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Service Director – Legal, Governance and Commissioning
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Thursday 13 January 2022

Notice of Meeting

Dear Member

Corporate Governance and Audit Committee

The **Corporate Governance and Audit Committee** will meet in the **Reception Room - Town Hall, Huddersfield** at **10.00 am** on **Friday 21 January 2022.**

The items which will be discussed are described in the agenda and there are reports attached which give more details.

Julie Muscroft

Service Director – Legal, Governance and Commissioning

Kirklees Council advocates openness and transparency as part of its democratic processes. Anyone wishing to record (film or audio) the public parts of the meeting should inform the Chair/Clerk of their intentions prior to the meeting.

The Corporate Governance and Audit Committee members are:-

Member
Councillor Yusra Hussain (Chair)
Councillor Paola Antonia Davies
Councillor Steve Hall
Councillor Susan Lee-Richards
Councillor Kath Pinnock
Councillor Melanie Stephen
Councillor John Taylor

When a Corporate Governance and Audit Committee member cannot be at the meeting another member can attend in their place from the list below:-

Substitutes Panel

Conservative	Green	Independent	Labour	Liberal Democrat
B Armer	K Allison	C Greaves	M Akhtar	J Lawson
A Gregg		T Lyons	E Firth	A Marchington
V Lees-Hamilton			M Kaushik	A Munro
R Smith			J Ramsay	A Pinnock
M Thompson			M Sokhal	
D Hall			C Scott	

Ex Officio Members
Councillor Paul Davies - Cabinet Member (Resources)
Councillor Erin Hill - Chair of Standards Committee
Councillor Elizabeth Smaje – Chair of Overview and Scrutiny Management Committee

Agenda
Reports or Explanatory Notes Attached

Pages

1: Membership of the Committee

To receive any apologies for absence, or details of substitutions to the Committee membership.

2: Minutes of Previous Meeting — 1 - 6

To approve the Minutes of the meeting of the Committee held on 26 November 2021.

3: Declarations of Interest — 7 - 8

Committee Members will be asked to advise if there are any items on the Agenda in which they have a Disclosable Pecuniary Interest, which would prevent them from participating in any discussion or vote on an item, or any other interests.

4: Admission of the Public

Most agenda items will be considered in public session, however, it shall be advised whether Corporate Governance & Audit Committee will consider any matters in private, by virtue of the reports containing information which falls within a category of exempt information as contained at Schedule 12A of the Local Government Act 1972.

5: Deputations/Petitions

The Committee will receive any petitions and hear any deputations from members of the public. A deputation is where up to five people can attend the meeting and make a presentation on some particular issue of concern. A member of the public can also hand in a petition at the meeting but that petition should relate to something on which the body has powers and responsibilities.

In accordance with Council Procedure Rule 10 (2), Members of the Public should provide at least 24 hours' notice of presenting a deputation.

6: Public Question Time

The Committee will hear any questions from the general public.

7: Democracy Commission - Terms of Reference for the Committee System Proposal — 9 - 14

To consider the draft Terms of Reference for the Democracy Commission in relation to the Committee System Proposal.

Officer: Samantha Lawton, Head of Governance

8: Treasury Management Strategy 2022/23 — 15 - 40

To receive the Treasury Management Strategy 2022/23.

Officer: James Anderson, Head of Accountancy

9: Audit Progress Report — 41 - 58

To receive the Audit Progress Report.

Contact: Grant Thornton External Audit

Contact Officer: Yolande Myers

KIRKLEES COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 26th November 2021

Present:	Councillor Yusra Hussain (Chair) Councillor Paola Antonia Davies Councillor Steve Hall Councillor Susan Lee-Richards Councillor Kath Pinnock Councillor John Taylor
Observers:	Councillor Elizabeth Smaje
Apologies:	Councillor Paul Davies (ex-Officio)

1 **Membership of the Committee**
Apologies for absence were received on behalf of Councillor Paul Davies. Councillor Adam Gregg substituted for Councillor Mel Stephens.

2 **Minutes of Previous Meeting**
RESOLVED – That the Minutes of the meeting held on 24 September 2021 be approved as a correct record.

3 **Declarations of Interest**
There were no declarations of interest.

4 **Admission of the Public**
It was noted that Agenda items 15 and 16 would be considered in private session.

5 **Deputations/Petitions**
There were no deputations or petitions received.

6 **Public Question Time**
No public questions were submitted.

7 **Committee System Proposal**
The Committee considered a report from the Local Government Advisor (LGA), Mark Edgell following his appointment to advise and work with Councillors on the governance review process.

The report noted that there were three official options for council governance being Leader and Cabinet, Committee and Mayor and Cabinet. The report advised that some Councils had differing arrangements for decision making, but the important aspect of any model was culture. This was described within the report as the way that people behave within any system, the way they assert themselves and the way they listen to others and are influenced by them.

Following an LGA facilitated all-Councillor session, Mark Edgell reported that overall there was not a sense that the current governance system was failing with members describing many strengths from the arrangement. However, there was a clear view from Councillors that improvements could be made.

The Committee determined that further work should be undertaken to consider (i) further evidence from LA's who had moved from cabinet and scrutiny model to a committee system (ii) further evidence from LA's who had moved from committee system to cabinet and scrutiny model (iii) further evidence from LA's who had returned to a cabinet and scrutiny system after changing to a committee system (iv) how the evidence base for decision making could be improved (v) how the rationale for decision making could be more effectively communicated (vi) how non-executive members could influence decision making (vii) how pre-scrutiny consideration could be improved.

RESOLVED –

(i) That the Corporate Governance and Audit Committee request the Democracy Commission gather further evidence to inform future decision making.
(ii) That a draft Terms of Reference be considered at the next meeting of the Committee with a timeframe for the Democracy Commission to complete their evidence gathering.

8 Half Yearly Monitoring Report on Treasury Management Activities 2021/22

The Committee received a report providing assurance that the Council's treasury management function was being managed prudently and pro-actively. External investments, including £10.0 million invested in the Local Authorities Pooled Investment Fund (LAPF), averaged £37.6 million during the period at an average rate of 0.49%. Investments had ranged from a peak of £68.8 million and a low of £16.6 million both in April. The high investment balance in April was due to receiving a restart grant of £22.4 million from Central Government but this was paid out to local busines in mid-April.

It was reported that balances were invested in line with the approved treasury management strategy, details of which were appended to the report, in instant access accounts or short-term deposits.

The treasury management revenue budget was £24.3 million. The change in Minimum Revenue Provision (MRP) policy allowed for a planned release of £9.1 million MRP budget over-provision in 2021/22. The budget strategy update report 2022/23 re-affirmed the decision taken in the annual budget report in February 2021 to forward profile the release of the MRP over-provision with an additional £4.6 million, in light of the estimated medium term COVID impacted pressures on the Council finances. The MRP policy was to provide for MRP based on the asset life to which external borrowing was incurred. The MRP calculation was used to determine the amount of revenue resources that needed to be set aside annual by the Council to meet its debt obligations.

It was reported that in-year treasury management performance was in line with the treasury management prudential indictors set for the year and details were appended to the report.

RESOLVED – That the Committee noted the half-year treasury management performance in 2021/22 as set out in the report.

9 Audit Progress Report and Sector Update

The Committee received the External Audit Progress Report (Year Ending 31 March 2022) and Sector Update from Grant Thornton External Audit.

The report updated the Committee on progress in delivering Grant Thornton's responsibilities as the external auditors. The report also set out an update on headlines regarding (i) a summary of emerging national issues and developments that may be relevant to the Local Authority and (ii) a number of challenge questions in respect of the emerging issues which the Committee was asked to consider.

RESOLVED - That the External Audit update report be received and noted.

10 Public Sector Audit Appointments Process for the 2023/28 Period

The Committee consider a report which updated Members on the proposed procurement exercise for Public Sector Audit Appointments (PSAA) process for the 2023 to 2028 period, which, subject to Local Authorities exercising their right to opt in, was to be undertaken by the PSAA to appoint their external auditors from 1 April 2023 to cover the period 2023-2028.

The Committee noted that the recommendation of the Service Director for Finance was that the Council should opt-in to the procurement exercise undertaken by the PSAA, who remained best placed to drive whole system improvements on the sector's behalf.

RESOLVED – That the Committee recommend that the Council ask Public Sector Audit Appointments Ltd to carry out Auditor Panel duties on behalf of the Council and nominate a proposed External Auditor to the Council in due course, for the 2023-28 period.

11 Recommendation on the Code of Conduct from Standards Committee

The Committee considered a report which outlined changes to the Council's Code of Conduct proposed by the Standards Committee to Council. The promotion and maintenance of high standards of conduct by Councillors was an important part of maintaining public confidence in both the council and its members.

The report advised that following a discussion of the options, the Standards Committee resolved to recommend a 'hybrid' Code of Conduct to this committee and requested that it be agreed and referred to Council. A copy of the 'hybrid' Code of Conduct was appended to the report.

RESOLVED – That the Committee recommend the Council adopt the draft 'hybrid' Code of Conduct that was based on the LGA model code as set out in the appendix to the report.

12 Risk Management Update

The Committee received a report relating to the Council's Risk Management Statement and its arrangements for Corporate Risk Management.

It was noted that the Corporate Risk Matrix which was appended to the report, identified the ongoing risks and issues, many of which were common to a large authority or organisation. The Risk Matrix remained stable in terms of its content and was now structured by risk type with trend analysis and responsibility holders along with some symbolic information.

The report explained that the Project Risk Matrix, appended as a private appendix, listed features of several projects that involved the council, typically with a high value or high profile.

RESOLVED –

1. Council's Risk Management Statement and its arrangements for Corporate Risk Management be noted.
2. That the Committee confirm they are content with the risk management process and operation as described within the report.

13 Quarterly Report of Internal Audit Q2 2021/22 - July 2021 to September 2021

The Committee received the Internal Audit Quarterly Report, Quarter 2 2021/22 which set out an overview of internal audit activity for the period July 2021 – September 2021.

The report highlighted that coronavirus continued to impact on the ability to do internal audit work and provide a strong level of assurance. A number of services areas had asked that some work be deferred, and as a result, a reduction of 22 topics (and an addition of 1 item) was proposed to the planned work as summarised within the appendix to the report. The reductions were based on an assessment of imminency of risk and was also based on anticipated levels of resource availability.

RESOLVED –

1. That the Internal Audit Quarterly Report 2021/22 (Quarter 2) be received and noted.
2. That the Committee noted that there had been no Regulation of Investigatory of Powers Act activity during the period Quarter 2 2021/22.

14 Exclusion of the Public

RESOLVED – That acting under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that they involve the likely disclosure of exempt information as defined in

Part 1 of Schedule 12A of the Act, as specifically stated in the undermentioned Minute.

15 Risk Management Update

(Exempt information within Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) Order 2006, namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption, which would protect the interests of the Council and the company concerned, outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.)

The Committee received the Council's Risk Management Statement and its arrangements for Corporate risk Management.

RESOLVED - That the Council's Risk Management Statement and its arrangements for Corporate risk Management be received and noted.

16 Quarterly Report of Internal Audit Q2 2021/22 - July 2021 to September 2021

(Exempt information within Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) Order 2006, namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption, which would protect the interests of the Council and the company concerned, outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.)

The Committee received the Internal Audit Quarterly Report, Quarter 2, which set out an overview of internal audit activity in the second quarter of 2021/2022.

RESOLVED - That the Internal Audit Quarterly Report 2021/2022 (Quarter 2) be received and noted.

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KIRKLEES COUNCIL

COUNCIL/CABINET/COMMITTEE MEETINGS ETC
DECLARATION OF INTERESTS

Corporate Governance and Audit Committee

Name of Councillor

Item in which you have an interest	**Type of interest (eg a disclosable pecuniary interest or an "Other Interest")**	**Does the nature of the interest require you to withdraw from the meeting while the item in which you have an interest is under consideration? [Y/N]**	**Brief description of your interest**

Signed: …………………………………………… **Dated:** ……………………………………..

NOTES

Disclosable Pecuniary Interests

If you have any of the following pecuniary interests, they are your disclosable pecuniary interests under the new national rules. Any reference to spouse or civil partner includes any person with whom you are living as husband or wife, or as if they were your civil partner.

Any employment, office, trade, profession or vocation carried on for profit or gain, which you, or your spouse or civil partner, undertakes.

Any payment or provision of any other financial benefit (other than from your council or authority) made or provided within the relevant period in respect of any expenses incurred by you in carrying out duties as a member, or towards your election expenses.

Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority -

- under which goods or services are to be provided or works are to be executed; and
- which has not been fully discharged.

Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.

Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.

Any tenancy where (to your knowledge) - the landlord is your council or authority; and the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.

Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -
(a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
(b) either -

the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or

if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

Kirklees COUNCIL

Name of meeting: Corporate, Governance and Audit Committee

Date: 21 January 2021

Title of report: Democracy Commission – Terms of reference for the Committee System Proposal

Purpose: The Corporate Governance and Audit (CGA) committee are asking the Democracy Commission to carry out a more detailed piece of work considering the recommendations from the report produced by the Local Government Association in relation to the proposal for a Committee System motion. The CGA committee are asked to approve the Terms of Reference for the Democracy Commission in relation to this piece of work.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**No**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports)?	**No**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director & name **Is it also signed off by the Service Director for Finance?** **Is it also signed off by the Service Director for Legal Governance and Commissioning?**	 **Not applicable**
Cabinet member portfolio	**Cllr Paul Davies**

Electoral wards affected: All

Ward councillors consulted: Not applicable.

Public or private: Public Report

Has GDPR been considered? Yes. The report does not include any personal data that identifies a living individual.

1. Summary

1.1 On 26th November 2021, the Corporate, Governance and Audit (CGA) Committee agreed to ask the Democracy Commission to reconvene to carry out a more detailed piece of work considering the recommendations from the report produced by the Local Government Association. The report dated 11 November 2021 was produced following engagement with councillors in relation to the proposal for a Committee System motion.

1.2 The Committee is asked to re-convene Democracy Commission on the basis of a 3:2:1:1 ratio, together with an independent specialist advisor/observer.

2. Information required to take a decision

2.1 At the meeting on the 26th November 2021, the CGA committee considered the themes arising from the councillor engagement session on 4th November 2021, the report of the Local Government Association and the next steps for progressing the work necessary in relation to the committee system motion. It was resolved: -

(i) That the Corporate Governance and Audit Committee request the Democracy Commission gather further evidence to inform future decision making.

(ii) That a draft Terms of Reference be considered at the next meeting of the Committee with a timeframe for the Democracy Commission to complete their evidence gathering.

2.2 The **draft terms of reference** are as set out in Appendix A attached to this report,

3. Implications for the Council

3.1 Working with People

The Council's capacity to work effectively and to deliver all aspects of its corporate outcomes is underpinned by ensuring that it takes informed and transparent decisions with openness and accountability. The Council's choice of governance arrangements is fundamental to this. The decision-making structure of the Council should provide a framework of transparent accountability to users, stakeholders, and the wider community.

3.2 Working with Partners

No implications

3.3 Place Based Working

No implications

3.4 Climate Change and Air Quality

No implications

3.5 Improving outcomes for children

No implications

3.6 Other (e.g., Legal/Financial or Human Resources) Consultees and their opinions

There will be resource implications in supporting the Commission undertaking its work.

A review of governance arrangements will need to ensure that the recommendations are in accordance with the Localism Act 2011 and other relevant legislation, particularly the Local Government Acts and the timeframes included therein.

4 Consultees and their opinions

At the time of writing Group and Deputy Leaders have considered the draft and, it is intended for the Democracy Commission to be consulted on the Terms of Reference and timeline. Any feedback or amendments to the draft will be fed back and shared at the meeting on 21st January 2022.

5 Next steps and timelines

5.1 If the Terms of Reference are approved, a schedule of meetings will be set up from January 2021 onwards.

5.3 Following consideration of all the evidence presented, the Democracy Commission will produce a findings report, including recommendations, which will be considered by the CGA Committee.

6. Officer recommendations and reasons

6.1 That the Terms of Reference are approved as set out in this report at Appendix A.

7. Cabinet Portfolio Holder's recommendations

Not applicable.

8. Contact officer

Samantha Lawton, Head of Governance
Tel 01484 221000
samantha.lawton@kirklees.gov.uk

9. Background Papers and History of Decisions

AGM: 19 May 2021
Agenda for Annual Council on Wednesday 19th May 2021, 12.30 pm | Kirklees Council

Council: 8 September 2021
Agenda for Council on Wednesday 8th September 2021, 5.30 pm | Kirklees Council

Corporate, Governance and Audit: 24 September 2021
Agenda for Corporate Governance and Audit Committee on Friday 24th September 2021, 10.00 am | Kirklees Council

Corporate, Governance and Audit: 26 November 2021

Agenda for Corporate Governance and Audit Committee on Friday 26th November 2021, 10.00 am | Kirklees Council

10. Service Director responsible

Julie Muscroft, Service Director, Legal, Governance and Commissioning

Terms of Ref for Democracy Commission:

1. To review the advice, conclusions and recommendations of the LGA Independent Advisor.

2. To consider evidence from other Local Authorities operating under alternative models of governance such as those who have changed from:

    - Leader and Cabinet model to a Committee System.
    - Committee System to Leader and Cabinet model.
    - Leader and Cabinet and changed to Committee system and back to a Leader and Cabinet model

3. To review the current model and consider whether more inclusive decision making can be achieved through:

    - Strengthening the impact of scrutiny – Increased member involvement and focus on pre-decision scrutiny
    - Increased understanding of evidence, openness and transparency in relation to Cabinet Decision Making
    - Improved flow of information and processes in place

4. To submit a report to Corporate Governance and Audit Committee setting out findings and recommendations arising from the review.

5. The Commission will report back to Corporate Governance & Audit committee on [ ] or in [X] months…………

Methodology for Review

Evidence sessions to be held to include:

- Visiting Local Authorities operating under different models (Virtual or physical tbc)

- Invite Chair of OSMC and Scrutiny Chairs for views and input in relation to strengthening the impact of scrutiny

- Invite Leader , Cabinet Members for views and input in relation to Cabinet Decision Making

- Take evidence from Senior Officers in relation to current processes and flow of information, opportunities and risks

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Name and date of meeting: **Corporate Governance and Audit Committee 21 January 2022**

Cabinet
1 February 2022

Council
16 February 2022

Title of report: Treasury Management Strategy and Investment Strategy 2022/23

Purpose of report

Under the CIPFA Code of Practice on Treasury Management (2017) and accompanying Prudential Code 2017 the Council must present a Treasury Management Strategy at the start of each financial year. Alongside the Treasury Management Strategy, the Annual Investment Strategy must also be approved by Council.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**Yes (for Cabinet)**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	**Key Decision: Yes** **Private Report/Private Appendix: N/A**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director and name **Is it also signed off by Service Director** **Is it also signed off by the Service Director Legal, Governance and Commissioning**	**N/A** **Eamonn Croston – 13 January 2022** **Julie Muscroft – 13 January 2022**
Cabinet member portfolio	**Corporate** **Paul Davies**

Electoral wards affected: **All**
Ward councillors consulted: **N/A**
Public or Private: **Public**
GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1 Summary

1.1 The Council has adopted CIPFA's Code of Practice on Treasury Management (2017 Edition), and accompanying Prudential Code 2017, and is thereby required to approve a treasury management strategy before the start of each financial year. In addition, the Ministry for Housing, Communities and Local Government (MHCLG) issued guidance on local authority investments in February 2018, which requires the Council to approve an annual Investment Strategy before the start of each financial year.

1.2 This report meets the requirements of the aforementioned CIPFA Codes and MHCLG Guidance.

1.3 Cabinet is responsible for the implementation and monitoring of the treasury management policies. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management. The last training for members of this Committee was provided in November 2021 by the Council's treasury management advisors/consultants, Arlingclose.

1.4 This report will:

(i) outline the outlook for interest rates and credit risk, and in light of this, recommend an investment strategy (Treasury Management Investments) for the Council to follow in 2022/23;

(ii) outline the current and estimated future levels of Council borrowing (internal and external) and recommend a borrowing strategy for 2022/23;

(iii) review the methodologies adopted for providing for the repayment of debt and recommend a policy for calculating the Minimum Revenue Provision (MRP);

(iv) review other treasury management matters including the policy on the use of financial derivatives, prudential indicators, the use of consultants, and the policy on charging interest to the Housing Revenue Account;

(v) recommend an annual Investment Strategy (Non-Treasury Investments) for the Council in 2022/23 in line with MHCLG (2017) guidance.

2 Information required to take a decision

The following paragraphs 2.1 to 2.5 have been provided by our Treasury Management external advisors, Arlingclose:

Economic Background

2.1 The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Council's treasury management strategy for 2022/23.

2.2 The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates and unanimously to maintain the asset purchase programme. Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously but notes that Omicron could weaken the demand for labour.

2.3 UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%. In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

2.4 Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

Interest Rate Forecast

2.5 The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates. Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Borrowing and Investment – General Strategy for 2022/23

2.6 The Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. A Council can choose to borrow externally to fund its CFR. If it does this, it is likely that it would be investing externally an amount equivalent to its total reserves, balances and net creditors. Alternatively, a Council can choose not to invest externally but instead use these balances to effectively "borrow internally" and minimise external borrowing. In between these two extremes, a Council may have a mixture of external and internal investments / external and internal borrowing.

Table 1 below sets out the forecast CFR position for the Council as at 31 March 2022 and forecast CFR and borrowing requirements over the following 5 years. CIPFA's Prudential Code recommends that the Council's total debt should be lower than its highest forecast CFR. Table 1 shows that the Authority expects to comply with this recommendation.

Table 1: Balance Sheet Forecast

	2021/22 £m	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
General Fund CFR						
- Non PFI	539.9	610.7	689.8	770.9	826.5	820.7
- PFI	39.4	35.5	33.6	31.3	28.8	26.4
HRA CFR - Non PFI	170.5	177.3	190.3	205.6	209.2	213.1
- PFI	45.2	42.7	40.6	38.0	35.3	32.4
Total CFR	**795.0**	**866.2**	**954.3**	**1,045.8**	**1,099.8**	**1,092.6**
Less: PFI debt liabilities*	84.6	78.2	74.2	69.3	64.1	58.8
Borrowing CFR	**710.4**	**788.0**	**880.1**	**976.5**	**1,035.7**	**1,033.8**
Financed by:						
Deferred Liabilities *	3.7	3.6	3.6	3.5	3.5	3.5
Internal Borrowing	222.9	197.8	178.3	173.7	170.6	169.2
External Borrowing	483.8	586.6	698.2	799.3	861.6	861.1
Total	**710.4**	**788.0**	**880.1**	**976.5**	**1,035.7**	**1,033.8**
Treasury investments	30.0	30.0	30.0	30.0	30.0	30.0

** £84.6m other debt liabilities, incl leases and PFI (£6.4m falling due in 2022/23)*

2.7 Prior to 2009/10 the Council's policy had been to borrow up to its CFR, investing externally the majority of its balances. With the onset of instabilities in the financial markets and the economic downturn, the policy changed to one of ensuring the security of the Council's balances. This coincided with significant falls in investment returns, making the budgetary benefit of maximising external borrowing more marginal. Thus, the Council has chosen to steadily reduce monies invested externally and instead has used internal balances to offset new borrowing requirements.

2.8 There is a marked increase in the CFR compared with previous years due to increases in the capital programme, in particular the proposed Cultural Heart regeneration programme as part of the Huddersfield Blueprint, which has added a further £166m of borrowing requirement (on top of the £44m in the existing plan) compared to last year's 5 year capital plan. The external borrowing necessary to fund the projected rise in CFR will be a mixture of long and short-term borrowing.

2.9 Table 1 above shows the level of internal borrowing forecast over the next 5 years. As Council usable reserves are forecast to reduce over the 5 years in line with planned commitments, the internal borrowing will also reduce resulting in further external borrowing that will need to be required to fund the CFR.

2.10 The relative mix of future internal and external borrowing will be considered in conjunction with advice from the Council's external treasury management advisor, noting that provision has been made in the updated Council budget plan revenue resource assumptions to accommodate a continued future mix of internal and external borrowing.

2.11 The Service Director - Finance, supports the approach that the borrowing and investment strategy for 2022/23 continues to place emphasis on the security of the Council's balances. The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Although credit conditions generally on banks and building societies have tended to be relatively benign despite the impact of the pandemic, the global economy is fragile. Looking forward credit will remain a risk suggesting the Council needs to take a cautious approach to bank deposits in 2022/23.

2.12 It is recommended that balances should continue to be invested to a level which is perceived to be reasonably secure and which is needed to meet the day-to-day cash flow requirements of the Council (around £20 million). The remainder of the balances will be effectively invested internally, that is used to offset borrowing requirements.

2.13 In order to increase investment returns, the Council has invested £10 million in the Local Authorities Pooled Investment Fund (LAPF) as per the approved Council 2019/20 Treasury Management Strategy. The Council will not make any further investment in the property fund or similar investments.

2.14 Average current Council cashflow balances remain consistent at about £30 million (including the LAPF), with the investment in the LAPF leaving about £20 million for day-to-day cashflow requirement as noted above.

Borrowing Strategy

2.15 The Council is forecast to hold around £554.4 million of external borrowing and other long-term liabilities as at 31 March 2022. This is analysed at Table 3 below:

Table 3 – year end estimate – 31 March 2022

	£m	%
PWLB loans (fixed rate)	301.3	54
LOBOs	60.0	11
Loan stock (fixed rate)	7.0	1
Other long term loans (fixed rate)	43.4	8
Temporary borrowing	58.1	11
Total external borrowing	**469.8**	
Other Long Term Liabilities (mainly PFI)	84.6	15
Total external debt liabilities	**554.4**	

2.16 The approved sources of borrowing are:

- HM Treasury's PWLB lending facility
- Any bank or building society authorised to operate in the UK
- Other local authorities
- Capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds
- Salix Finance Limited

2.17 The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, in order to lower interest payments. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Council intends to avoid this activity in order to retain its access to PWLB loans.

2.18 The Council also has LOBO (Lender's Option, Borrower's Option) loans, where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the option to repay at no cost, if it has the opportunity to do so. The Council's current limit on LOBO borrowing is set at 11% of long term debt.

2.19 The Council's approach over a number of years has been to borrow short term and take advantage of historically low interest rates, however the recent shift in approach is to increase long term borrowing gradually to ensure a more balanced risk approach. Over the past year, the Council has taken on £40m long term PWLB borrowing. This emerging strategy is intended to provide more certainty and hedge against future interest rate volatility if the Council otherwise continued to rely heavily on short term borrowing over the medium term.

2.20 Borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. This will be subject to ongoing review, in consultation with Arlingclose, as to when it will be appropriate to borrow longer term with the PWLB or via an alternative source

2.21 One example of an alternative source of funding is the Local Capital Finance Company established in 2014 by the Local Government Association. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantees over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

2.22 Alternatively, the Council may arrange forward starting loans, with alternative lenders as these are not available through the PWLB, where the interest rate is fixed in advance but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

2.23 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. At the present time, the Council is not in a position to undertake early repayments due to the current prohibitive early repayment rates.

2.24 Salix Finance Limited provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £6.8 million interest free loans to part fund the £12.0 million approved street lighting replacement scheme in the Council's approved capital plan.

2.25 Borrowing policy and performance are monitored throughout the year and are reported to Members via a Half Yearly Report and also an Outturn Report in line with approved guidance.

Treasury Investment Strategy

2.26 Investment guidance issued by MHCLG requires that an investment strategy, outlining the Council's policies for managing investments in terms of risk, liquidity and yield, should be approved by full Council or equivalent level, before the start of the financial year. This strategy can then only be varied during the year by full Council.

2.27 The Council will not place direct investments in companies as defined by the Carbon Underground 200 on 1 February each year.

2.28 A new regulatory update came into force from 3rd January 2018; the second Markets in Financial Instruments Directive (MiFID II), which meant that the Council had to formally apply to renew its status as a 'professional client' (also referred to as the 'opt up' option), but subject to certain criteria being met.

2.29 Following full Council approval on 13th December 2017, officers have now successfully 'opted up' the Council to professional client status, effective from 3rd January 2018. Given the size and range of the Council's treasury management activities, the Service Director Finance believes this to continue to be the most appropriate status.

2.30 The Council's investment criteria are detailed in Appendix A. The Council will continue to maintain a relatively low risk strategy giving priority to security and liquidity, and as such invest an average of around £20 million externally in relatively short-term, liquid investments through the money markets, for the purpose of managing day-to-day cash flow requirements. Any remaining balances, net of investment in the local authority property fund, will be used internally, offsetting borrowing requirements.

2.31 The Council uses credit ratings from the three main rating agencies - Fitch, Moody's and Standard & Poor's to assess the risk of investment defaults (Appendix B). The lowest credit rating of an organisation will be used to help determine credit quality. Long term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade.

2.32 Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria:

- No new investments will be made;
- Any existing investments that can be recalled at no cost will be recalled;
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade ("negative watch") so that it is likely to fall below the required criteria, then no further investments will be made in that organisation until the outcome is announced. This policy will not apply to negative outlooks.

2.33 Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the approved criteria.

2.34 Annual cash flow forecasts are prepared which are continuously updated. Investment policy and performance will be monitored continuously and will be reported to Members during the year and as part of the annual report on Treasury Management.

Statement of Policy on the Minimum Revenue Provision (MRP)

2.35 MRP is the statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement – CFR), ie the borrowing taken out in order to finance capital expenditure.

2.36 Prior to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, which came into force on 31 March 2008, the set aside was specified as a percentage of a Council's CFR (2% for HRA debt, 4% for General Fund). The current Regulations are less prescriptive with a requirement to ensure the amount set aside is deemed to be **prudent**, although there is accompanying current DLUHC guidance which sets out possible methods a Council might wish to follow.

2.37 Current MHCLG guidance recommends that Council's prepare a statement of policy on making MRP in respect of the forthcoming year, with approval by full Council before the start of the financial year. If these proposals subsequently need to be varied, a revised statement should be put to full Council. Appendix C details the Council's policy for the provision of MRP.

2.38 Appendix C details a change in accounting policy for the calculation of MRP to be implemented from 1 April 2022, which now stipulates that the Council will only charge MRP once an asset is operational (previously MRP was chargeable based on the date of the associated borrowing). This ensures that there is a clear link between the charge for MRP and the life of the asset created.

2.39 Existing budget plans approved the MRP unwind in later years be brought forward and increased to the maximum allowable level of £13.7m in 2022/23, and £13.6m in 2023/24 at which point the unwind will be fully utilised. Updated budget plans for 2022/23 and future years maintain this approach.

Policy on the Use of Financial Derivatives

2.40 Local authorities (including this Council) have in the past made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans). The Localism Act 2011 includes a general power of competence that appears to remove the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

2.41 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where it is confident it has the powers to enter into such transactions. They will only be used for the prudent management of its financial affairs and never for speculative purposes and where it can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

2.42 Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Non-Treasury Investments

2.43 The Council may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, loans to local businesses and landlords, or as equity investments and loans to the Council's subsidiaries. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. They are however covered by the Council's Investment Strategy (see Appendix E).

Treasury Management Indicators

2.44 The Council is asked to approve certain treasury management indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs. The proposed indicators are set out in Appendix D.

Other Matters

2.45 After a long consultation, an updated CIPFA Prudential Code has been published in December 2021, with a soft launch of the Code to be adopted for strategies in 2022/23 and full implementation in 2023/24.

2.46 The new Code stipulates restrictions on borrowing primarily for financial return, including commercial property. The Council's current and proposed capital plans do not include any capital investment funded by borrowing primarily for commercial return, that may otherwise have restricted access to PWLB borrowing going forward. The new Code does not introduce restrictions on councils borrowing for purposes essential to their core aims, such as for housing and regeneration projects, or for treasury management purposes.

2.47 The CIPFA Code also requires the Council to note the following matters each year as part of the treasury management strategy:

(i) *Investment Consultants*

The Council's adviser is Arlingclose Limited. The services received include:

- Advice and guidance on relevant policies, strategies and reports;
- Advice on investment and debt management;
- Notification of credit ratings and other information on credit quality;
- Reports on treasury performance;
- Forecasts of interest rates and economic activity; and
- Training courses.

The quality of the service is monitored on a continuous basis by the Council's treasury management team.

(ii) *Investment Training*

As part of the MiFID II requirements, the needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis, and formally on a 6-monthly basis as part of the staff appraisal process. Additionally training requirements are assessed when the responsibilities of individual members of staff change. Staff attend training courses and seminars as appropriate.

(iii) *Investment of money borrowed in advance of need*

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. However, as this would involve externally investing such sums until required and thus increasing exposures to both interest rate and principal risks, it is not believed appropriate to undertake such a policy at this time.

(iv) Policy on charging interest to the Housing Revenue Account (HRA)

Following the reform of housing finance, the Council is free to adopt its own policy on sharing interest costs and income between General Fund and the HRA. The CIPFA code recommends that authorities state their policy each year in the strategy report.

On 1 April 2012, the Council notionally split each of its existing long term loans into General Fund and HRA pools. New long term loans borrowed will be assigned in their entirety to one pool or the other. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. Interest will be applied to this balance using the Council's average investment rate.

3 Implications for the Council

3.1 Working with People
N/A

3.2 Working with Partners
N/A

3.3 Placed based working
N/A

3.4 Climate Change and Air Quality
N/A

3.5 Improving Outcomes for Children
N/A

3.6 Other (e.g. Legal/Financial or Human Resources)
The revenue implications of the strategies outlined have been reflected in the Council's annual budget report 2022-27.
The Council must have regard to the CIPFA Code of Practice on Treasury Management; the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) 2017 and the DLUHC statutory guidance on Local Government Investments when performing its duties under Part 1 of the Local

Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).
The council has the power to borrow under section 1 of the Local Government Act 2003 and the Council has powers to invest under section 12 of the Local Government Act 2003.

4 Consultees and their opinions

Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

Treasury management performance will be monitored and reported to members during the year.

Following consideration at Corporate Governance & Audit Committee, this report will be presented to Cabinet on 1 February 2022 and then full Council on 16 February 2022 for approval.

6 Officer recommendations and reasons

That Corporate Governance & Audit Committee recommend the following for consideration by Cabinet and then approval by full Council:

(i) the treasury management strategy incorporating: the borrowing strategy outlined in paragraphs 2.15 to 2.25;
(ii) the investment strategy (treasury management investments) outlined in paragraphs 2.26 to 2.34 and Appendices A and B;
(iii) the policy for provision of repayment of debt (Minimum Revenue Provision) outlined in paragraphs 2.35 to 2.39 and at Appendix C;
(iv) the treasury management indicators in Appendix D and
(v) the Investment Strategy (Non-Treasury Investments) at Appendix E.

Reasons:

1. Section 151 of the Local Government Act 1972 requires the Council to make arrangements for the proper administration of its financial affairs .

2. The Council must have regard to the CIPFA Treasury Management Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) 2017 and the DLUHC Statutory guidance on Local government Investments (2018) when performing its duties under Part 1 of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

7 Cabinet Portfolio Holder recommendation

The report and recommendations be submitted to Cabinet on 1 February 2022 and Council on 16 February 2022.

8 **Contact officer**

James Anderson	Head of Accountancy	01484 221000
Rachel Firth	Finance Manager	01484 221000

9 **Background Papers and History of Decisions**

CIPFA's Code of Practice on Treasury Management in the Public Services; CIPFA's Prudential Code for Capital Finance in Local Authorities; Guidance on Local Government Investments (MHCLG 2018); The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (Amended 2008); Localism Act 2011. CIPFA Treasury Management Code and Prudential Code 2017.

10 **Service Director responsible**

Eamonn Croston 01484 221000

APPENDIX A

<u>Investment Policy for 2022/23</u>

Investment Limits:

- The Council is able to invest an unlimited amount with the UK Government for up to 6 months.
- The Council is able to invest up to £10 million and up to three months with UK banks and building societies with a “high to upper medium grade” credit rating.
- The Council is able to invest up to £10 million and up to two months with foreign banks with a “high to upper medium grade” credit rating.
- The Council is able to invest up to £10 million and up to three months with individual local authorities.
- The Council is able to invest up to £10 million in individual MMFs (instant access or up to 2 day notice). There will be an overall limit of £40 million for MMFs (non-government funds), plus up to £10 million invested in a fund backed by government securities.
- The Council is able to invest up to £10 million in Local Authority Pooled Investment Funds.

The maximum limits apply to any one counter-party and to a banking group rather than each individual bank within a group.

Note:

The limits set out above exclude any amounts held on the Council’s behalf by the Yorkshire Purchasing Organisation (YPO). The YPO (a consortium in which the Council has an interest) invest funds as part of their treasury management processes. For the avoidance of doubt, this element does not form part of the limits set above. For context, the Council’s proportion of YPO’s maximum investment with any given counterparty is approximately £155k.

The Council will not place direct investments in companies as defined by the Carbon Underground 200 on 1 February each year.

Liquidity management:

The Council uses purpose-built cash flow forecasting models to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council’s medium-term financial plan and cash flow forecast.

	Short-term Credit Ratings / Long-term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at Nov 2021
	Fitch	**Moody's**	**S & P**	**£m**	**Period (2)**	
UK Banks / Building Societies (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10	<3mth	HSBC, Lloyds Group, Santander UK, Barclays, Coventry BS, Bank of Scotland, Handelsbanken, Nationwide BS
	AAA,AA+,AA, AA-,A+,A, A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-			
Foreign Banks (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10	<2mth	Various
	AAA,AA+,AA, AA-,A+,A,A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-			
MMF (1)	-	-	-	10	Instant access/ up to 2 day notice	Aberdeen, Deutsche Bank, Aviva, Goldman Sachs
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits)	-	-	-	10	<3mth	
Local Authority Pooled Investment Funds	-	-	-	10	>6mth	

(1) Overall limit for investments in MMFs of £50 million – the assets the funds invest in are securities and structures secured on government securities
(2) The investment period begins from the commitment to invest, rather than the date on which funds are paid over.

Credit ratings

Moody's		S&P		Fitch		
Long-term	**Short-term**	**Long-term**	**Short-term**	**Long-term**	**Short-term**	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		Lower medium grade
Baa2	P-3	BBB	A-3	BBB	F3	
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		
Caa1		CCC+	C	CCC	C	Substantial risks
Caa2		CCC				Extremely speculative
Caa3		CCC-				In default with little prospect for recovery
Ca		CC				
		C				
C		D	/	DDD	/	In default
/				DD		
/						

CURRENT MINIMUM REVENUE PROVISION POLICY

1. Background

1.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 requires authorities to make an amount of MRP which the authority considers "prudent".

1.2 The regulation does not itself define "prudent provision". However, guidance issued alongside the regulations makes recommendations on the interpretation of that term.

2 Policy for 2022/23 onwards

2.1 The Service Director Finance recommends the following policy for making prudent provision for MRP:

(i) General Fund Borrowing (pre 1st April 2008) - Provision to be made over the estimated average life of the asset (as at 1 April 2008) for which borrowing was taken - deemed to be 50 years (annuity calculation).

(ii) Calculations to compare this to the previous MRP charge indicated that between 2007/08 and 2015/16 the Council provided an additional £91.2 million with which it will "un-wind" over 7 years from 2017/18.

(iii) General Fund Prudential Borrowing – Provision to be made over the estimated life of the asset for which borrowing is undertaken. Provision to commence in the year following when the asset is operational. Where large loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

(iv) HRA Borrowing - Provision to be made for debt repayments equal to its share of any scheduled external debt repayments.

(v) PFI schemes - Provision to equal the part of the unitary payment that writes down the balance sheet liability, together with amounts relating to lifecycle costs incurred in the year.

TREASURY MANAGEMENT INDICATORS

Gross Debt and the Capital Financing Requirement (CFR)

The Code requires that where gross debt is greater than the CFR, the reasons for this should be clearly stated in the annual strategy. This does not apply to this Council as its gross debt will not exceed the CFR over the forecast period (see the 'Gross Debt and the Capital Financing Requirement table within the Capital Strategy).

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio.

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2022/23, 2023/24 and 2024/25 of £891 million, £979 million, £1,071 million of its net principal. It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2021/22, 2022/23 and 2023/24 of £200 million of its net principal.

Maturity Structure of Borrowing

This indicator is designed to prevent the Council having large concentrations of fixed rate debt* needing to be replaced at times of uncertainty over interest rates. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed rate		
	Upper Limit (%)	**Lower Limit (%)**
Under 12 months	20	0
Between 1 and 2 years	20	0
Between 2 and 5 years	60	0
Between 5 and 10 years	80	0
More than 10 years	100	20

*LOBOs are classed as fixed rate debt unless it is considered probable that the loan option will be exercised.

Total principal sums invested for periods longer than 364 days

The Council is not intending to invest sums for periods longer than 364 days.

Appendix E

Investment Strategy 2022/23

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Council typically receives its income in cash (eg. from taxes and grants) before it pays for its expenditure in cash (eg. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to average £30 million with fluctuations between £20 million and £50 million during the 2022/23 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2022/23 for treasury management investments are covered in the treasury management strategy report 2022/23 to which this Investment Strategy is appended.

Service Investments: Loans

Contribution: The Council makes investments to assist local public services, including making loans to a variety of organisations, mainly local businesses, the local education college and local residents to support local public services and stimulate local economic growth.

The Council provided a significant loan to Kirklees College to help facilitate a new campus in Huddersfield and the delivery of a successful further education provision for post 16 students and adults across the district.

Smaller loans have also been provided to local residents to be able to provide energy efficient heating within their own homes. The Council is part of the Leeds City Region Investment Fund where all local authorities contribute to the fund which provides individual loans to support infrastructure and construction projects which help deliver economic growth and job creation.

Existing capital plans provide for development finance loans to support major town centre regeneration and economic growth, up to a Council approved £31 million (per the 5 year Capital Plan 2022/23 to 2026/27) through the Property Investment Fund. Amounts have been set aside in the capital plan for this type of investment.

The Council will continue to roll forward from last year's Investment Strategy, the earmarking (up to £1 million) to provide financial loans to support 3rd sector partners and anchor organisations. A further element (up to £1 million) will be provided for loans and/or match funding in support of community asset transfers. The Council is underwriting this provision from within the existing earmarked property and other loan reserve.

Security: The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. Investment Strategy guidance states that in order to limit this risk and ensure that total Council exposure to loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have to be set and approved annually by Council. The proposed upper limits for Council loans are set out at Table 1 below:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.03.2021 actual**			**2022/23**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Further education college	14.5	-0.8	13.7	**13.7**
Leeds City Region revolving investment fund	3.0	0.0	3.0	**4.3**
Local businesses and charities	5.7*	-0.1	5.6*	**23.6**
Local residents	2.3	0.0	2.3	**2.3**
TOTAL	**25.5**	**-0.9**	**24.6**	**43.9**

* This is made up of numerous small investments, the largest of which is £5.2 million towards 103 New Street.

Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment:

The Council assesses the risk of loss before entering into and whilst holding service loans. This will include the nature of the market/sector to which the loan relates, and loan security against business/sector assets. The single largest current loan relates to Kirklees College which is a public sector entity and considered to be a viable going concern. The strength of the Council's partnership with key anchor organisations in the district like the College, and ability to influence, support and monitor the College's ongoing financial position, are also key factors, including Council senior finance representation on the College's finance committee.

Development finance loans such as Property Investment Fund (PIF) and HD-One will allow the Council to offer loans to development projects which offer significant economic benefits to the Council and the wider Kirklees district.

Any funding offers made will be on the basis that the loan repayments made by the recipient will cover the Council's financing costs and allow for an appropriate margin on cost of funds reflecting the level of risk involved and consistent with State Aid principles. All funding offers made will be subject to appropriate due diligence, including external specialist advice where appropriate, availability of credit ratings in respect of any potential loanee where appropriate, and loan security arrangements. Each individual loan offer will be the subject of a further Cabinet report.

It would not be the intention for the Council to directly compete with existing providers of investment funding. The Council would only look to invest, at its discretion, when there was a clear and demonstrable added value case to be made in terms of local economic benefits for development finance involvement. In many instances the Council investment would be short term to cover the construction phase of development which is the most critical period for schemes to locate finance that is timely and on reasonable terms.

Once out of the development phase there is sufficient liquidity at an appropriate risk margin in the existing investment markets for schemes to be refinanced at which point the Council investment would be repaid. Any investment from the PIF would be on terms that allowed the Council to fully cover its costs, including the costs of borrowing to fund any advance, and creation of an appropriate risk contingency.

Service Investments: Shares

Contribution: The Council invests in the shares of local businesses to support local public services and stimulate local economic growth. The main share investment (£1.0 million) is a 9.9% holding in Kirklees School Services Ltd which operates 20 schools on our behalf on a 32 year contract under PFI. The Council also has a 40% shareholding in Kirklees Stadium Development Ltd, a 14% holding in QED KMC Holdings Ltd (£0.2 million) and a 50% shareholding in Kirklees Henry Boot Partnership Ltd (£0.1 million).
Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	31.03.2021 actual			2022/23
	Amounts invested	Gains or losses (-)	Value in accounts	Approved Limit
Local businesses	1.3	0.1	1.4	3.8

Risk assessment: The Council entered into these shareholdings for the purposes of participating in the governance and control of organisations that it considered to be important for the purposes of securing economic benefits to the borough. The Council is also the sole client in respect of one of these investments. The Council assessed the risk of participation taking account of the financial and public benefits, including the opportunity to make a potential gain in the event of the business being successful, although this was not the core purpose for initial participation. The Council assesses the risk of loss before entering into and whilst holding shares by continued oversight and involvement in the strategic and operational aspects of the business, and participation in decision making, although the financial risk of the investment is perhaps lower than the operational and or reputational impacts of any failure by the companies in which the Council holds share based investments.

Liquidity: The Council has entered into these shareholdings for the purposes of delivery of its public service and community leadership obligations and the investments are considered to be long term. Viability of the investments in the long term is an important part of the strategy, but as the Councils share ownership and participation is strategic rather than financial the daily or periodic value is of less concern than the overall long-term health of the organisation in which the investment is held.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

Contribution: The Council invests in local commercial property such as retail town centre shops and buildings with the intention of making a profit that will be spent on local public services.

These assets fall under the definition of Investment Properties in the CIPFA Accounting Code and are valued at fair value in the accounts in accordance with IFRS13. Fair value is when an asset is valued at its highest and best use.

Table 3: Property held for investment purposes in £ millions

Property type	Actual	31.03.2021 actual		31.03.2022 expected	
	Purchase cost	**Gains or losses (-)**	**Value in accounts**	**Gains or losses (-)**	**Value in accounts**
Commercial Property	*See below	0.4	19.8	0.0	19.8

*The purchase cost cannot be ascertained as the majority of these assets have been owned by Kirklees for many years and purchased by Huddersfield Corporation during the 1920's from Ramsdens Estate. There is a signed legal document and a 'book of acquisition' which is a hard-backed ledger held in legal services.

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2021/22 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full

Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment: The Council's current commercial asset portfolio held for investment purposes is largely a historical portfolio. It is monitored and reviewed annually as part of the Council's wider asset strategy including potential future appreciation and potential receipt value.

It is not the Council's intention to invest in any new commercial portfolio investments at this time. If any new investments are identified a risk assessment would be performed.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. Cash flow projections are prepared on a regular and timely basis.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not have any loan commitments, however there are some guarantees that the Council holds including a guarantee on outstanding contributions to the Pension Fund in the event of a default by certain bodies and a guarantee to the Homes & Communities Agency (HCA) in the event of a default by Kirklees Community Association (KCA) on the redevelopment of the Fieldhead Estate. The Council also act as a guarantor to a loan of £0.9 million that KSDL hold in the event of default.

Capacity, Skills and Culture

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director Finance is a qualified accountant with extensive local government experience, the Strategic Director – Growth and Regeneration has extensive experience of major Council regeneration schemes and partnerships with major business and third-party partners, as do key Service Directors. The Council pays for staff to study towards relevant professional qualifications including CIPFA and AAT.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Cabinet is responsible for the implementation and monitoring of any Investment policy. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to investment. Regular training for members of the Committee is provided by our treasury advisors to enable them to make decisions to ensure accountability and responsibility on investment decisions within the context of the Council's corporate values. Any new investment decisions are also approved at full Council.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 4: Total investment exposure in £ millions

Total investment exposure	**31.03.2021 Actual**	**31.03.2022 Forecast**	**31.03.2023 Forecast**
Treasury management investments	27.2	30.0	30.0
Service investments: Loans	24.6	35.1	43.9
Service investments: Shares	1.4	1.4	1.4
Commercial investments: Property	19.8	19.8	19.8
TOTAL INVESTMENTS	**73.0**	**86.3**	**95.2**
Commitments to lend	0.0	0.0	0.0
Guarantees issued on loans	0.9	0.9	0.9
TOTAL EXPOSURE	**73.9**	**87.2**	**96.1**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 5: Investments funded by borrowing in £ millions

Investments funded by borrowing	**31.03.2021 Actual**	**31.03.2022 Forecast**	**31.03.2023 Forecast**
Service investments: Loans	**17.3**	**27.0**	**24.5**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	**2020/21 Actual**	**2021/22 Forecast**	**2022/23 Forecast**
Treasury management investments	0.7%	0.9%	1.2%
Service investments: Loans	1.4%	1.4%	1.4%
Service investments: Shares	None	None	None
Commercial investments: Property	5.6%	5.0%	5.0%
ALL INVESTMENTS	**7.7%**	**7.3%**	**7.6%**

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Grant Thornton

Kirklees Council Audit Progress Report and Sector Update

Year ending 31 March 2022

21 January 2022

Agenda Item 9

Contents

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Your key Grant Thornton team members are:

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This paper provides the Corporate Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Corporate Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk .

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at January 2022

Financial Statements Audit 2020/21

We presented our detailed Audit Findings Report to the 24 September 2021 Corporate Governance and Audit Committee setting out our response to audit risks and the proposed audit opinion. We issued our audit opinion on 5 November 2021. The audit opinion was unqualified and unmodified.

Our responsibilities include providing an assurance statement on the Council's Whole of Government Accounts consolidation pack to the National Audit Office (NAO), based upon the 2020/21 audited financial statements. The NAO has not yet confirmed the data collection arrangements to the Council and therefore our assurance work is expected during early 2022, after which we will provide our certification that the audit is completed.

Financial Statements Audit 2021/22

We are currently at the initial planning stage of the 2021/22 audit. This involves audit risk assessment informed by review of minutes from assurance committees, review of Internal Audit reports, meetings with senior officers and an understanding of any changes to the Code of Practice which may impact upon the Council.

We will undertake detailed audit planning and interim testing of balances in the spring of 2022 in order to issue our detailed Audit Plan in June 2022.

Value for Money 2020/21

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our 2020/21 work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

We plan to complete our Value for Money work during January and February 2022 and to issue the Auditor's Annual Report no later than 28 February 2022.

Progress at January 2022 (cont.)

Other areas

Meetings

We met with Finance Officers in December 2021 as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments such as the DSG budget pressure and to ensure the audit process is smooth and effective. We also plan to meet with your Chief Executive in January/February 2022 to discuss the Authority's strategic priorities and plans in connection with our Value for Money reporting

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers are invited to attend our Financial Reporting Workshop in January and February 2022, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Corporate Governance and Audit Committee (CGAC) setting out our proposed approach in order to give an opinion on the Council's 2020/21 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	July 2021	Completed
Audit Findings Report The Audit Findings Report will be reported to the December CGAC	November 2021	Completed
Auditors Report This is the opinion on your financial statements.	November 2021	Completed
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	By 28 February 2022	Not yet due

2021/22 Deliverables (dates to be confirmed)	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Corporate Governance and Audit Committee (CGAC) setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	June 2022	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the CGAC	September 2022	Not yet due
Auditors Report This is the opinion on your financial statements.	September 2022	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	September 2022	Not yet due

Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

FRC report (cont.)

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states "In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils' finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report."

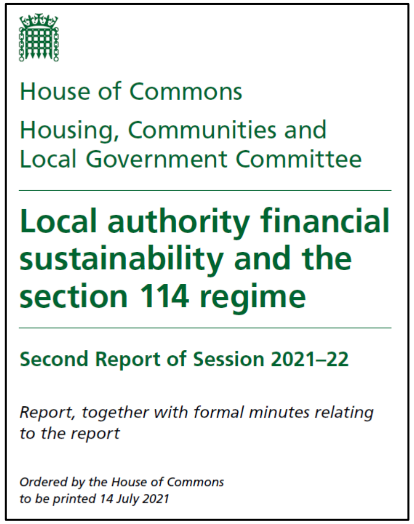
The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

The report made 13 recommendations, and the Government response to these was published in October. The response notes "Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms."

The initial report can be found here: https://committees.parliament.uk/publications/6777/documents/72117/default/

Government response can be found here: https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime


House of Commons

Housing, Communities and Local Government Committee

Local authority financial sustainability and the section 114 regime

Second Report of Session 2021–22

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 14 July 2021

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Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that "delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention."

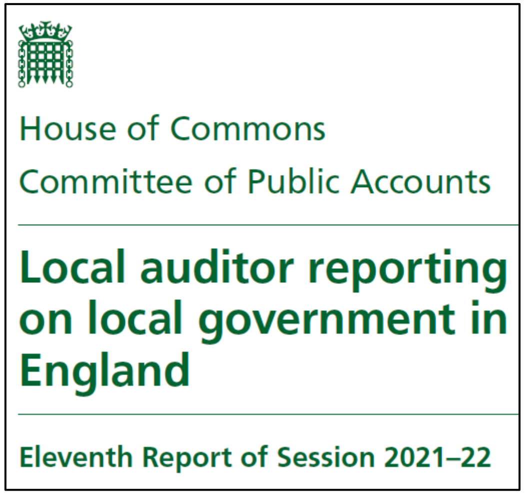
The PAC report found "Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors."

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.
- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here: [Timeliness of local auditor reporting on local government in England - Committees - UK Parliament]


House of Commons
Committee of Public Accounts

Local auditor reporting on local government in England

Eleventh Report of Session 2021–22

2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state "The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete."

Grant Thornton commented "Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused. We remain committed to public sector audit and are now focused on delivering the majority of our local audits by December 2021."

Public Sector Audit Appointments

The news article can be found here:
https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/

2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state "Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.

Public Sector Audit Appointments

The news article can be found here: https://www.psaa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/

The procurement strategy can be found here:

https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/

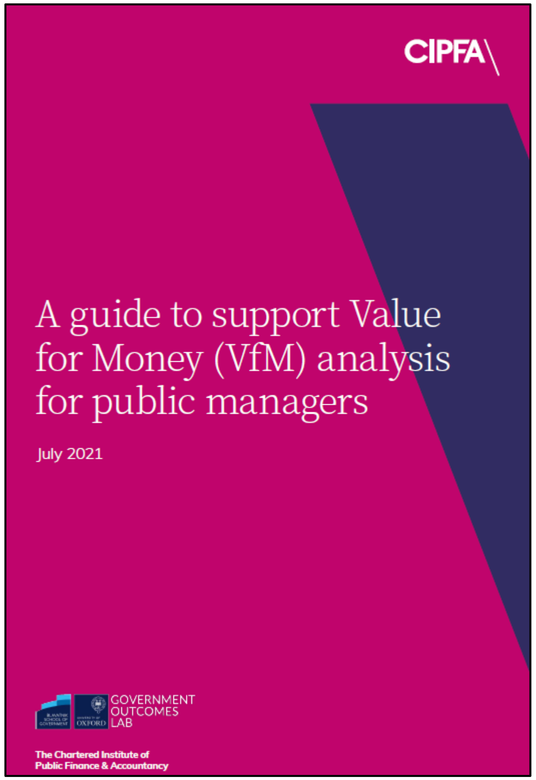
Guide to support Value for Money (VfM) analysis for public managers – CIPFA

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state "The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to 'doing nothing' as well as the closest comparator."

CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.



The guide is available to CIPFA members through the website.

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Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

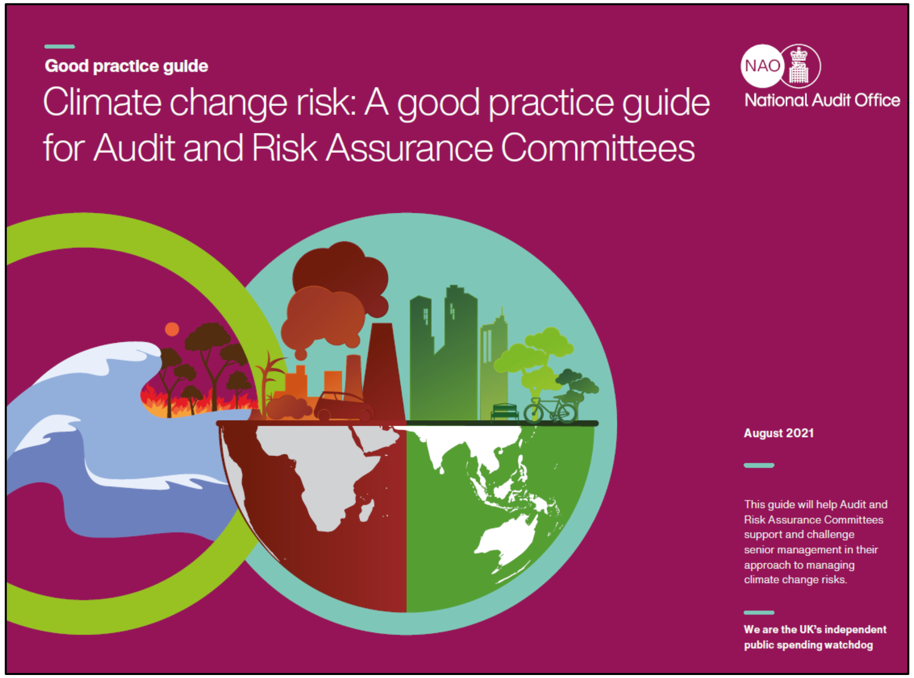
The NAO comment "Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes."

The guide includes sections on "How to support and challenge management". This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a "Complete list of questions that Audit and Risk Assurance Committees can ask" for each of these areas. The guide also includes "Key guidance and good practice materials" with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office (NAO) Report]

Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Audit Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

• clarify the role of local authorities in contributing to the UK's statutory net zero target; and

• ensure local authorities have the right resources and skills for net zero.

The NAO comment "While the exact scale and nature of local authorities' roles and responsibilities in reaching the UK's national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector's powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government's approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities' overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities' ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach."

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities' reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

https://www.nao.org.uk/report/local-government-and-net-zero-in-england/

Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The NAO state "Audit committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation's data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports audit committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

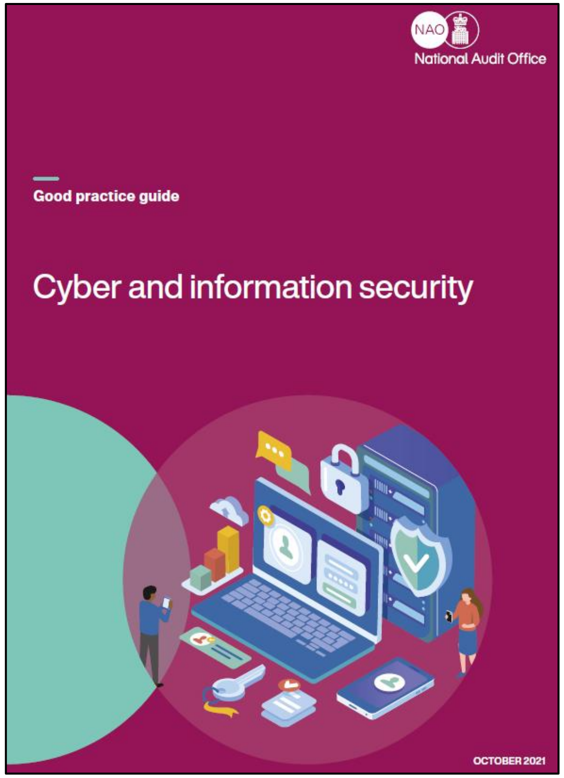
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management."

The report can be found here:

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/



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