invest with, those counterparties that are on its approved lending list and meet minimum criteria (TMP schedule 1). The Council only places deposits with counterparties which have been credit checked by the Rating Agencies Fitch,

Moody's or Standard and Poor's. All transactions will be carried out by Direct Debit, BACS or CHAPS for making deposits or repaying loans.

TMP10 - STAFF TRAINING AND QUALIFICATIONS

The City of Lincoln Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Finance Officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The Chief Finance Officer will ensure that the council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a professional development process which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job, and it will be the responsibility of the Chief Finance Officer to ensure that all staff under their authority receive the level of training appropriate to their duties. This will also apply to those staff who from time-to-time cover for absences from the treasury management team.

Details of approved training courses

Treasury management staff and Councillors will undertake training, principally using seminars and training, where appropriate, provided by the Council's external treasury management advisors, CIPFA, money brokers etc.:

- bi-annual seminars, including workshops
- regional training
- specific training or individual briefing sessions

Records of Training Received by Treasury Staff

A record will be maintained of all training courses and seminars attended by staff engaged in treasury management activities.

Experience and Approved qualifications for treasury staff

All staff engaged on treasury management activities will undergo regular professional development reviews to assist in career development.

The Chief Finance Officer, Financial Services Manager and Principal Finance Business Partners will be professionally qualified accountants:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Other CCAB qualifications i.e.
 - Institute of Chartered Accountants in England and Wales (ICAEW),
 - Chartered Institute of Management Accountants (CIMA)
 - and Association of Certified Chartered Accountants (ACCA).
- Association of Accounting Technicians (AAT).

Those staff that are CIPFA members are required by their Institute to act in accordance with CIPFA's Standard of Professional Practice on Treasury Management and the Chief Finance Officer also has a responsibility to ensure that the relevant staff are appropriately trained.

Member training records

Records will be kept by Democratic Services of all training in treasury management provided to Members.

Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP11 - USE OF EXTERNAL SERVICE PROVIDERS**Details of contracts with service providers, including bankers, brokers, consultants, advisers and details of services provided**

The Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of the Council, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide the appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding of undue reliance:

- quality financial press
- market data
- information on government support for banks
- the credit ratings of that government support

Banking Services

- Name of supplier of service is Lloyds Bank.
 - Regulatory status – banking institution authorised to undertake banking activities by the FCA
 - The branch address is:
202 High Street, Lincoln LN5 7AP
Tel :-0345 602 1997
 - Contract commenced Jan 2022 and runs for 7 years until 2029 with an option to extend for a further 3 years.
 - Cost of service is variable depending on schedule of tariffs and volumes
 - Payments due monthly
 - The organisation may terminate the agreement at any time by giving one months' written notice to the Bank.
-
- Allpay provide services for the collection of Council Tax, Rent and sundry debtors through Post Office and Paypoint facilities.

Procedures and frequency for tendering services – The Council's main banking services are subject to tender.

The Allpay contract is due to be renewed for two years from 1st February 2024 with an option to extend for a further two years utilising a framework agreement.

Money-broking services

The Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Treasury Team regularly to see if any should be taken off the approved list and replaced by another choice and make appropriate recommendations to change the approved brokers list to the Chief Finance Officer. All of the following brokers are authorised and regulated by the Financial Conduct Authority.

Name of broker	Address and tel. no.
BGC Brokers	5 Churchill Place, London, E14 5HU 0207 894 7742
King & Shaxson Ltd	1st Floor Cutlers Court, 115 Houndsditch, London, EC3A 7BR 020 7426 5950
Tradition (UK) Ltd	Beaufort House, 15 St. Botolph Street, London, EC3A 7QX 020 7422 3566
Link Group	65 Gresham St, London, EC2V 7NQ 020 7204 7624
Imperial Treasury Services	Imperial House, 5 Port Hill, Hertford SG14 1PJ 01992 945550
Munix Municipal Exchange	9 Ainslie Place, Edinburgh EH3 6AT 07985 106188

The City Council does not have a formal written contract with any of these organisations, therefore the Council is not restricted to using these brokers.

Treasury Consultancy Services

The Council will seek to take expert advice on interest rate forecasts, annual Treasury Management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed as part of regular contract management meeting to check whether performance has met expectations.

- Name of supplier of service is Link Group, Treasury solutions. Their address is 65 Gresham Street London EC2V 7NQ

- Regulatory status: investment adviser authorised by the FCA
- Contract is reviewed and renewed annually, running from 1st January to 31st December.

Leasing Consultancy Services

The Council's Treasury Consultants Link Group provide leasing advice upon request as part of their contract.

Credit rating agency

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

Procedures and frequency for tendering services

See TMP 2 Performance measurement.

TMP12 - CORPORATE GOVERNANCE

The City of Lincoln Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The City of Lincoln Council has adopted the CIPFA Code of Practice on Treasury Management and has implemented the key principles of the Code. These are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The following documents are available for public inspection:

- Treasury Management Policy Statement
- Treasury Management Strategy Statement
- Investment Strategy
- Minimum Revenue provision policy statement
- Annual Treasury Outturn Report
- Quarterly Treasury Management monitoring reports
- Annual accounts and financial instruments disclosure notes
- Medium Term Financial Strategy
- Capital Programme
- Capital Strategy
- Minutes of Council / Cabinet / committee meetings

INVESTMENT MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS

City of Lincoln Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcome, investments in subsidiaries, and investment property portfolios.

City of Lincoln Council will ensure that all its investments are covered in the capital strategy or equivalent, and will set out, where relevant, its risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The City of Lincoln Council will maintain a schedule setting out a summary of existing material investments.

The Council recognises that many of the principles underlying TMPs 1 to 12 will apply to non-treasury investments as they do to treasury investments. However, some aspects are likely to differ, these are laid out below.

Risk Management [TMP1]

Due diligence processes and procedures are undertaken to reflect the additional risk the Council is taking on.

Independent and expert advice

Independent expert advice is sought for property purchases as part of the due diligence.

In carrying out due diligence, potential project risks are identified and relevant mitigation measures documented prior to approval. All risks are then managed in line with the Council's risk management policy which includes documenting risks on a risk register, assigning owners, regular review of risks and Red Amber Green (RAG) rating.

Verification of purchase price by external suitably qualified RICS Approved Valuers is obtained prior to any investment.

Performance measurement and management - including methodology and criteria for assessing the performance and success of non-treasury investments [TMP2]

The relevant aspects of TMP 2 will be applied when considering non-treasury investments.

Decision making, governance and organisation [TMP5]

The Financial Procedure Rules detail how capital projects are approved and added to the capital programme. For non-treasury investments the appropriate professional due diligence is carried out to support the decision making.

Reporting and management information [TMP6]

The relevant aspects of TMP 6 will be applied when considering non-treasury investments.

With regard to the specific non-treasury investments:

- Commercial Investment Properties within the Local Authority Area / Council Owned Commercial/Industrial Estates -

Details are reported in the Council's Capital Strategy.

Training and qualifications [TMP10]

Relevant knowledge and skills in relation to non-treasury investments will be arranged and maintained.

The relevant aspects of TMP10 will be applied when considering non-treasury investments. Treasury Management staff are either AAT or CCAB qualified and all CCAB qualified staff must complete the annual CPD requirements of their professional accountancy bodies. Training courses run by CIPFA and seminars and updates provided by Link Group are also attended.

With regard to non-treasury investments, the Council employs qualified and experienced staff such as accountants, solicitors and surveyors. It is fully supportive in providing access to courses both internal and external to enable those staff to complete their Continuing Professional Development (CPD) requirements.

The Council ensures that its Members are qualified to undertake their governance role by providing training opportunities and access to workshops, etc. Members will also required to undertake a self-assessment against the required competencies as set out in CIPFA's 'Effective Scrutiny of Treasury Management' assessment tool. The Council also procures expert advice and assistance such as financial and legal advice as and when required.

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AUDIT COMMITTEE

30 JANUARY 2024

SUBJECT:	ANTI-BRIBERY POLICY
DIRECTORATE:	CHIEF EXECUTIVE & TOWN CLERK
REPORT AUTHOR:	AMANDA STANISLAWSKI, AUDIT MANAGER

1. Purpose of Report

- 1.1 To obtain comments on and approve the updated Anti-Bribery Policy.

2. Background

- 2.1 The Bribery Act 2010 makes it an offence to offer, promise or give a bribe and to request, agree to receive or accept a bribe.
- 2.2 The Policy sets out the Council's policy on anti-bribery in accordance with the legislation and guidance.
- 2.3 The Council's Anti-Bribery Policy was last updated in 2021 and is due for review every two years.
- 2.4 A comparison with other recent Local Authority Anti-Bribery policies and best practice documents found that only paragraph 10 within the policy required updating. This paragraph has been updated to reflect the 2015 Public Contract Regulations. Other changes made are to the formatting to bring it into line with the other policies i.e. adding on a front sheet and review table. The full policy is attached with the changed paragraph highlighted in red text.

3. Strategic Priorities

Ensuring that the Council has effective arrangements in place for the prevention of Fraud and Corruption is part of the Council's overall governance framework. The Anti-bribery policy is one of the suite of policies which supports the overall Counter Fraud Policy.

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 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 this report there are no direct equality, diversity or human rights implications.

5. Recommendation

5.1 That the Audit Committee review and approve the latest version of the policy.

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? 1

List of Background Papers: None

Lead Officer: Amanda Stanislowski, Audit Manager
Email: Amanda.stanislowski@lincoln.gov.uk

Anti Bribery Policy

January 2024



Document Control

Organisation	City of Lincoln Council
Title	Anti bribery policy
Author	Amanda Stanislawski Audit Manager
Owner/Responsible Officer	Carolyn Wheater City Solicitor (Monitoring Officer)
Consultation	Audit Committee / Executive
Version	1.02
Next Review Date	January 2026

Review Arrangements: Every two years

Document Amendment History

Revision	Originator	Date	Description
1.01	John Scott	December 2021	No changes made.
1.02	Amanda Stanislawski	January 2024	Format changes, updated paragraph 10 and updated website links.



Anti-bribery Policy

1. Introduction

- 1.1 Bribery is an inducement or reward offered, promised, or provided to gain personal, commercial, regulatory, or contractual advantage.
- 1.2 There are four key offences under the Bribery Act 2010:
- bribery of another person (section 1)
 - accepting a bribe (section 2)
 - bribing a foreign official (section 6)
 - failing to prevent bribery (section 7)
- 1.3 The Bribery Act 2010 makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business.
- 1.4 There is also a corporate offence under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. This is what is known as a “strict liability” offence. This means that there is no need to prove negligence or management complicity. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

2. Policy Statement – Anti-Bribery

- 2.1 Bribery is a criminal offence. The Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor does, or will, the Council accept bribes or improper inducements.
- 2.2 To use a third party as a conduit to channel bribes to others is a criminal offence. The Council does not, and will not, engage indirectly in or otherwise encourage bribery.
- 2.3 The Council is committed to the prevention, deterrence, and detection of bribery.
- 2.4 The Council has zero-tolerance towards bribery and aims to maintain anti-bribery compliance “business as usual”, rather than as a one-off exercise.

3. Objective of this Policy

- 3.1 This policy provides a coherent and consistent framework to enable the Council's employees and members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees and members to identify and effectively report a potential breach.
- 3.2 The Council requires that all personnel, including those permanently employed, Members, temporary agency employees and contractors:
- To act honestly and with integrity at all times and to safeguard the Council's resources for which they are responsible.
 - To comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities.

4. Scope of this Policy

- 4.1 This policy applies to all the Council's activities. For partners, shared services, and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.
- 4.2 Within the Council, the responsibility to control the risk of bribery occurring resides at all levels of the Council. It does not rest solely within assurance functions, but in all business units and corporate functions.
- 4.3 This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency employees and members, contractors, nonexecutives, agents, Members (including independent members), volunteers and consultants.

5. The Council's Commitment to Action

5.1 The Council commits to:

- Setting out a clear anti-bribery policy and keeping it up to date. Providing a clear framework, guidelines and procedures for the identification and investigation of bribery
- Making all employees and members aware of their responsibilities to adhere strictly to this policy at all times.
- Encouraging its employees and members to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately.



- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution.
- Taking firm and vigorous action against any individual(s) involved in bribery.
- Provide information to all employees and members to report breaches and suspected breaches of this policy.
- Ensuring information is provided to enable the general public to report suspected cases of bribery, fraud, and corruption
- Include appropriate clauses in contracts to prevent bribery.

5.2 To help achieve these aims, the council will observe the six principles of:-

- Proportionate procedures
- Top level commitment
- Risk assessment
- Due diligence
- Communication (including training)
- Monitoring and review

5.3 Principle 1: Proportionate Procedures

The Council has procedures in place to prevent bribery by persons associated with it. These are proportionate to the bribery risks faced by the Council and to the nature, scale, and complexity of the Council's activities.

5.4 Principle 2: Top Level Commitment

This policy has been agreed by the Corporate Management Team and the Executive. The Chief Executive, the Chair of the Audit Committee and Directors are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.

5.5 Principle 3: Risk Assessment

The nature and extent of the Council's exposure to potential external and internal risks of bribery on its behalf by persons associated with it is periodically assessed. This includes financial risks but also other risks such as reputational damage.

Key areas of risk identified include property disposal, contracts including contract award and monitoring, grants and regulatory activity and enforcement. Risks will be subject review and monitoring and fraud risk reports (including the risk of bribery) will be considered by the Corporate Management Team and Members.

5.6 Principle 4: Due Diligence

The Council takes a proportionate and risk based approach, in respect of persons and third parties who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.

5.7 Principle 5: Communication (Including Training)

The Council seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces.

5.8 Principle 6: Monitoring and Review

Procedures designed to prevent bribery are monitored and reviewed and improvements are made where necessary.

6. Bribery is Not Tolerated

6.1 It is unacceptable to act in the following way:

- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given.
- Give, promise to give, or offer a payment, gift or hospitality to a government official, agent, or representative to "facilitate" or expedite a routine procedure.
- Accept payment from a third party that you know, or suspect is offered with the expectation that it will obtain a business advantage for them.
- Accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by the Council in return.
- Retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy engage in activity in breach of this policy.

7. Facilitation Payments

7.1 Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions. A common example is where a government official is given money or goods to perform (or speed up the performance of) an existing duty. Facilitation payments were illegal before the Bribery Act came into force and they are illegal under the Bribery Act, regardless of their size or frequency.



8. Employee and Member Responsibilities

8.1 The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or under its control. All employees and members are required to avoid activity that breaches this policy.

8.2 Employees and members must:

- ensure they adhere to legal and contractual requirements, procedures and practices including the Council's codes of conduct, Contract and Financial procedure rules and procurement guidelines. Ensure that they read, understand, and comply with this policy.
- Raise concerns as soon as possible if there is a belief that a conflict with this policy has occurred or may occur in the future.

8.3 As well as the possibility of civil and criminal prosecution, employees and members that breach this policy may face disciplinary action or other sanctions.

9. Gifts and Hospitality and Conflicts of Interest

9.1 This policy is not meant to change the requirements of the Council's stance on gifts and hospitality and existing Member and Officer Codes of Conduct still apply. The offering and acceptance of gifts, donations, sponsorship, and corporate hospitality should be strictly in accordance with the Council's codes and procedures. Conflicts of Interests should be managed in accordance with the Council's codes and procedures.

10. Public Contracts and Failure to Prevent Bribery

10.1 Under the Public Contracts Regulations 2015 a company is excluded from competing for public contracts for five years where it is convicted of a bribery or corruption offence. This mandatory exclusion also applies if a person convicted of these offences is a member of the bidder's administrative, management or supervisory body.

11. Raising Concerns

11.1 There are multiple channels to raise concerns. These can be via the line manager in the first instance or directly to the City Solicitor, Audit Manager or Human Resources Manager. More detail can be found in the Council's Whistleblowing policy. Reporting suspected cases is vital and this should be done as soon as possible. Retain all information that gave rise to concerns.

11.2 The Council is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity.

12. Investigation

The procedure for investigation follows the fraud response plan set out in the Counter Fraud strategy.

13. Other Relevant Policies

- Counter Fraud Policy / Strategy
- Anti-Money Laundering Policy
- Whistleblowing Policy
- Codes of Conduct
- Contract and Financial Procedure Rules
- Data Protection Policy
- Information Security policies



Annex 1

SANCTIONS

(A) Criminal Liability

1. Individuals

The maximum penalty for people convicted under the Bribery Act is 10 years imprisonment and/or personal fines.

Individuals may also be disqualified from being directors under the Company Directors Disqualification Act 1986.

2. Council

Unlimited fines may be imposed on organisations for failing to prevent bribery. The Serious Fraud Office has indicated that these are likely to be significant amounts. Organisations may also be debarred from bidding from public contracts.

Senior Officers and the Council can both be liable if it can be shown that the Council committed an act of bribery with the consent or connivance of a senior officer of or by a person purporting to act in such capacity.

(B) Civil Liability

In addition, or as an alternative to the criminal penalties, an action may be brought for the recovery of proceeds of crime under the Proceeds of Crime Act 2002, Part 5.

Annex 2

A. Countries Perceived to be high risk for Corruption

Transparency International annually publishes a Corruptions Perceptions Index (“CPI”) which is a useful indicator on the risks of corruption in any said country.

<https://www.transparency.org/en/cpi>.

B. Sectors Perceived to be high risk for Corruption

The Bribe Payers Index (“BPI”) 2011 lists industry sectors in accordance with statistics ranging from bribing officials to frequency of bribes. The survey is available at

<https://www.transparency.org/research/bpi/overview>.

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AUDIT COMMITTEE**30 JANUARY 2024**

SUBJECT: REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

**REPORT AUTHOR: AMANDA STANISLAWSKI, AUDIT MANAGER
JACLYN GIBSON, CHIEF FINANCE OFFICER**

1. Purpose of Report

- 1.1 To review the effectiveness of the Audit Committee against the CIPFA guidance on Audit Committees 2022.

2. Background

- 2.1 The report provides an assessment of the effectiveness of the Audit Committee against the recent guidance issued by CIPFA in October 2022.
- 2.2 A review of the effectiveness of the Audit Committee has been carried out in accordance with the Audit Committee Terms of Reference and good practice as recommended by CIPFA. The previous review was carried out in June 2021. This assessment focussed on reviewing Good Practice and the Impact and Effectiveness elements. The Knowledge and Skills element will be completed by June 2024.
- 2.3 As part of their guidance on good practice for Audit Committees, CIPFA produced a set of evaluation tools for use in assessing the effectiveness of the Audit Committee. We have used these when making our assessment.
- 2.4 The assessment was completed by the Chief Finance Officer and the Audit Manager initially and then a round table discussion took place, as agreed at Audit Committee in December, prior to being presented to the full Audit Committee.
- 2.5 A score of 165/200 was achieved for the Self Assessment of Good Practice and, whilst not scored, a good level of compliance was achieved against the evaluation of the impact and effectiveness of the Audit Committee. The assessment is summarised within the following report and appendices and an Action Plan is also attached covering the areas to be addressed.
- 2.6 A key area within the Action Plan is ensuring that members of the Committee have the necessary skills and training. A number of actions have been made to address the issues identified including providing the Group Leaders with more information on the skills required for Members of the Committee and the completion of an individual skills and knowledge assessment to inform a new Committee training plan. Transparency of attendance and inclusion of substitutes on the training will also be improved to ensure that all Members of the Audit Committee are fully trained.

- 2.7 The results of the review and progress on the actions is fed into the Annual Report and the Annual Governance Statement.

3. Audit Committee Effectiveness Review

3.1 Terms of reference review (TOR)

The TOR were last reviewed against the CIPFA guidance in February 2021 and reported to this Committee. A report was presented to Committee in December setting out the revised TOR which will now be presented to Full Council for approval. The assessment considers the TOR as it currently stands and the changes which have been suggested.

3.2 CIPFA Self Assessment

An assessment against the CIPFA Audit Committee self-assessment is attached at Appendix A. A score of 165/200 has been achieved with some improvements linked to the assessment being included within an Action Plan, attached as Appendix C. These improvements include:-

- Review and approval of the Audit Committee TOR.
- Providing the Group Leaders with more information to inform the selection of Members appointed to the Audit Committee.
- Completing a Member Skills and Knowledge framework assessment.
- Improvements to training including maintaining a separate register and inviting Committee substitutes to all training events.
- Improved contact with External Audit, Internal Audit and Managers in respect of private meetings and attendance at Committee meetings.

3.3 CIPFA Evaluation of the impact and effectiveness of the Audit Committee

An assessment against the CIPFA Evaluation is attached as Appendix B. This was not scored but overall there was a good level of compliance. Some improvements have been identified and have been included in the Action Plan, attached as Appendix C. These improvements include:-

- Audit Plan coverage for 2024/25.
- Providing additional training sessions where Members are unable to attend the original date.
- Making the quality report from the Financial Reporting Council available.

4. Summary and Conclusions

The assessment has resulted in an overall good level of compliance with CIPFA good practice. The Chair and Vice Chair have only been in place since June 2023, ensuring that they have the necessary processes in place, support, skills and knowledge is key to maintaining the effectiveness of the Audit Committee. The completion of the Action Plan, attached as Appendix C, will ensure that this is achieved and enable a revised training plan to be compiled to address any 'gaps' in knowledge and skills identified for the Audit Committee as a whole.

5. Strategic Priorities

Ensuring that the Council has effective arrangements in place for its Internal Audit Services and Audit Committee is a key part of the Council's overall governance framework.

6. Organisational Impacts

6.1 Finance (including whole life costs where applicable)

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

6.2 Legal Implications including Procurement Rules

The review of effectiveness ensures best practice is met and compliance with the Accounts and Audit regulations.

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 this report there are no direct equality, diversity or human rights implications.

7. Recommendations

7.1 Members consider and comment on the points raised from the review of effectiveness of the Audit Committee.

7.2 Note and comment on actions for the Audit Committee included within the Action Plan (Appendix C).

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?	3
List of Background Papers:	None

Lead Officer:

Amanda Stanislowski, Audit Manager
Email: Amanda.stanislowski@lincoln.gov.uk

CIPFA APPENDIX E

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. A regular self-assessment should be used to support the planning of the audit committee work programme and training plans. It will also inform the annual report.

Good practice questions	Does not comply	Partially complies and extent of improvement needed*			Fully Complies	Comments
	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	Please put a X in the relevant box
AUDIT COMMITTEE PURPOSE AND GOVERNANCE						
1. Does the authority have a dedicated audit committee that is not combined with other functions (eg standards, ethics, scrutiny)?					X	Yes – Audit Committee
2. Does the audit committee report directly to the governing body (PCC and chief constable/full council/full fire authority, etc)?					X	Yes - Reports to the Full council.
3. Has the committee maintained its advisory role by not taking on any decision-making powers?					X	Yes - TOR states purpose is to provide independent assurance to the Council members. It only makes provision for the approval of the Internal Audit Charter and Annual Internal Audit Plan. The Committee makes recommendations for Full Council approval.

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
4. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?				X		<p>A new TOR has been drafted to reflect CIPFA's 2022 Position Statement. This was presented to the Audit Committee in December and will be presented to Full Council for approval.</p> <p>Action 1:- Revised TOR to be approved by Full Council.</p>
5. Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?					X	<p>CMT fully aware of the role and purpose of the Committee. Full Council receive an annual report from the Chair of the Audit Committee which sets out the role, purpose and scope of the Committee's work. Training has been provided on the role of the Committee.</p>
6. Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?					X	<p>It is understood by the Audit Committee Chair that this could be done and the Committee's ToR makes reference to the ability to report and make recommendations on major issues or contraventions, however this has not been done in recent years. The Committee endorsed the revised action tracker process drawn up by the Audit Manager and require explanations from CMT for missed target dates.</p>

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
						Also covered in the Audit Committee Effectiveness training, last provided in July 2023.
7. Does the governing body hold the audit committee to account for its performance at least annually?					X	Annual report to Full council and bi-annual review of effectiveness completed.
8. Does the committee publish an annual report in accordance with the 2022 guidance, including:						
a) compliance with the CIPFA Position Statement 2022					X	The 2023 Audit Committee Chair's annual report to Council includes activity of the Committee and a statement reflecting compliance with the CIPFA 2022 Position Statement.
b) results of the annual evaluation, development work undertaken and planned improvements					X	The 2023 report covers the work undertaken and impact and reference to the action plan covering the areas for improvement.
c) how it has fulfilled its terms of reference and the key issues escalated in the year?					X	Various references to the ToRs and compliance.

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
FUNCTIONS OF THE COMMITTEE						
9. Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?						
a) Governance arrangements					X	Yes – Section 3
b) Risk management arrangements					X	Yes – Section 3
c) Internal control arrangements, including: <ul style="list-style-type: none"> • financial management • value for money • ethics and standards • counter fraud and corruption 					X	Yes – Section 3
d) Annual governance statement					X	Yes – Section 4
e) Financial reporting					X	Yes – Section 4
f) Assurance framework					X	Yes – Section 5
g) Internal audit					X	Yes – Section 5
h) External audit					X	Yes – Section 5
10. Over the last year, has adequate consideration been given to all core areas?					X	Yes – All areas have been included within the Work plan, specifically:- Governance – Jun, Dec & Mar Risk Management – Jul AGS – Jun & Nov Financial Reporting – Jul, Nov & Mar Internal Audit* – 6/7 meetings External Audit* – 6/7 meetings *Includes Internal control and assurance.

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
11. Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?					X	Yes – agendas are agreed and the Chair ensures that the discussions at Committee do not stray into matters which fall under the responsibility of other Committees.
12. Has the committee met privately with the external auditors and head of internal audit in the last year?				X		<p>The Audit Committee have not met privately with the Internal or External Auditors as there has not been anything which has led to a need to. The Chair and Vice Chair have met with the Head of Internal Audit outside of the Committee meetings with the CFO present. The Chair of the Audit Committee is aware that they could arrange to meet in private if they so wished. There is a statement at the end of the Work plan saying that these meetings can be arranged.</p> <p>Action 2: Schedule in private meetings with the Audit Committee, the Audit Manager and the External Auditors at least once a year.</p>

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
MEMBERSHIP AND SUPPORT						
13. Has the committee been established in accordance with the 2022 guidance as follows?						
a) Separation from executive			X			<p>The CIPFA position statement makes it clear that the Audit Committee is established as independent of executive decision making. This is the case as the Mayor is not on the Committee and none of the seven Councillors sit on the Executive.</p> <p>However, the CIPFA guidance 2022 recommends that 2 years pass before a councillor who previously held a senior policy role joins the Audit Committee. The Chair was previously on the Executive. Leadership has been made aware of the new guidance.</p> <p>Action 3: The guidance is considered when the appointments to the Audit Committee are made for 2024/25.</p>

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
b) A size that is not unwieldy and avoids use of substitutes				X		<p>Committee is made up of 7 Councillors with a quorum of 3. Substitutes are allowed provided they have met training requirements.</p> <p>Action 4: Ensure that all substitutes are invited to and encouraged to attend the training sessions.</p> <p>Action 5: A register is maintained of all training sessions provided and attendees and is reported to Committee annually.</p> <p>Action 6: The potential to make training mandatory for all Members of the Audit Committee, including substitutes is investigated.</p>
c) inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation				X		<p>Legislation not currently in place but proposal is for one Independent Member. Council currently has this in place and has this in the TOR.</p> <p>CIPFA guidance recommends that two are appointed.</p>

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
						Action 7: As part of the TOR review, Audit Committee consider the inclusion of an additional independent member.
14. Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?			X			<p>The independent member was selected via application and assessment against a Job role and Person Specification.</p> <p>In terms of the members, they are selected from current serving elected members and the correct political balance is maintained. Selections are made by each political party.</p> <p>Following the May 2023 elections there is a new Chair and Vice of the Audit Committee. The Chair is new to the Audit Committee (previous Executive Member). The Vice Chair has previously served on the Audit Committee. Of the five other Members, one was new to the Audit Committee.</p>

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
						<p>Action 8: Member skills and knowledge framework assessment to be undertaken and appropriate training plan (in addition to existing training programme) to be considered.</p> <p>Action 9: The (blank) member skills and knowledge framework is shared with the Group Leaders prior to the appointment of the 2024/25 Audit Committee along with the recommendation that continuity of members on the Audit Committee is maintained.</p>
15. Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?		X				<p>Last knowledge and skills assessment undertaken in July 2021. This does not reflect the current committee membership. Although a training programme is in place for the committee based on generic core skills.</p> <p>Action 8: As above.</p>

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
16. Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?				X		Regular training is provided to Committee Members, covering topics such as Audit Committee Effectiveness, Financial Statements, Treasury Management, Risk Management and Counter Fraud. A new plan will be devised to reflect knowledge and skills self assessments and to ensure coverage of areas within the 2022 guidance. Action 8: As above.
17. Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?			X			There was a satisfactory level of knowledge within the previous Audit Committee but a review has not been undertaken to fully ascertain if this meets the 2022 guidance and ascertain the knowledge of new members. Action 8: As above.
18. Is adequate secretariat and administrative support provided to the committee?					X	Yes. There is a Democratic Services Officer to provide dedicated administrative support to the Audit Committee and the support provided is effective.

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
19. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?					X	Yes. The Audit Committee Chair has regular meetings with the Audit Manager and Chief Finance Officer, both attend each Audit Committee. External Audit attend most Audit Committee meetings.
EFFECTIVENESS OF THE COMMITTEE						
20. Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?				X		<p>The Chair of the Audit Committee reports to Council on an annual basis and Council Members are able to ask questions and provide feedback in the meeting. There has not been any negative feedback received.</p> <p>External Audit in their report gave a positive view on the effectiveness of the Committee and that they gave appropriate challenge.</p> <p>Action 10: Review future Audit Committee Chair reports to Council with a view to including a recommendation to obtain detailed feedback.</p>
21. Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?			X			The current Committee Chair is an experienced elected Member, previously an Executive Member and Chair of other Committees but is new to the Audit Committee and settling into the role.

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
						<p>It is noted that the current Chair has been unable to attend the last two meetings and these have been chaired by the Vice Chair.</p> <p>Action 8: As above. Action 11: Specific training on the role of the Audit Committee Chair is provided.</p>
22. Are meetings effective with a good level of discussion and engagement from all the members?				X		<p>Meetings are quorate and there is a good level of discussion on agenda items. Some members of the Committee are new and require more time and knowledge to enable them to fully participate. Officers attending are open to questions and where answers cannot be given at the meeting these are followed up in an action tracker.</p> <p>Members attended the Lincolnshire Forum previously and found it very useful.</p> <p>Action 8: As above.</p> <p>Action 12: Liaison with Audit Committee Members from other Councils to share good practice either through attending the Lincolnshire forum (if reinstated)</p>

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
						or attending other Committees as an observer. Chief Finance Officer and Audit Manager to raise the usefulness of the Lincolnshire Audit Forum with the County Council who previously organised it.
23. Has the committee maintained a non-political approach to discussions throughout?					X	Yes
24. Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?				X		The Audit Committee are aware they can ask officers to attend and do sometimes request officers to attend following Limited Assurance Audit reports or overdue actions. There is not a similar process in place for other reports with reporting officers fielding the questions and providing written responses after the meeting. Action 13: The Committee pre-meetings with the Chair and Vice Chair include discussions on when it might be appropriate to request officers to attend.
25. Does the committee make recommendations for the improvement of governance, risk and control arrangements?					X	This has not been required as yet, but the option is available if needed.

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
						The Committee reviews and recommends the AGS for approval to Full Council.
26. Do audit committee recommendations have traction with those in leadership roles?					X	None have been made in the last two years. The Chief Finance Officer attends each Committee meeting. The Chief Executive and members of the Corporate Management Team have also attended Committee during the past twelve months.
27. Has the committee evaluated whether and how it is adding value to the organisation?					X	<p>The Annual report to Council outlines the impacts of the Committees work. The reports were previously shared with the whole Committee prior to going to Full Council but due to time constraints this was not the case this year.</p> <p>Action 14 – The Chairs report is shared with members of the Audit Committee for comment before being sent through for the Full Council Agenda.</p>

	Major improvements	Significant improvements	Moderate improvements	Minor improvements	No further improvements	
Weighting of answers	0	1	2	3	5	
28. Does the committee have an action plan to improve any areas of weakness?			X			<p>Not currently. A previous action plan was completed in July 2021 on the basis of the last effectiveness self-assessment.</p> <p>Action 15: Action plan to be produced following this review and monitored through the Committee to ensure progress is made.</p>
29. Has this assessment been undertaken collaboratively with the audit committee members?					X	<p>As the Audit Committee has a new Chair and Vice Chair this assessment was initially completed by the Audit Manager and Chief Finance Officer. A meeting to discuss and review the draft took place with the Chair, Vice Chair, Independent Member and a member from the two other opposition parties.</p>
SUB TOTAL SCORE	0	1	10	24	130	
TOTAL SCORE	165					

Maximum score = 200

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Evaluating the impact and effectiveness of the audit committee

An audit committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'.

The improvement tool below can be used to support a review of effectiveness. It identifies the broad areas where an effective audit committee will have impact.

Figure 1: The influential audit committee



The table includes examples of what the audit committee might do to have impact in each of these areas.

The third area includes key indicators that might be expected to be in place if arrangements are in fact effective. These indicators are not directly within the control of the audit committee, as it is an advisory body. They do provide an indication that the authority has put in place adequate and effective arrangements, which is the purpose of the committee.

Use the tool for discussion and evaluation of the strengths and weakness of the committee, identifying areas for improvement.

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Promoting the principles of good governance and their application to decision making.	<ul style="list-style-type: none"> Supporting the development of a local code of governance. Providing a robust review of the AGS and the assurances underpinning it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships. 	<ul style="list-style-type: none"> Elected members, the leadership team and senior managers all share a good understanding of governance, including the key principles and local arrangements. Local arrangements for governance have been clearly set out in an up-to-date local code. The authority's scrutiny arrangements are forward looking and constructive. Appropriate governance arrangements established for all collaborations and arm's-length arrangements. The head of internal audit's annual opinion on governance is satisfactory (or similar wording). 	<p>Code of governance in place and presented to Committee 06/07/21. Annual review undertaken with last one being April 2023. Audit Committee play an appropriate role in the approval of the AGS and monitor implementation of actions. The Council has effective scrutiny arrangements in place. Review reports from IA and EA including summary findings. HIA opinion on governance is performing well. Report received on partnership governance annually.</p> <p>No proposed actions.</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Contributing to the development of an effective control environment.	<ul style="list-style-type: none"> Encouraging ownership of the internal control framework by appropriate managers. Actively monitoring the implementation of recommendations from auditors. Raising significant concerns over controls with appropriate senior managers. 	<ul style="list-style-type: none"> The head of internal audit's annual opinion over internal control is that arrangements are satisfactory. Assessments against control frameworks such as CIPFA's FM Code have been completed and a high level of compliance identified. Control frameworks are in place and operating effectively for key control areas – for example, information security or procurement. 	<p>The latest HIA opinion assessed internal control as performing adequately due to higher number of limited reports and increased number of high recommendations as well as recruitment and capacity challenges.</p> <p>Improved audit recommendation tracking process now in place, with improved engagement from services. Audit Committee calls relevant officers to attend Committee to discuss areas of specific concern and in the cases of limited assurance reports. Assessment against the Financial Model Code remains compliant and was presented to Committee. Information governance report provided six monthly. External Audit reported the Audit Committee as being effective.</p> <p>No proposed action for Audit Committee – actions to address recruitment/capacity addressed elsewhere.</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	<ul style="list-style-type: none"> • Reviewing risk management arrangements and their effectiveness, eg risk management maturity or benchmarking. • Monitoring improvements to risk management. • Reviewing accountability of risk owners for major/strategic risks. 	<ul style="list-style-type: none"> • A robust process for managing risk is evidenced by independent assurance from internal audit or external review. 	<p>Annual Risk Management update report presented to Committee includes strategy, update, strategic risk register.</p> <p>Risk Management training provided to the Audit Committee. There were several members of the Committee who were unable to attend.</p> <p>Internal Audit undertaken in 2020/21 Key Control and full 2019/20.</p> <p>As assessed within the Self Assessment of Good Practice Q 9&10 Risk Management arrangements have been covered in Committee reports and is covered within the ToR.</p> <p>Action 16: Committee ensure that Risk Management is covered in the 2024/25 Audit plan.</p> <p>Action 17: Training on risk management is provided to all members of the Audit Committee (including substitutes) who were unable to attend the previous session.</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	<ul style="list-style-type: none"> • Reviewing the adequacy of the leadership team's assurance framework. • Specifying the committee's assurance needs, identifying gaps or overlaps in assurance. • Seeking to streamline assurance gathering and reporting. • Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit. 	<ul style="list-style-type: none"> • The authority's leadership team have defined an appropriate framework of assurance, including core arrangements, major service areas and collaborations and external bodies. 	<p>Combined assurance work undertaken and used to inform the Audit Plan. Results included within the Annual Report for Committee. Review of effectiveness of Committee and IA undertaken. Review of Treasury Management strategy. Review of Internal Audit and External Audit plans. Where limited assurance reports are issued managers are invited to Committee to respond to questions on the report and discuss actions being taken.</p> <p>No proposed actions.</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Supporting effective external audit, with a focus on high quality and timely audit work.	<ul style="list-style-type: none"> • Reviewing and supporting external audit arrangements with focus on independence and quality. • Providing good engagement on external audit plans and reports. • Supporting the implementation of audit recommendations. 	<ul style="list-style-type: none"> • The quality of liaison between external audit and the authority is satisfactory. • The auditors deliver in accordance with their audit plan, and any amendments are well explained. • An audit of high quality is delivered. 	<p>A number of meetings are held between the Chief Finance Officer and/or Financial Services Manager and the External auditors. In addition, the Chief Executive and Monitoring Officer have annual meetings with External Audit. There are well known and documented difficulties sector wide regarding the closure of outstanding Financial Accounts. These are regularly discussed at Audit Committee. The Council will change External Auditor with effect from the 2023/24 financial year from Mazars to KPMG. The quality of the service is monitored through PSAA/FRC. External Audit attend most Committee meetings and submit Progress reports and other reports. Questions asked over coverage and fees.</p> <p>As part of the Self Assessment Q12 an action was made to schedule in a private meeting at least annually.</p> <p>Action 18: Make latest quality report from the FRC available to the Audit Committee.</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Supporting the quality of the internal audit activity, in particular underpinning its organisational independence.	<ul style="list-style-type: none"> • Reviewing the audit charter and functional reporting arrangements. • Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements. • Actively supporting the quality assurance and improvement programme of internal audit. 	<ul style="list-style-type: none"> • Internal audit that is in conformance with PSIAS and LGAN (as evidenced by the most recent external assessment and an annual self-assessment). • The head of internal audit and the organisation operate in accordance with the principles of the CIPFA Statement on the Role of the Head of Internal Audit (2019). 	<p>Charter is presented to the Audit Committee every 3 years or after any significant change. It is also circulated annually to Committee members.</p> <p>IA conforms with PSIAS as evidenced during recent External Quality inspection.</p> <p>New HoIA assessment carried out against the statement and will be reported to Committee together with the Quality Assurance and Improvement Programme (QAIP). Committee provide challenge over resources and coverage.</p> <p>Bi-annual assessment of effectiveness of Committee and IA.</p> <p>No proposed actions.</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Aiding the achievement of the authority's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.	<ul style="list-style-type: none"> • Reviewing how the governance arrangements support the achievement of sustainable outcomes. • Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. • Reviewing the effectiveness of performance management arrangements. 	<ul style="list-style-type: none"> • Inspection reports indicate that arrangements are appropriate to support the achievement of service objectives. • The authority's arrangements to review and assess performance are satisfactory. 	<p>Reports on risk and audit strategies and findings received by Committee. Chair of performance scrutiny on the Audit Committee.</p> <p>Receive IA reports on performance management. Recent report received Limited Assurance, Committee monitor the implementation of the actions. IA review major projects as part of the plan and refer to the Audit Committee.</p> <p>As assessed within the Self Assessment of Good Practice Q 9&10 arrangements for these have been covered in Committee reports.</p> <p>No proposed actions.</p>
Supporting the development of robust arrangements for ensuring value for money.	<ul style="list-style-type: none"> • Ensuring that assurance on value-for-money arrangements is included in the assurances received by the audit committee. • Considering how performance in value for money is evaluated as part of the AGS. • Following up issues raised by external audit in their value-for-money work. 	<ul style="list-style-type: none"> • External audit's assessments of arrangements to support best value are satisfactory. 	<p>The annual value for money opinion report from the external auditors to those charged with governance is presented in full to Members. No issues have been raised.</p> <p>Ad-hoc reports can be reported to Committee.</p> <p>Any VFM work completed or issues raised by IA reported to Committee.</p> <p>No proposed actions.</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<ul style="list-style-type: none"> Reviewing arrangements against the standards set out in the <i>Code of Practice on Managing the Risk of Fraud and Corruption</i> (CIPFA, 2014). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors. 	<ul style="list-style-type: none"> Good ethical standards are maintained by both elected representatives and officers. This is evidenced by robust assurance over culture, ethics and counter fraud arrangements. 	<p>Receive 6 monthly reports on fraud including fraud risks annually. Report includes the counter fraud action plan.</p> <p>Culture and ethics – were covered in a values and behaviour audit in 2019 but not covered directly since. Does not fully consider the areas set out in the Code of Practice particularly exploring opportunities for financial savings through enhanced fraud detection and prevention.</p> <p>Counter fraud training on the training plan for Members and the slides for the staff training have been shared with Audit Committee members.</p> <p>Action 19: The Internal Audit plan for 2024/25 considers how assurance can be evidenced over culture, ethics and counter fraud arrangements.</p>

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	<ul style="list-style-type: none"> Working with key members/the PCC and chief constable to improve their understanding of the AGS and their contribution to it. Improving how the authority discharges its responsibilities for public reporting – for example, better targeting the audience and use of plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency. Publishing an annual report from the committee. 	<ul style="list-style-type: none"> The authority meets the statutory deadlines for financial reporting with accounts for audit of an appropriate quality. The external auditor completed the audit of the financial statements with minimal adjustments and an unqualified opinion. The authority has published its financial statements and AGS in accordance with statutory guidelines. The AGS is underpinned by a robust evaluation and is an accurate assessment of the adequacy of governance arrangements. 	<p>Audit Committee meeting agendas are published on the Councils website along with the minutes. Meetings are open to the public. Annual report regarding the work of the Committee produced and presented to Full Council. The Statement of Accounts, the External Audit ISA 260 & Management Letters are published in line with guidelines as far as possible.</p> <p>The AGS is published and underpinned with supporting information and correlates to the IA and EA findings. Actions are followed up and reported.</p> <p>No proposed actions.</p>

OVERALL QUESTIONS TO CONSIDER

- 1 Does the committee proactively seek assurance over the key indicators?
- 2 How proactive is the committee in responding to aspects of governance, risk, control and audit that need change or improvement?
- 3 Are recommendations from the committee taken seriously by those responsible for taking action?

REPORTING RESULTS

The outcome of the review can be used to inform the committee's annual report.

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AUDIT COMMITTEE ACTION PLAN 2023

Last Update: December 2023

Last Reported to Audit Committee:

No.	Action	Date	Progress	Responsibility / Status
1.	Revised Terms of Reference to be agreed by the Audit Committee and presented to Full Council for approval.	Audit Committee – Dec 2023 Full Council – TBC	Presented to the Audit Committee on 12 December 2023	AM / CFO
2.	Schedule in a private meeting with the Audit Committee, the Audit Manager and the External Auditors at least once a year.	Mar 2024		AM
3.	The guidance is considered when the appointments to the Audit Committee are made for 2024/25.	Jun 2024		CFO / Leader
4.	Ensure that all substitutes are invited to and encouraged to attend the training sessions.	Jan 2024		Democratic Services / CFO
5.	A register is maintained of all training sessions provided and attendees and is reported to Committee annually.	Jan 2024		AM
6.	The potential to make training mandatory for all Members of the Audit Committee, including substitutes is investigated.	Jan 2024		CFO / AM
7.	As part of the TOR review, Audit Committee consider the inclusion of an additional independent member.	Dec 2023	Discussed at Audit Committee and decision taken to look into the appointment of a second independent member.	Committee Chair
8.	Member skills and knowledge framework assessment to be undertaken and appropriate training plan (in addition to existing training programme) to be considered.	Jun 2024		Committee Members / CFO / AM

No.	Action	Date	Progress	Responsibility / Status
9.	The (blank) member skills and knowledge framework is shared with the Group Leaders prior to the appointment of the 2024/25 Audit Committee along with the recommendation that continuity of members on the Audit Committee is maintained.	May/Jun 2024		CFO / Group Leaders
10.	Review future Audit Committee Chair reports to Council with a view to including a recommendation to obtain detailed feedback.	Jan 2024		Committee Chair / CFO
11.	Specific training on the role of the Audit Committee Chair is provided.	Jun 2024		Committee Chair / CFO / AM
12.	Liaison with Audit Committee Members from other Councils to share good practice either through attending the Lincolnshire forum (if reinstated) or attending other Committees as an observer. Chief Finance Officer and Audit Manager to raise the usefulness of the Lincolnshire Audit Forum with the County Council who previously organised it.	Jun 2024		Committee Chair / CFO / AM
13.	The Committee pre-meetings with the Chair and Vice Chair include discussions on when it might be appropriate to request officers to attend.	Jan 2024		Committee Chair / CFO / AM
14.	The Chairs report is shared with members of the Audit Committee for comment before being sent through for the Full Council Agenda.	Dec 2024		Committee Chair
15.	Action plan to be produced following this review and monitored through the Committee to ensure progress is made.	Jan 2024		AM
16.	Committee ensure that Risk Management is covered in the 2024/25 Audit plan.	Mar 2024		Committee Members / AM
17.	Training on risk management is provided to all members of the Audit Committee (including	Jun 2024		Committee Members / CFO

No.	Action	Date	Progress	Responsibility / Status
	substitutes) who were unable to attend the previous session.			
18.	Make latest quality report from the FRC available to the Audit Committee.	Jan 2024		CFO
19.	The Internal Audit plan for 2024/25 considers how assurance can be evidenced over culture, ethics and counter fraud arrangements.	Mar 2024		AM

AUDIT COMMITTEE DRAFT TRAINING PLAN

Area	Target Date / Progress
Counter Fraud Training	E-Learning provided. Awaiting LCC for provision of face to face training.

AUDIT COMMITTEE**30 JANUARY 2024**

SUBJECT: INDEPENDENT MEMBER

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: AMANDA STANISLAWSKI, AUDIT MANAGER

1. Purpose of Report

- 1.1 To consider the arrangements for the appointment of Independent Members to the Audit Committee.

2. Background

- 2.1 An Independent Member is a Committee Member who is not an elected representative but recruited to join the Committee. These members are appointed to increase the knowledge and experience of the committee reinforcing its independence. The role of the independent member is set out within their job specification and whilst it primarily follows that of the elected members the main difference within the Council is that they do not have any voting rights and cannot chair the meetings.
- 2.2 Following the issue of CIPFA Best Practice a decision was taken to appoint an Independent Audit Committee Member in October 2012. There has now been an Independent Member on the Committee since July 2013.
- 2.3 The current Independent Member has been in post since April 2016 and under the terms of the appointment, extensions can be given every two years up to a maximum term of eight years. This will therefore expire in April 2024.
- 2.4 Since the appointment was made CIPFA revised their guidance in 2022 setting out that it is now good practice to have two Independent Audit Committee Members.
- 2.5 Following a review of the Committee Terms of Reference in March 2015 a recommendation was made to Council for remuneration to be awarded for the Independent Member and this was set at £500 per year. This has not been increased and remains at £500.
- 2.6 A recent review of the Audit Committee Terms and Reference and review of the Effectiveness of the Audit Committee have considered the number of Independent Audit Committee Members. As the current Independent Member is reaching the end of her term it is an opportune time to consider the options for the future.

3. Appointment of Independent Members

- 3.1 The CIPFA guidance on Audit Committees issued in 2022 recommends that Councils appoint two Independent Members to the Audit Committee. They set out the following reasons for this:-

- To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.
- To provide continuity outside the political cycle. This is of particular importance where membership of the committee changes annually or because of elections.
- To help achieve a non-political focus on governance, risk and control matters.
- Having two co-opted members rather than one will allow recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the committee.
- Having two co-opted members shows a commitment to supporting and investing in the committee.

3.2 Information was obtained of the number of Independent Audit Committee members on other local Councils (See 4.3 below) and there were three which had two, two with one and two Councils which currently had no Independent members.

3.3 Whilst there is no legislative requirement to have any Independent Audit Committee members it is good practice and legislation is currently proposed which would require Councils to have at least one Independent Audit Committee member.

3.4 During the Audit Committee in December 2023 it was agreed that the Council look into appointing a further Independent Audit Committee member. This report looks to re-affirm this and agree that this is incorporated into the revised Terms of Reference for the Committee and recommended to Council for approval. This would be on the basis of the Terms of Reference setting out a minimum of one independent and a maximum of two. This will allow flexibility if there is difficulty in recruiting two independent members.

4. Remuneration of the Independent Members

4.1 Within the Terms of Reference the Committee is responsible for determining and authorising the allowances for the Independent Member.

4.2 The current level of remuneration is £500 and has been at this level since 2016.

4.3 Information was obtained on the levels of remuneration paid to Independent Members of other local Councils and these are shown below:-

Council	Remuneration	Number of Independent Members
West Lindsey	£60 per meeting plus expenses (7 meetings a year)	2
East Lindsey	Mileage	2 (1 vacant)
South Holland	N/A	None - reviewing
Boston	£426.36	1
North Kesteven District Council	£745	2 (1 vacant, 2 vacancies advertised Jan 2024)
Newark and Sherwood District Council	£500	1

South Kesteven District Council	N/A	None
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- 4.4 The review shows that the current remuneration paid is comparable to those paid at other local Councils, with only one paying more.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

There will be financial implications of increasing the number of Independent Audit Committee members and increasing the remuneration. These are likely to be a minimum of £500 per year and will be accommodated within existing cash limit budgets.

5.2 Legal Implications including Procurement Rules

Although not a legislative requirement, best practice and the revised CIPFA 2022 position statement, endorsed by the Department for Levelling Up, Housing and Communities recommend that audit committees in local government should include at least two co-opted independent members.

5.3 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

The appointment process will be undertaken in accordance with the Public Sector Equality Duty.

6. Recommendations

- 6.1 Committee formally considers the appointment of an additional Independent Audit Committee member and requests that this is incorporated into the revised Terms of Reference to be submitted to Full Council for approval.
- 6.2 Committee review the remuneration of the Independent Audit Committee members and consider whether an increase is required for 2024/25.
- 6.3 Subject to 6.1, Committee approve the re-advertising of the position of Independent Audit Committee member to be appointed for the June Committee.

Is this a key decision?

~~Yes~~/No

Do the exempt information categories apply?

~~Yes~~/No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

~~Yes~~/No

How many appendices does the report contain?

None

List of Background Papers:

None

Lead Officer:

Amanda Stanislawski, Audit Manager
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AUDIT COMMITTEE**30 JANUARY 2024****SUBJECT: AUDIT COMMITTEE WORK PROGRAMME 2023/24****DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK****REPORT AUTHOR: AMANDA STANISLAWSKI AUDIT MANAGER****1. Purpose of Report**

- 1.1 To provide details of the Audit Committee work programme for 2023/24.

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 2022 Edition, as providing an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.
- 2.2 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'.
- 2.3 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.
- 2.4 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 2023/24 Work Programme

- 3.1 The proposed work programme for 2023/24 based on the Committee's Terms of Reference and cyclical reporting, 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):
- Internal Audit Progress Report – this has been removed from the January meeting due to the close proximity to the previous report.
 - Counter Fraud Policy/Strategy – this has been deferred to the March Committee to enable the consultation process to take place.

- Appointment of Independent Member – Following the review of effectiveness of the Audit Committee an additional report has been added to the January Committee covering the Independent Member remuneration and appointment.
- External Audit Completion report (21/22) – The External Auditors are now able to issue the final audit opinion following completion of the work to address the national issue in respect of the Pension Fund 2022 Triennial valuation.

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 2023/24 the following training is scheduled/has been provided:

- 6 June 2023 – Local Government Financial Statements - Provided
- 17 July 2023 – Audit Committee Effectiveness – Provided
- 16 August 2023 – Risk Management (All Members) - Provided
- 30 January 2024 – Treasury Management – Scheduled
- TBC – Counter Fraud Training

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

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

5.2 Legal Implications including Procurement Rules

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

5.3 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

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

6 Risk Implications

- 6.1 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.

7. Recommendation

- 7.1 Audit Committee are asked to comment on and agree the updated work programme for 2023/24.

Is this a key decision? Yes/No

Do the exempt information categories apply? Yes/No

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

How many appendices does the report contain? Two

List of Background Papers: None

Lead Officer: Amanda Stanislowski, Audit Manager
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Audit Committee terms of reference (Constitution)

9.1 Audit Committee

The Council will appoint an Audit Committee.

9.2 Composition

Audit Committee

- (a) The Audit Committee will comprise of seven Councillors and 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.
- (g) 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 2023/24**

Meeting dates	Audit Items – Revised Agenda	Training
6 th June 2023	<ul style="list-style-type: none"> • Annual Internal Audit Report • Annual Fraud & Error Report • Information Governance Update • Annual Governance Statement (Draft) • External Audit – Progress Report • Audit Committee Work Programme 	Local Government Financial Statements
17 th July 2023	<ul style="list-style-type: none"> • Statement of Accounts (Draft) • Internal Audit Progress Report • Audit Recommendations Follow Up Report • Risk Management Annual Update • External Audit – Progress Report 	Audit Committee Effectiveness
12 th Sept 2023	<i>Cancelled due to room availability. Replaced with previously cancelled meeting on 25th September which was scheduled pending confirmation of the date for the completion of the unaudited Statement of Accounts.</i>	
25 th Sept 2023	<ul style="list-style-type: none"> • External Audit – Annual Auditor's Report 2021/22 • Annual Complaints Report • Internal Audit Revised Audit Plan • Audit Committee Work Programme • 	
8 th Nov 2023	<ul style="list-style-type: none"> • Statement of Accounts 22/23 (including Annual Governance Statement) Final • External Audit – Audit Completion report (22/23) 	

APPENDIX B

Meeting dates	Audit Items – Revised Agenda	Training
12 th Dec 2023	<ul style="list-style-type: none"> • Internal Audit progress Report • Audit Recommendations Follow Up Report • Six Month Fraud & Error Report • Review of Effectiveness of Internal Audit • Review of Effectiveness of Audit Committee • Audit Committee Terms of Reference • Information Governance update • Audit Committee Work Programme 	
30 th Jan 24	<ul style="list-style-type: none"> • Internal Audit Progress Report • Treasury management Policy and Strategy • Anti Bribery Policy • Review of Effectiveness of Audit Committee • Appointment of Independent Member(s) • External audit – Annual Audit letter (22/23) • External audit - Annual Audit letter (21/22) • Audit Committee Work Programme 	Treasury Management
21 st Mar 24	<ul style="list-style-type: none"> • Internal Audit Progress Report • Audit Recommendations Follow Up Report • Internal Audit Strategy and Plan 23/24 • External Audit – Audit Strategy Memorandum 23/24 • Statement on Accounting Policies • IAS19 – Assumptions • External Audit Inquiries • Partnership Governance • CIPFA Financial Management Code • Counter Fraud Policy/Strategy • Audit Committee Work Programme 	
Date to be agreed		Counter Fraud Training

A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.