Borough Council of
King's Lynn &
West Norfolk

Audit Committee

Agenda

Monday, 22nd November, 2021
at 3.00 pm

in the

Assembly Room
Town Hall
Saturday Market Place
King's Lynn

Also available to view on You Tube by clicking on the following link:
https://www.youtube.com/user/WestNorfolkBC

Borough Council of
King's Lynn &
West Norfolk

King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX
Telephone: 01553 616200

12 November 2021

Dear Member

Audit Committee

You are invited to attend a meeting of the above-mentioned Panel which will be held on **Monday, 22nd November, 2021 at 3.00 pm** in the **Assembly Room, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ** to discuss the business shown below.

Yours sincerely

Chief Executive

AGENDA

1. Apologies

2. Minutes (Pages 5 - 13)

To approve the minutes from the Audit Committee held on 12 October 2021.

3. Declarations of Interest

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on any item or simply observing the meeting from the public seating area.

4. Urgent Business Under Standing Order 7

To consider any business which, by reason of special circumstances, the Chairman proposed to accept as urgent under Section 100(b)(4)(b) of the

Local Government Act 1972.

5. Members Present Pursuant to Standing Order 34

Members wishing to speak pursuant to Standing Order 34 should inform the Chair of their intention to do so and on what items they wish to be heard before a decision on that item is taken.

6. Chair's Correspondence (if any)

7. Internal Audit Half Year Progress Report (Pages 14 - 23)

8. Fraud and Corruption Half Year Progress Report 2021/2022 (Pages 24 - 31)

9. Public Sector Internal Audit Standards (PSIAS) Review Internal Audit Function (Pages 32 - 43)

10. Future of the Audit Committee Cross Party Working Group - REPORT TO FOLLOW

11. Treasury Outturn Report 2019/2020 and 2020/2021 (Pages 44 - 84)

12. Appointment of External Auditor (Pages 85 - 105)

13. Budget Monitoring Report - August 2021 (Pages 106 - 118)

14. Cabinet Forward Decisions List (Pages 119 - 122)

15. Committee Work Programme 2021/2022 (Pages 123 - 128)

To note the Committee's Work Programme.

16. Date of Next Meeting

To note that the date of the next meeting of the Audit Committee will take place on 13 January 2022 at 4.30 pm in the Assembly Room, Town Hall, Saturday Market Place, King's Lynn.

To:

Audit Committee: Councillors Mrs J Collingham, J Collop, P Gidney, J Lowe (Chair), C Manning, C Morley, J Rust, A Ryves and M Storey

Portfolio Holders:
Councillor Mrs A Dickinson, Finance

Officers:
Alexa Baker, Monitoring Officer
Michelle Drewery, Assistant Director/Management Team Representative
Lorraine Gore, Chief Executive
Carl Holland, Financial Services Manager
Jamie Hay, Senior Internal Auditor
Faye Haywood, Internal Audit Manager

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

AUDIT COMMITTEE

Minutes from the Meeting of the Audit Committee held on Tuesday, 12th October, 2021 at 4.30 pm in the Assembly Room, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ

PRESENT: Councillor J Lowe (Chair)
Councillors Mrs J Collingham, I Devereux (substitute for Councillor M Storey), C Hudson (substitute for Councillor J Collop, C Manning, C Morley (Vice Chair), J Rust and A Ryves

Portfolio Holders:
Councillor Mrs A Dickinson, Finance

Officers:
Alexa Baker, Monitoring Officer (via Zoom)
Jamie Hay, Senior Internal Auditor (observing via Zoom)
Dave Robson, Environmental Health Manager (via Zoom)
Wendy Vincent, Democratic Services Officer

A31 **APOLOGIES**

Apologies for absence were received from Councillors J Collop, P Gidney and M Storey.

A32 **MINUTES**

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The minutes of the Audit Committee held on 26 July 2021 were agreed as a correct record and signed by the Chair.

A33 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

A34 **URGENT BUSINESS UNDER STANDING ORDER 7**

There was no urgent business.

A35 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

There were no Members present under Standing Order 34.

A36 **CHAIR'S CORRESPONDENCE**

There was no Chair's correspondence.

A37 **BUSINESS CONTINUITY ANNUAL UPDATE**

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The Environmental Health Manager presented the report which outlined the current position of the Council's business continuity arrangements, summarised progress made since the last update on 11 March 2020 and described work that was planned to be undertaken over the coming months.

The key issues were outlined as set out in the report.

The Committee was informed that the responsible officer for business continuity in the authority was an Executive Director, assisted by a group of officers from across the council – the Business Continuity Corporate Officer Group.

In conclusion, the Environmental Health Manager advised that the Council's business continuity arrangements were aligned to the principles of ISO22301 – which aimed to minimise the impact of disruptive incidents. Business continuity was not a static process; it is therefore important that, as the nature of the organisation changed, the council's business continuity arrangements reflected those changes.

In response to a question from Councillor Ryves on the situation regarding make any permanent changes on the management workflow and officers working from home, the Environmental Health Manager explained that working from home was under review. The current arrangements would remain in place until 31 March 2022, at which time Management Team would review the situation and that no permanent decision had been made. The committee was informed that officers worked on a rota basis with days in the office and at home which was a flexible arrangement.

Following questions from Councillor Collingham on social distancing and Covid measures in place for staff working in the office, the Environmental Health Manager outlined the measures which had been put in place and advised that some staff were located in other buildings and gave examples of the Town Hall, Fairstead and South Lynn Community Centre. It was explained that screens had been installed to allow staff working in the office to be spaced out more.

In responses to questions from Councillor Morley on the significant incident team, forward work plan, direct relationship and outcome, the Environmental Health Manager provided an overview of other items which had been included on the work plan which were not directly

related to the significant incident team. The Environmental Health Manager drew the Committee's attention to Appendix A which set out a flow chart summarising the overview of response to an incident.

Councillor Morley referred to his Councillor ID Card and the information on how to access the business incident portal and explained that an error had occurred. In response, the Environmental Health Manager undertook to check if there was an error and advise the committee accordingly.

Councillor Devereux asked what was the relationship between the business continuity work and the risk register, what were the business critical features and vice versa, the Environmental Health Manager commented that it was his understanding that there were a myriad of issues which may impact upon the council and there was some crossover. He added that if there was a particular issue in relation to business continuity it would remain on the Risk Register until it had been resolved.

The Chair thanked the Environmental Health Manager for presenting the annual update report.

RESOLVED: The Audit Committee:

1) Reviewed progress and endorsed the approach being taken to the Council's business continuity arrangements.

2) Confirmed it wished to receive annual updates.

A38 **REVENUE OUTTURN REPORT 2020/2021**

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The Assistant Director, Resources presented the Revenue Outturn 2020/2021 report which had been presented to Cabinet on 21 September 2021.

The report showed details of the major differences between actual costs/income compared to the revised estimates for 2020/2021 reported in February 2021 monitoring.

It was explained that the accounts showed the Borough's spend of £16,330,894 which was £7,866 less than the revised position following February's monitoring for 2020/2021. This included a proposal to transfer £1,690,243 to reserves for continued operations in 2021/2022 and a drawdown of £1,083,135 from reserves to fund the budget. This is a reduction of £174,405 to the estimated drawdown of £1,257,540 as reported in February monitoring position, which means the unused amount will remain within the General Fund Reserve balance that will be carried forward to 2021/2022.

The Committee was informed of the impact of Covid-19 on Local Authorities with regard to the deadline for the publishing of draft accounts. The Assistant Director, Resources advised that the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 had subsequently relaxed key reported deadlines for local authorities as set out in Section 1.1 of the report. It was highlighted that the Finance Services function had been working extremely hard to try and comply with the revised deadlines. However, Covid-19 and continuing strains on resources had continued to adversely impact the outputs, details of which were set out at Appendix 4.

The Assistant Director, Resources outlined the key issues within the report.

In response to questions and comments from Councillor Ryves on the format of the report not being user friendly, the Assistant Director, Resources invited Councillor Ryves to attend a meeting outside of the committee to discuss the format going forwards.

Following further comments from Councillor Ryves on the format of the report, the Assistant Director, Resources provided an overview of how the current format of the report had been put together from each service area. The committee was advised that Appendix 4 set out a summary of Covid spend ant loss of income as reported in the previous monitoring reports during 2020/2021 and reiterated that it would be useful to discuss with Councillor Ryves expectations going forward and what officers could to provide the committee with a better understanding of the information presented.

Councillor Collingham concurred with the comments made by Councillor Ryves on the current format and that it was difficult to absorb the information and tease out the relevant issues. She added that a summary document would be helpful to enable the committee to look at anomalies, check when things slipped as well as positive outcomes.

Councillor Rust concurred with the comments made by Councillor Collingham.

Councillor Collingham further added that it would be useful to have had a summary table in relation to Covid expenditure setting out the amount of funding received from Government, spend to date, funding left over and to include any set of bodies which had not received help and support.

The Chair stated that there was a common theme amongst the committee that a user friendly summary document would be helpful.

Councillor Morley stated that he supported the comments which had been made but referred to the checklist of questions which could be

used in the executive summary would be sufficient to provide a statement to the committee and gave an example of council tax collection rates.

The Assistant Director, Resources advised that the comments made had duly noted and would discuss them with the Financial Services Manager and see what could be achieved.

The Assistant Director, Resources responded to further questions from Councillor Ryves on the grants received and mechanisms in place with regard to Alive West Norfolk

The Assistant Director, Resources responded to questions from Councillor Collingham with regard to the contained outbreak management fund spending plan and monitoring arrangements and potential utilisation of some of the funding in relation to the homelessness costs which the council had incurred.

In response to questions from Councillor Rust regarding the money spent on security regarding the homelessness service, the Assistant Director, Resources advised that there were ongoing discussions on homeless expenditure and that there was a potential allocation which may address the issues raised but that she did not have the details available. It was explained that the council would review the situation and see what residual amount was incurred by the council.

Councillor Devereux referred the Committee to Appendix 4 – Covid Spend and Loss of Income and added that the table set out the total amount of extra expenditure and how it was dispersed as well as compensating for the loss of income and that the information would help to answer the questions raised earlier in the meeting.

Councillor Ryves asked it if was possible for the committee to receive a schedule setting out the loss to the Borough Council. In response, the Assistant Director, Resources explained that the figures were contained in the table on page 51 of the report together with a paragraph explaining that the Council received Sales, Fees and Charges grant income of £2,354,720 in total which partly offset the loss of income. The Assistant Director, Resources further explained that the scheme allowed for 75% of 95% of the loss to be claimed with the Council required to absorb the first 5% of loss but that not all costs were eligible to be claimed.

In response to questions from Councillor Collingham on the loss of income of car parking fees, the Assistant Director, Resources explained that the period reported on was from 1 April 2020 to 31 March 2021 when the lock down restrictions had required people to stay at home. However, when the restrictions were eased there was a significant number of tourists visiting the resort areas which saw resort car parking do well but town centres were still recovering.

Following further questions from Councillor Ryves on the expected loss of income and how this would be compensated, the Assistant Director, Resources provided an overview of how the grant was claimed and referred to the email she had received from Councillor Ryves and invited him to discuss the issues raised outside of this evening's meeting.

In response to the questions raised by Councillor Devereux on the loss of income relating to recycling and refuse collection, the Assistant Director, Resources confirmed this was principally in relation to trade waste.

The Chair thanked the Assistant Director, Resources for presenting the report.

RESOLVED: The Committee noted the contents of the report.

A39 **MEMBER MAJOR PROJECTS BOARD UPDATE**

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The Chair provided a verbal update on the Member Major Projects Board he attended on 29 July 2021, a summary of which is set out below:

- Presentation received on the role and functions of the Member Major Projects Board.
- Overview of potential delivery issues.
- Staff resources.
- Capacity in recruitment.
- Consultants.
- Timescale and monitoring of projects.
- Review of Board's Terms of Reference required.
- Risks associated with projects and mitigation process to ensure risks were addressed.

In response to a question from Councillor Ryves regarding the date of the next Member Major Projects |Board meeting, the Democratic Services Officer advise the next meeting was currently scheduled for 10 November 2021.

RESOLVED: That the update report be noted.

A40 **COMMITTEE WORK PROGRAMME**

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The Assistant Director, Resources informed the Committee that the Terms of Reference had slipped off the work programme which could

have been a result of the Change of Chair and Internal Audit Manager and would therefore be considered at a future meeting.

Councillor Ryves referred to the Cross Party Working Group and outlined the two areas of work to be completed and added that he had not heard if a proposed meeting had been scheduled.

Councillor Ryves added that the Audit Committee had passed a resolution for the Cross Party Working Group to continue to meet to complete the remaining two areas of work and to look at the relationship between NWES and the Borough Council.

Councillor Dickinson, Portfolio Holder for Finance addressed the Committee

At the invitation of the Chair, the Monitoring Officer provided advice regarding the Cross Party Working Group and explained and invited Councillor Ryves to contact her after the meeting and advised that matters had move on somewhat since the Committee last considered this item.

Councillor Collingham commented on the number of items to be considered at the next meeting and asked whether an interim meeting would be required. In response, the Assistant Director, Resources explained that it was unlikely that all the items scheduled for 22 November would be available to be considered at that meeting and it may therefore be necessary to schedule an interim meeting.

A41 **CABINET FORWARD DECISIONS LIST**

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RESOLVED: The committee noted the Cabinet Forward Decisions List.

A42 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee will take place on 22 November 2021 at 4.30 pm in the Assembly Room, Town Hall, Saturday Market Place, King's Lynn.

A43 **INSURANCE CLAIMS**

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The Chair invited the Assistant Director, Resources to present the report.

The Chair advised that the Appendix to the report was exempt and if Members wished to ask questions on the information set out in the Appendix, the Committee would need to consider passing a resolution to exclude the press and public.

Councillor Ryves stated that the Committee had not received any training on insurance matters and that he believed this had been discussed at the Audit Committee in December 2020 and added that he would personally like the item deferred until Members had received formal training.

The Assistant Director, Resources explained that the report contained statistical information.. She added that the insurance report had been added to the work programme but that she was not aware of the background information or objectives of the request and had therefore set out the statistical information received from Zurich on the type of claims over the financial years. The Committee was advised that there was currently a tender process to re-tender the next contract for the provision of insurance to the council. The report had been brought to the committee to ascertain what information/objectives were required going forward and then to schedule any appropriate training.

Councillor Morley commented that the purpose of the Audit Committee was to check exposure to risk and that it had financial risk controls in place, audit procure process and and that his personal opinion was that he did not see that the Audit Committee could add anything and should therefore note the report.

The Chair and Councillor Collingham concurred with the comments made by Councillor Morley to note the report and could not see what training was required.

Councillor Ryves commented that he noted the comments made by Councillor Morley, but added that insurance was a high risk area and that in his view he would like training.
In response, the Chair advised that he would take the points made into consideration and would discuss training requirements with relevant officers and such training would be available to all Members of the Council.

Councillor Devereux asked if the insurance policy and strategy and implemented was identified as a in the risk register and if so at what level because that would determine any course of action and was it regarded as a significant risk. In response, the Assistant Director Resources explained that she did not have the information to hand but would circulate the information by email to the Committee.

The Assistant Director, Resources responded to questions from Councillor Hudson on the excess payments of £6,000 and insurance reserves. It was noted that the insurance reserves had not been used in the last three financial years.

Councillor Morley commented that on examining the detail in the Appendices, one could read where the risk lies. The Council needed to engage an insurance company which was skilled in managing the highest risk claims. The Council appeared to have been successful in appointing a company that had rebuffed the majority of these, therefore risk was being contained and the paper should be noted.

The Chair thanked the Assistant Director, Resources for presenting the report.

RESOLVED: The Committee noted the contents of the report.

The meeting closed at 6.04 pm

AUDIT COMMITTEE REPORT

REPORT TO:	Audit Committee		
DATE:	22nd November 2021		
TITLE:	Internal Audit Half Year Progress Report		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	All		
REPORT AUTHOR:	Faye Haywood, Internal Audit Manager		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

REPORT SUMMARY/COVER PAGE

PURPOSE OF REPORT/SUMMARY:
The Audit Committee receive updates on progress made against the Annual Internal Audit Plan. This report forms part of the overall reporting requirements to assist the Council in discharging its responsibilities in relation to the internal audit activity.
KEY ISSUES:
The current position in relation to the completion of the Internal Audit Plan 2021/22 is shown within the attached report.
OPTIONS CONSIDERED:
Not applicable
RECOMMENDATIONS:
The Audit Committee are requested to receive and note the Progress Report on Internal Audit Activity.
REASONS FOR RECOMMENDATIONS:
In receiving and noting this report, the Committee is ensuring that the Internal Audit Service remains compliant with professional auditing standards and are fulfilling their terms of reference.

Eastern Internal Audit Services

Borough Council of King's Lynn and West Norfolk

Internal Audit Half Year Progress Report

Period Covered: 1 April 2021 to 11 November 2021

Responsible Officer: Faye Haywood – Internal Audit Manager

CONTENTS

1. INTRODUCTION

1.1 This report is issued to assist Borough Council of Kings Lynn and West Norfolk in discharging its responsibilities in relation to the internal audit activity.

1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive to report to the Audit Committee on the performance of internal audit relative to its plan, including any significant risk exposures and control issues. The frequency of reporting and the specific content are for the Council to determine.

1.3 To comply with the above this report includes:

- Any significant changes to the approved Audit Plan;
- Progress made in delivering the agreed audits for the year;
- Any significant outcomes arising from finalised audits;

2. SIGNIFICANT CHANGES TO THE APPROVED INTERNAL AUDIT PLAN

2.1 At the meeting on 15 March 2021, the Annual Internal Audit Plan for the year was presented to the Audit Committee. This half-yearly progress update suggests the following amendments to the plan. Justification and reasoning for changes suggested are provided in more detail within the Public Sector Internal Audit Standards Assessment Report included elsewhere on the agenda.

Audit Title	Days	Reason for Change
Addition - Waste Services	15	Significant risk raised in CRR
Addition Housing Standards	10	Significant risk raised in CRR
Asset Register	-15	Deferred to 2022/23 to allow for new system implementation.
Performance & Appraisal	-15	No significant risk raised.
Compliance with Bribery Act 2010	-10	No significant risk raised.
ICT Wireless Networks	-15	No significant risk raised.
Democratic Services	-15	No significant risk raised.
Play Areas	-10	No significant risk raised.
Amenity Property & Land	-15	No significant risk raised.
Care & Repair	-7	No significant risk raised.
Total	-77	Reduction of 77 days in 2021/22 to ensure resources are utilised to provide assurance over key risks.

3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK

3.1 The current position in completing audits to date within the financial year is shown in **Appendix 1**.

3.2 In summary 149 days of programmed work has been completed, equating to 52% of the revised Internal Audit Plan for 2021/22.

3.3 Quarter one and two audits are beginning to conclude with the majority now at draft report stage. Improvements to time charging processes are being progressed with an aim to prevent allocated days from being exceeded and to maximise available audit budget within the testing phase of each review.

Remote working and service area engagement has been challenging in some areas as the Council is removing from the impact of the pandemic. The above mentioned amendments to the plan will enhance the teams ability to deliver the plan of work to inform the Internal Audit year end Annual Opinion.

4. THE OUTCOMES ARISING FROM OUR WORK

4.1 The Internal Audit Manager has highlighted the need for an amendment to grading definitions going forward as outlined within the Public Sector Internal Audit Assessment report. At present, upon completion of each individual audit an assurance level is awarded using the following definitions:

Assurance Opinion	Definition
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our review were being consistently applied.
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation's management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.
Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.

Recommendations made on completion of audit work are prioritised using the following definitions:

High: Fundamental control issue on which action to implement should be taken within 1 month.

Medium: Control issue on which action to implement should be taken within 3 months.

Low: Control issue on which action to implement should be taken within 6 months.

4.2 During the period covered by the report two final reports have been finalised:

Audit	Assurance	High	Medium	Low
Economic Development	Substantial	0	6	0
Information Legislation	Substantial	0	2	3

The Executive Summary of these reports are attached at **Appendix 2;** full copies of these reports have been added to the intranet for Members to access.

4.3 As can be seen in the table above as a result of these audits a total of 11 recommendations have been raised and agreed by management.

4.4 In addition to the above in April 2021, the Internal Audit Team carried out a review of the Water Management Alliance. This work involves carrying out checks of Accounting Records, Financial Regulations, Standing Orders, Risk Management, Budgetary Control, Income, Petty Cash, Payroll, Assets, Investments, Cashbook, Bank Recs and Year End Procedures for all five of its Internal Drainage Boards. A total of nine days were delivered.

5. PERFORMANCE MEASURES

5.1 A review of the performance framework for Internal Audit has been suggested as an area of improvement as outlined within the Public Sector Internal Audit Assessment Report. Until this work is concluded, progress against agreed performance metrics are provided in the table below:

Metric	**Target**	**Half-yearly performance**	**Commentary**
1.Delivery of Audit Plan	95%	52%	On track - 149/286 days delivered from revised 2021/22 plan.
2.Percentage of time spent on audits	60%	66%	On track

APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations			Date to Committee
							High	Medium	Low	
Quarter 1										
Eco Dev & Regen	19/20	4	4	4	Final report issued on 13 October 2021.	Substantial	0	6	0	Nov-21
Planning Enforcement	20/21.16	5	5	8	Draft report issued on 19 October 2021					
Information Legislation (DPA, FOI, EIR)	21/22.8	10	10	16	Final report issued on 15 October 2021.	Substantial	0	2	3	Nov-21
Street Cleansing	20/21.17	5	5	2	Currently in progress with testing.					
TOTAL		**24**	**24**	**30**						
Quarter 2										
Emergency Planning & Management	21/22.10	15	15	5	Testing currently in progress.					
Council Tax & Business Rates	CO1	10	10	12	Draft report issued 1 November 2021					
Policies	20/21.1	5	5	6	Draft report in progress.					
Financial Management Systems	CO3	20	20	13	Testing currently in progress.					
Covid-19 Business Grants	21/22.3	17	17	23	Draft report in progress.					
Benefits	CO4	10	10	7	Draft report in progress.					
Care & Repair	20/21.19	7	0	0	Cancelled.					
TOTAL		**84**	**77**	**66**						
Quarter 3										
Alive West Norfolk	21/22.9	20	20	9	Testing currently in progress.					
ICT Disaster Recovery	20/21.7	15	15	1	Testing currently in progress.					
Licensing	21/22.14	15	15	6	Testing currently in progress.					
Accounts Payable	CO2	20	20	6	Testing currently in progress.					
Financial Governance and Budgetary Control	CO9	20	20	6	Testing currently in progress.					
Play Areas	21/22/.13	10	0	4	Cancelled.					
Amenity Property & Land	21/22.6	15	0	0	Cancelled.					
Democratic Services	21/22.1	15	0	0	Cancelled.					
TOTAL		**130**	**90**	**32**						

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations			Date to Committee
							High	Medium	Low	
Quarter 4										
ICT Wireless Networks	21/22.7	15	0	0	Cancelled.					
Payroll, expenses & allowances	CO6	20	20	1	Planning stage					
Food Safety and Health & Safety	21/22.11	15	15	0	Planning stage					
Performance & Appraisal	20/21.4	15	0	0	Cancelled					
Compliance with Bribery Act 2010	21/22.2	10	0	3.5	Cancelled.					
Capital Programme	21/22.5	15	20	0	Planning stage					
Asset Register	21/22.4	20	0	4.5	Deferred to 2022/23					
Waste Services *(Addition)*	21/22.20		15	0	Planning stage					
Housing Standards *(Addition)*	21/22.21		10	0	Planning stage					
TOTAL		**110**	**80**	**9**						
Other										
Major projects - consultancy	21/22.12	15	15	12	Officer Major Projects Board Meetings					
TOTAL		**15**	**15**	**12**						
TOTAL		**363**	**286**	**148**			0	8	3	
Percentage of plan completed				**52%**						

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APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

21/22.8 Executive Summary Information Legislation Report

Our Assurance Opinion: SUBSTANTIAL								
No. of Assurances Over Control Areas Reviewed					No. of Recommendations & Priorities			
Full	Substantial	Limited	No	Total	High	Medium	Low	Total
1	5	0	0	6	0	2	3	5

Overall Objective and System Background
As part of the Internal Audit Plan for 2021-2022, an audit has been undertaken to gain assurance that the data sharing arrangements in place are lawful, allows access to the data required and governance of the shared information is understood. The General Data Protection Regulations 2016 (GDPR) and the Data Protection Act 2018 (DPA) came into force on 25th May 2018. GDPR is a European Union (EU) implemented legal framework; the regulations apply to all organisations which transfer data within and outside the EU where the data relates to EU living individuals. The requirements under the regulation are far wider than those under the Data Protection Act 1998 (DPA); for example, there is an accountability requirement where organisations must demonstrate how they adhere to the GDPR principles. GDPR applies to data controllers and data processors; therefore, it applies to all organisations that process an EU individual's personal data, regardless of the organisation's actual location. The requirements of GDPR are enshrined in UK law within the DPA 2018 legislation. The fines imposed under GDPR are significantly higher than those under DPA 1998. For significant data breaches the fine imposed can be up to 4% of annual worldwide turnover or EUR20m, whichever is higher. Failure to report a data breach within 72 hours can lead to a fine of EUR10m or 2% annual worldwide turnover. The council has a number of Data Sharing Arrangements. The council has a Data Protection Policy which can be used as a template when producing a new Data Sharing Arrangement.

Summary of Key Recommendations
The key recommendations arising from the audit are: • All current and future DSA's should include all aspects of the most recent Data Sharing Code of Practice. Current DSA's should be enhanced if required when next reviewed. • To provide assurance that consent has been sought and approved by the individual whom the data relates to, the council should include as a standard Appendix to DSA, the model consent form recommended by the ICO.

Executive Summary

Our Assurance Opinion: SUBSTANTIAL								
No. of Assurances Over Control Areas Reviewed					No. of Recommendations & Priorities			
Full	Substantial	Limited	No	Total	High	Medium	Low	Total
1	2	1	0	4	0	6	0	6

Overall Objective and System Background

As part of the Internal Audit Plan for 2019-20, an audit has been undertaken to gain assurance that regeneration and economic/business development is being delivered through the Council where appropriate that provides local benefits to communities, businesses and to the Council.

The Regeneration and Economic Development team sits within the Assistant Director Regeneration, Housing and Place remit and comprises of:

- Strategic Regeneration and Economic Development
- Business Development
- LEP Liaison
- Tourism and Place Marketing
- Heritage Action Zone
- Future High Streets and Towns Funds
- Funding Bids

In terms of strategy/priority of local economic development/regeneration the New Anglia Local Enterprise Partnership (NALEP) strategy underpins our local priorities and strategies and is critical to our local priorities/strategies. We do not have any recent cabinet endorsed or any other type of strategy documents in place at this current moment in time.

At the time of commencing this audit 2 large investment funds were being followed up, the "Towns Fund" and the "Future High Streets" to the value of around £25m each of "matched funding" over a 10-year period (works must commence within 7 years). Requirements of this funding are the creation of a "Town Investment Plan" and a Board. The Board is made up of local business representatives and Council representatives. An evidence base was established for the "Town Investment Plan" by consultants "Metro Dynamics", part of this evidence base included:

- Urban Strategy
- NALEP Strategy
- Nelson Quay paper
- Strategic Housing Market Assessment (SHMA)
- Local Plan
- Skills information from NALEP and Norfolk County Council

As such the Town Investment Plan is likely to shape the strategy and direction of the Council's Economic Development and Regeneration for the future.

There are no overarching regulatory duties or requirements for economic development or regeneration purposes (each individual project within the pipeline of regeneration and economic growth projects will have internal regulations specific to the project).

The team has various front facing services that it delivers such as local business support, site development, participation with community groups and general development services being provided.

Summary of Key Recommendations
The key recommendations arising from the audit are: • The Council needs an overarching corporate economic development and regeneration strategy to encompass all projects / initiatives and how they meet the corporate business objectives and aspirations of the Council. This should be a cabinet approved document. • The Council's overarching corporate economic development and regeneration strategy should reflect and capture the organisational aspirations of the Council (including the objectives that underpin the Council's Corporate Business Plan for 2020 – 2024) in terms of sustainability, climate change, carbon reduction, protecting our local environment as well as other matters such as protecting our communities from flooding. • Within the review of Management Team and the inclusion of a new programme management and monitoring regime, roles and responsibilities need to be clearly identified and set out for the life cycle of projects/initiatives and their performance/progress monitoring requirements. There needs to be clarity between the various roles and the responsibilities under each role within the strategic, project development, client management, project delivery. • An overarching document should be produced, or the Schedule of the Council's Major Projects Programme should be enhanced to provide details of ALL ongoing projects, the funding source for each project and overall budget allocation for each project, the name/job title of the lead officer, and the current position/progress that has been made with the project and the priority of the project against other projects that are in progress. Thus, allowing effective monitoring of projects to take place and to understand pinch points in projects and resourcing of projects more effectively. • Consider a full review of the types of brochures, guides and leaflets the Council produce for tourism purposes, based upon a cost versus benefit exercise and compared to the wider audience being reached on the digital tech promotion pages and platforms as well as the ability to keep the digital tech platforms more up to date. • Utilise any time/resources savings identified through the review of the types of brochures, guides and leaflets the Council produce for tourism purposes, and invest this into the continued growth of the digital tech platforms to promote West Norfolk to a wider audience.

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	22nd November 2021		
TITLE:	Fraud & Corruption Half Year Progress Report 2021-22		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	Cllr Dickinson, Finance		
REPORT AUTHOR:	Jamie Hay, Senior Internal Auditor		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

REPORT SUMMARY/COVER PAGE

PURPOSE OF REPORT/SUMMARY:
This report is aimed to provide Members with an update on total fraud and error detected in respect of applications and claims received by the Council, debtor tracing activities and progress on National Fraud Initiative (NFI), FraudHub and Single Person Discount exercises/projects currently being undertaken for the period April 2021 to September 2021. It also provides details of the Council's RIPA activities (for the period 2020/21) and sets out the pipeline of upcoming projects and anti-fraud and anti-corruption related activities that will be undertaken/progressed in the second half of the year and beyond.
KEY ISSUES:
Section 5 of the Anti-Fraud & Anti-Corruption Policy recognises that the Council as a large organisation is at risk of loss due to fraud and corruption both internally and externally. The Policy sets out the approach that the Council uses to manage the risk of fraud and corruption and minimises the losses incurred. Section 19 of the Policy outlines that the Council has adopted the Cabinet Office's national "Report Calculations" for measuring fraud loss where appropriate and uses local calculation methodologies where it feels local weighting should be applied and to furthermore be consistent with other member local authorities of the Norfolk FraudHub. The Fraud & Error report is presented to show how the Council is performing against the Anti-Fraud & Anti-Corruption Policy for Audit Committee to review the effectiveness of the policy and how the Council measures against the national counter-fraud standards (as set out within the Anti-Fraud & Corruption Policy and the Fighting Fraud & Corruption Locally 2020 standards), including where appropriate details of corrective action where standards have not been met. The reports will include details of the level of fraud loss and where appropriate cases arise will support a communication programme to publicise fraud and corruption cases.
OPTIONS CONSIDERED:
Not applicable
RECOMMENDATIONS:
Members are asked to note the update of the anti-fraud & anti-corruption work.
REASONS FOR RECOMMENDATIONS:
Fraud and Error reports are to be presented by Internal Audit to the Audit Committee on a

half-yearly basis, to show how the Council is performing against the Anti-Fraud & Anti-Corruption Policy.

REPORT DETAIL

1. This report is aimed to provide the following in respect of the period April 2021 to September 2021:

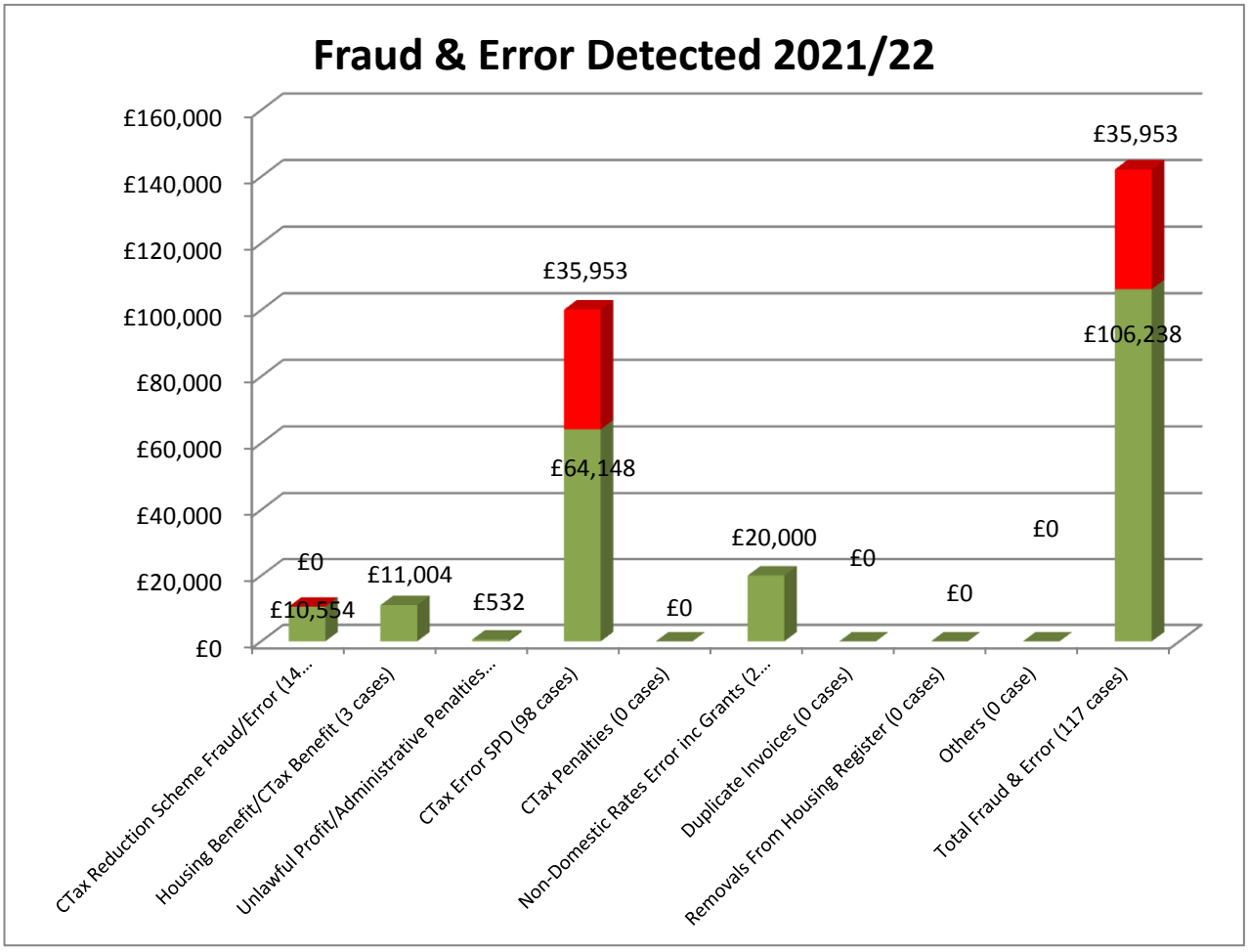
- Total fraud and/or error detected, in respect of applications and claims received by the Council which have been deemed to have been false, incorrect, or where there has been a failure to declare a relevant change in circumstances which has resulted in the applicant/customer receiving a financial gain or where an error has been identified and amended because of the investigation.
- Debtor tracing activities provided to areas of the Council who have required assistance/support from the internal investigation resource within the Internal Audit team.
- National Fraud Initiative (NFI), FraudHub and Single Person Discount exercises/projects currently being undertaken and progress.

This report also provides details of:

- The Council's RIPA activities (for the period 2020/21) Directed Surveillance operations, the use of Covert Human Intelligence Sources, the acquisition of communications data.
- The pipeline of upcoming projects and anti-fraud and anti-corruption related activities that will be undertaken/progressed in the second half of the year and beyond.

<u>Fraud/Error Detection</u>

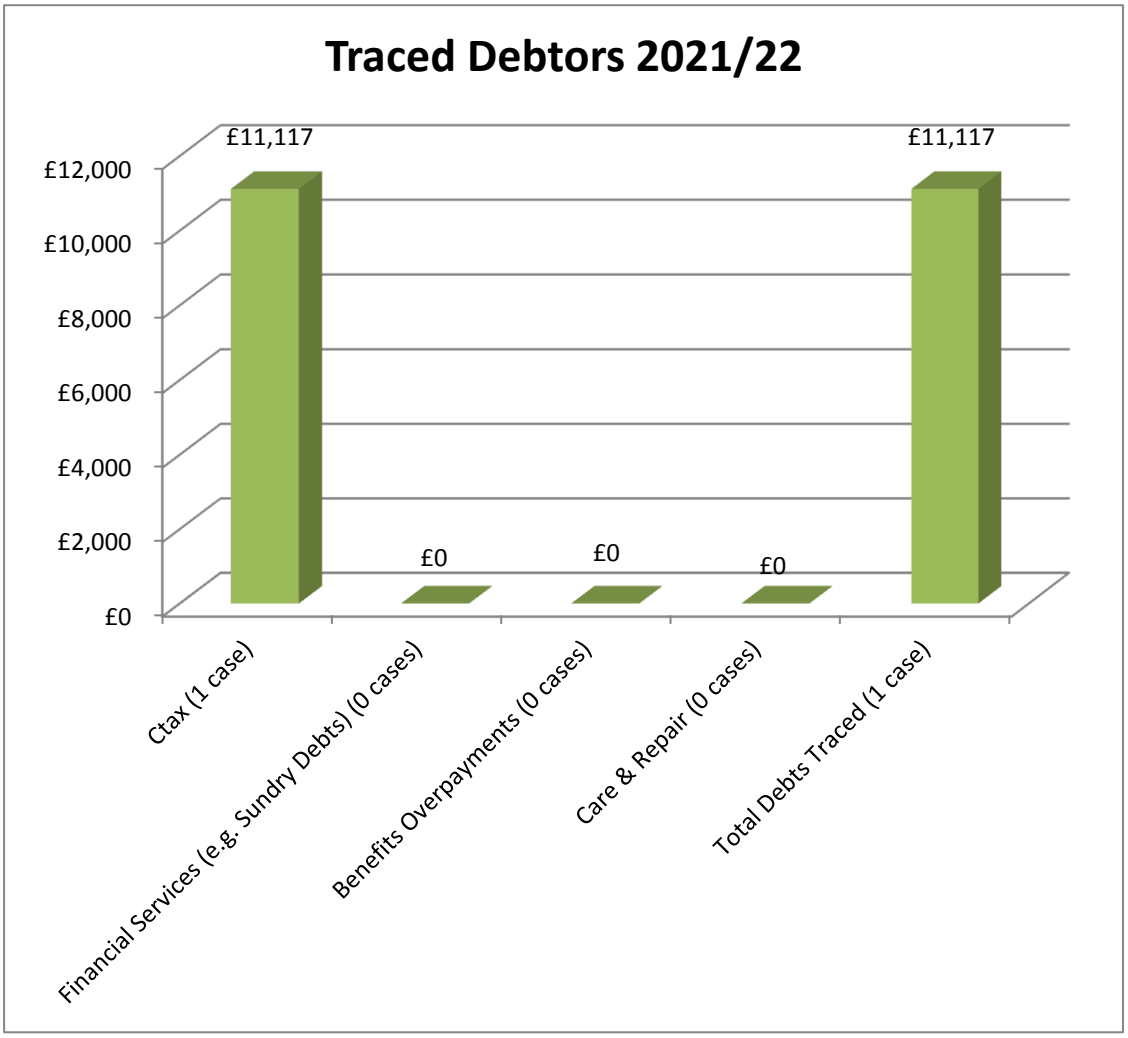
1.1 The total fraud and error identified during 2021/22 YTD:



1.2 The above chart shows the actual fraud and error detected in green and the future savings that have been identified because of stopping the fraud and error from continuing in red, these are calculated using a national calculation methodology which has been adopted by all members of the Norfolk FraudHub.

Debtor Tracing Activities

1.3 Debtor/Absconder investigations services have continued to be offered across the Council for specific or immediate cases where requests for assistance/support are made to the Internal Audit section to attempt to trace customers who had not advised of their address/contact information but have outstanding arrears with the Council. Where a successful trace has been made any new address/contact information is being passed on to the relevant section for recovery purposes, due to the reliefs being given because of the Covid-19 pandemic there has been a pause in the number of cases being passed through to be considered. The following values of Debtors/Absconders have been identified during April 2021 to September 2021:



Other Identified Errors

1.4 Other investigation work has resulted in 9 Council Tax accounts being amended from a Single Person Discount award to a Student Disregard/or another disregard status (the council tax liability has not changed but future fraud and error may have been prevented)

National Fraud Initiative Exercises

1.5 As part of the investigation work conducted, data matching exercises are carried out with the Cabinet Office's National Fraud Initiative, these exercises cross-over financial years and form part of the fraud and error figures stated above at 1.1.

There are currently two themes of National Fraud Initiative (NFI) reporting being completed:

1) The NFI National Exercise – This is a council wide data matching exercise, focusing on all possible areas of the council including Creditors, Payroll, Council Tax and Housing Benefits. This exercise is undertaken every two years.

2) The Flexible Matching Service – This is carried out annually, focusing primarily on Council Tax data matches in need of investigation. The Flexible Matching Service deals with matches mainly consisting of:

   - Council Tax Single Person Discount (SPD) - the outstanding matches are for Council Tax accounts that do not match Electoral Register information that require further investigation.
   - Additionally, some matches refer to details where the second adult is due to turn 18 between now and the end of the financial year.

1.6 Further data matches against HMRC data are expected between the middle of October and the end of November for both Benefits and Council Tax purposes, with data matched against income details, capital details, household composition details, and property ownership details held by HMRC.

The Norfolk FraudHub

1.7 The Norfolk FraudHub project has continued from its inception in 2019/20 to date, allowing fraud and error to be detected within systems earlier by carrying out data matching exercises of key data sets more frequently between all 7 district authorities in Norfolk and Norfolk County Council. This work also provides further assurance that claims, and applications are genuine, and that information and data recorded in our systems is consistent and accurate. It is hoped that new data matching options can also commence within the Norfolk FraudHub (resources permitting) including Business Rates data matching exercises for the purposes of identifying potential Small Business Rates Relief fraud and error.

1.8 As part of the Norfolk FraudHub project a Steering Group is also in place where best practices and knowledge is shared across each of its 8 member organisations including details on emerging and new fraud risks/threats.

Single Person Discount Project

1.9 The Single Person Discount project (funded by Norfolk County Council) has continued and is currently in year 2 of the project with further funding negotiations underway to extend the initial 2-year project with an agreement "in principle" for a third year (in 2022/23). This will also look to expand the project over new areas highlighting further fraud and error such as Empty/void property checks and

Business Rates (when this is released into the FraudHub by the Cabinet Office a date still to be determined). This work has been a success to date highlighting 362 errors with a total value identified of £258,339.76 since it commenced in 2020/21.

Overall Data Matching Activities

1.10 Below is a table outlining the number of data matches that have been received, processed, errors identified, and value identified during 2021/22 year to date. (these figures are included within the above figures at 1.1 where matches have been processed during the period 2021/22 only):

Exercise	Matches Received as at 30/09/21	Matches Processed as at 30/09/21	Matches left as at 30/09/21	Errors identified as at 30/09/21	Value identified as at 30/09/21
NFI National Exercise 2018/19	42	42	0	0	£0.00
NFI FMS 2019 (inc. HMRC 2019)	223	215	8	43	£52,964.42
Norfolk FraudHub 2019/20	1,135	34	1,101	0	£0
NFI Premium 2020/21	326	317	9	65	£67,389.65
NFI National Exercise 2020/21	573	0	573	0	£0.00
NFI FMS 2021/22	4,195	1,388	2,807	0	£0.00
TOTAL	**6,494**	**1,996**	**4,498**	**108**	**£120,502.07**

Covid-19 Business Grants

1.11 A Post Assurance Audit of the Business Grant Schemes for National Lockdown 1 (March 2020 to September 2020) is now being concluded. A total of 3,451 grants were paid during this period. The post assurance audit has highlighted 125 accounts for further checks to be carried out (these have been passed back to the Revenues Team for further checking). 2 cases have been highlighted where grant payments have been requested to be repaid in line with guidance provided by the Department for Business, Energy & Industrial Strategy. Instances of where the assurance audit has highlighted further checking include to:

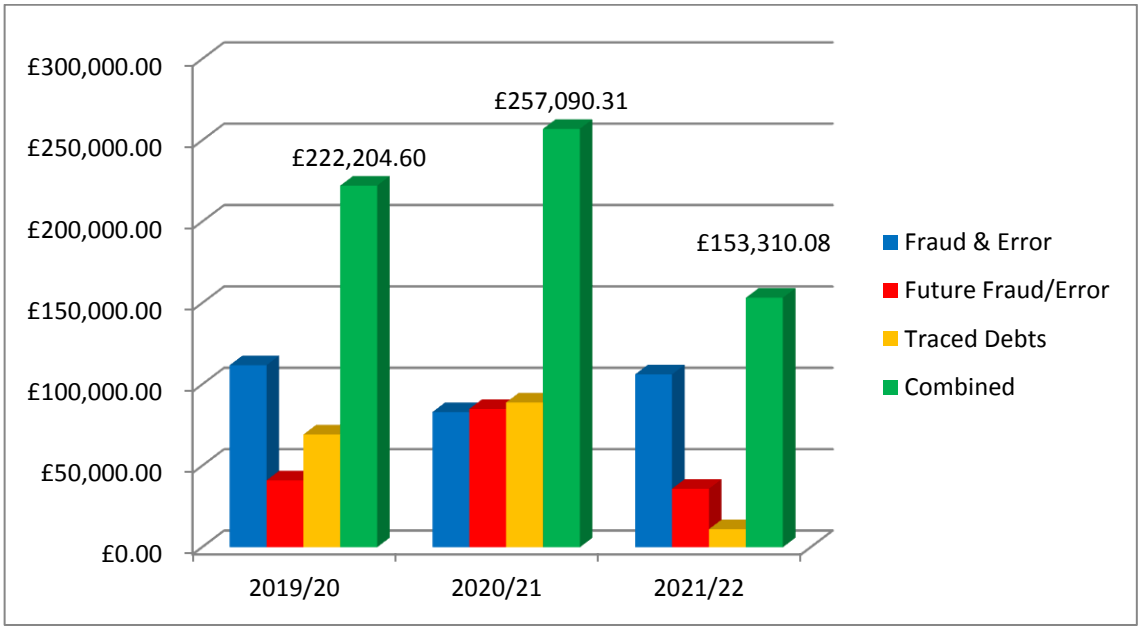
- Review if the business ceased trading prior to 11/03/20
- Review if the hereditament is for business or personal use
- Review if the correct liable party was held as at 11/03/20
- Review if there should be Small Business Rate Relief awards in place for the hereditament
- Review if the business has vacated the hereditament prior to 11/03/20

Joint Working/Collaboration Activities

1.12 Joint working with the Department for Work & Pensions Single Fraud Investigation Service on cases of suspected Council Tax Reduction Fraud where DWP benefits are also under suspicion of fraud was suspended by the DWP with immediate effect because of the Covid-19 pandemic and there has been no recent contact from the DWP to clarify confirm when this will resume.

Overall Performance

1.13 During the first half of the financial year 2021/22, investigations have been conducted into **2,015** cases of fraud and error. Below are the results from investigations during the past 3 financial years to show how this year's work is shaping as a comparison:



Policy Updates

1.14 The "Fighting Fraud & Corruption Locally 2020's" national fraud and corruption strategy was released in March 2020 and was reviewed resulting in the review and update of the Anti-Fraud and Corruption Policy presented to the Audit Committee in December 2020. The policy was formally approved on 8 July 2021.

Publicity

1.15 There have been no suitable cases identified during the 2021/22 year to date for publication. These would generally be cases that involve criminal proceedings.

Projects/Future pipeline of activities

1.16 Future work during 2021/22 include:

- Post assurance exercise being undertaken in respect of the Covid-19 business grants paid during National Lockdown 1, which is nearing completion with a report to follow.

- Discussions are ongoing with Anglia Revenues Partnership for the trial of a new software product called "IDIS" which can undertake risk analysis using credit

reference data to enable further projects to potentially be considered. The initial focus will be completion of the relevant Privacy Impact Assessments and then a pilot exercise using data matches already held for analysis of the output results. Following any successful trial further projects could be considered such as new Single Person Discount awards (identifying fraud and error earlier) and empty/void property checks to establish potential liability avoidance customers and spurious liabilities as well as establish new customers sooner and reducing the accumulation of aged debt.

- The Senior Auditor is a member of the Cabinet Office's FraudHub user group and is assisting with other local authorities in shaping the services and data matching activities provided through the NFI and FraudHub. There are some future innovation themes being considered for development by the Cabinet Office that will be fed out nationally to local authorities and other government organisations to help fight fraud and corruption.

RIPA

1.17 Having liaised with the Borough Council's Senior Responsible Officer & RIPA Co-Ordinator for the purposes of RIPA activities (i.e., Directed Surveillance operations, the use of Covert Human Intelligence Sources, the acquisition of communications data), it can be confirmed that there were no such instances of the use of RIPA Powers by the Council during the 2020/21 financial year.

1.18 A review of the Council's RIPA Policy has been undertaken and it is currently out for consultation to ensure its compliance with legislation, as well as the introduction of a Non-RIPA Policy and set of procedures for areas of investigation that may include surveillance, the use of a Covert Human Intelligence Source, or the acquisition of communications data where the activity may fall outside of RIPA (this would usually be where crime thresholds have not been met).

AUDIT COMMITTEE REPORT

REPORT TO:	Audit Committee		
DATE:	22nd November 2021		
TITLE:	Public Sector Internal Audit Standards Assessment		
TYPE OF REPORT:	Update		
PORTFOLIO(S):	All		
REPORT AUTHOR:	Faye Haywood, Internal Audit Manager		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

REPORT SUMMARY/COVER PAGE

PURPOSE OF REPORT/SUMMARY:
The Internal Audit Manager has carried out an assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) to highlight any areas where improvements may be required. This exercise is necessary for the Internal Audit Manager to determine how much reliance can be placed on the assurances coming from the function, which will be used to determine the annual opinion on the Governance, Risk Management and Control at the Council.
KEY ISSUES:
The current position and any suggested improvements are shown within the attached report.
OPTIONS CONSIDERED:
Not applicable
RECOMMENDATIONS:
The Audit Committee are requested to consider the findings within the attached report, provide feedback and endorse the improvements where appropriate.
REASONS FOR RECOMMENDATIONS:
In receiving and noting this report, the Committee is ensuring that the Internal Audit Service remains compliant with professional auditing standards and are fulfilling their terms of reference.

Borough Council of King's Lynn and West Norfolk

Internal Audit Internal Assessment against the Public Sector Internal Audit Standards

Contents

Introduction

The role of the Internal Audit Manager for the Borough Council of King's Lynn and West Norfolk is now being carried out by Eastern Internal Audit Services (EIAS). Faye Haywood from South Norfolk Council has been working with the in-house Internal Audit team to provide management support including the review of the Internal Audit plan, review of Internal Audit scoping documents and draft reports.

As part of this role, the Internal Audit Manager has carried out an assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) to highlight any areas where improvements may be required. This exercise is necessary for the Internal Audit Manager to determine how much reliance can be placed on the assurances coming from the function, which will be used to determine the annual opinion on the Governance, Risk Management and Control at the Council. The purpose and objectives of the PSIAS is as follows:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

This report provides the results from the assessment of the Internal Audit Manager and proposes recommendations to improve conformance against the PSIAS for the Audit Committee's consideration and endorsement.

Methodology

This assessment has been undertaken by reviewing Internal Audit documentation and through discussions with the in-house Internal Audit team, the previous and existing Chair of the Audit Committee and the Assistant Director Resources (S151 Officer) and the results shared with the Management Team.

Findings

Positive conformance

This assessment has confirmed conformance with the following key areas of the PSIAS requirements.

1110 Independence

The Internal Audit team report to a level within the Council that allows the Internal Audit activity to fulfil its responsibilities. The team reports directly to senior management through the Assistant Director Resources and has unfettered access to Senior Management and the Chair of the Audit Committee.

2020 Communication and approval

The Internal Audit activity's plans and resource requirements have been communicated and approved by Management Team and the Audit Committee.

2060 Reporting to Senior Management and the Board

The Internal Audit function reports periodically to senior management and the Audit Committee on performance relative to the plan.

2200-2400 Engagements

For those engagements observed, the Internal Audit team demonstrates well researched and carefully considered engagements that meet the originally agreed objectives. Communication of engagement results are clear and concise and distributed appropriately.

Required improvements

The following observations have been made about areas where improvements should be made to demonstrate conformance with the PSIAS.

1200 Proficiency and Due Professional Care

The standards require that Internal Auditors shall engage only in those services for which they have the necessary knowledge, skills and experience. Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. Competent advice and assistance must be obtained if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

The Internal Audit team are involved in auditing Information Technology controls within the current internal audit plan in areas of disaster recovery and networks. The in-house resource does not currently hold a relevant IT audit qualification i.e., CIISA or QICA and or relevant experience required to provide assurance over these risks.

Two significant risks have been raised within the corporate risk register that relate to IT vulnerabilities and Cyber Security related risk. It is advised that Information Technology qualified

auditors are used to provide assurance over the mitigation required to manage the significantly scored corporate risks.

1000 Internal Audit Charter

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter. This must be periodically reviewed and presented to senior management and the Audit Committee for approval. The internal audit charter is a formal document which establishes the internal audit activity's position within the organisation, including the nature of internal audit's functional reporting relationship; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

A review of the existing Internal Audit Charter currently named "Internal Audit Terms of Reference" has been undertaken and compared with the requirements of the above standard. The document was required for re-approval by the Audit Committee in July 2020. This has not yet occurred.

The Charter does not currently provide a Mission Statement for Internal Audit used to articulate its overall purpose and summarise the way it will provide value to the organisation.

The Charter also does not currently define the role of Internal Audit in any fraud-related work of which the Senior Internal Auditor is involved.

1300 Quality Assurance and Improvement Programme

The standards require the Chief Audit Executive to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. This is partly complied with by undertaking an annual internal assessment against the PSIAS which has regularly occurred. However, this standard also requires that ongoing performance monitoring takes place which includes comprehensive performance targets. The performance targets mentioned below are provided to Audit Committee within progress reports:

- Delivery of Audit Plan – target 95%
- Percentage of time spent on audits - target 60%

However, it has already been recognised by the team that the above targets are not comprehensive and do not provide for stakeholder feedback which is a requirement of this standard.

It is proposed that the performance targets for the function are designed and agreed with senior management and the Audit Committee and that these will include the opportunity for regular feedback from stakeholders and details of continuing professional development of team members to demonstrate skills are kept up to date. Ideally a balanced scorecard approach will be taken to ensure that performance of the Internal Audit function can be demonstrated across a range of internal audit objectives.

1312 External Assessment

The PSIAS requires all Internal Audit functions in the UK Public Sector to be independently externally assessed every five years. The last external assessment was undertaken in September 2014 and was therefore due in September 2019. Due to the pandemic this review was postponed but should now be re-scheduled.

2010 Planning

A risk-based plan must be established to determine the priorities of the internal audit activity, consistent with the organisation's goals. The Internal Audit Manager is required to review the Internal Audit plan on a regular basis and adjust when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls. This is to ensure that the internal audit plan of work is providing the Audit Committee and the council with assurance over the management of the most significant risks and is maximising value from the Internal Audit resource.

A review of the approved plan has been undertaken and compared with the Corporate Risk Register, council objectives and where applicable, previous audit gradings given in each area to determine whether assurance is sufficient to provide an annual opinion. Allocated days were also compared with available resource.

This exercise has highlighted that an additional audit of Waste Services should be added to the plan for 2021/22. This risk is scored as inherently likely and major for the Council due to uncertainty around the success of new service arrangements. A substantial assurance opinion was given in this area in 2020/21, however this did not reflect the mobilisation of the new waste contract which commenced in April 2021. An audit of this area would therefore provide valuable assurance and can be coordinated with audits being undertaken with the other two Council Partners, as both are also members of the EIAS consortium.

A review of Housing Standards is also recommended to provide assurance over inherently likely and major risk regarding the recently updated Houses of Multiple Occupation (HMO) regulations. A limited assurance opinion was given in this area in 2018/19.

Additions	**Days**	**Previous Grading**	**Quarter**
Waste Services	15	Substantial	4
Housing Standards	10	Limited	4
Total	**25**		

It is proposed that the following audits are removed from the 2021/22 Internal Audit Plan as they do not reflect significant risks to the Council. Each area will continue to be risk assessed each year during the audit planning process.

Audit	**Days**	**Last Reviewed**	**Previous Grading**	**Information**
Care and Repair	7	2018/19	Substantial	No corporate risk raised
Play Areas	10	2016/17	Substantial	No corporate risk raised
Amenity Property & Land	15	2016/17	Unknown	No corporate risk raised
Democratic Services	15	2014/15	Substantial	No corporate risk raised
ICT Wireless Networks	15	2013/14	Substantial	A review of network security should be rescheduled with dedicated IT resource.
Performance and Appraisal	15	2015/16	Substantial	No corporate risk raised
Bribery Act	10	2019/20	Substantial	Will be incorporated into Counter Fraud and Corruption
Asset Register	15	2016/17	Substantial	No corporate risk raised
Total	**102**			

The above suggested amendments to the plan will ensure that assurance is provided in key risk areas and better reflects the available resources of the Internal Audit team for the remainder of the year. The proposed internal audit plan is provided at **Appendix 1.**

In conformance with the above standard, it is also recommended that the Internal Audit Manager undertakes a review of the Council's risk maturity to evaluate the level of reliance that can be placed on the assessment of risk at the Council and where applicable, suggest recommendations if improvements are required. This exercise will be undertaken ahead of the Internal Audit planning process for 2022/23.

This standard also requires that the risk-based plan takes into account the organisation's assurance framework. In preparation for the planning process, the Internal Audit team is developing an audit universe and feeding into an assurance map by working with the Senior Policy & Performance Officer and using information compiled from management for the Annual Governance Statement.

2500 Monitoring Progress

In conformance with the standards a follow-up process must be established to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The Internal Audit team holds a Recommendations Database showing all agreed Internal Audit recommendations and carries out follow up of these one month after they fall overdue. The Council currently has 130 recommendations that have now surpassed their agreed deadline date. Of these, 2 are high priority, 65 are medium priority and 63 are low priority. A summary table of current recommendations along with the status of each is provided at **Appendix 2.**

In order to adhere to the above-mentioned standard, it is proposed that an exercise is undertaken to obtain an update for all overdue high/medium priority recommendations. Following this, on a quarterly basis a report will be produced containing the reason for all overdue recommendations for Management Team. This meeting will occur prior to the report being produced for each Audit Committee meeting to enhance accountability and ensure that risks identified by Internal Audit are resolved in a timely manner.

Where recommendations are raised during Internal Audit reviews, the auditors will work with the responsible officers to determine a deadline that they have confirmed is achievable in line with grading guidelines provided below. Once accepted, this deadline can be revised; however, a reason for any delays must be justified and provided to Management Team and the Audit Committee for their awareness.

Priority	Timing guidance
High	Fundamental control issue on which action to implement should be taken within 1 month.
Medium	Control issue on which action to implement should be taken within 3 months.
Low	Control issue on which action to implement should be taken within 6 months.

Once a recommendation is considered complete, in order to provide the Audit Committee with assurance that the identified risk has been mitigated, Internal Audit will carry out independent

verification of any high or medium priority recommendations, requesting evidence and/or carrying out further testing as deemed appropriate. Low priority recommendations will be closed upon receiving responsible officer confirmation.

2410 Criteria for communicating

This standard requires audit reports to include the internal auditors' opinion where applicable. The opinion must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

The Council uses a four-tier opinion for each audit overall. These opinions are 'no assurance, limited assurance, substantial assurance and full assurance'.

When an Internal Audit engagement is planned, a judgement is made by the auditor and approved by the Audit Manager regarding the number of control areas and level of testing that will be undertaken to provide sufficient assurance.

Where a full assurance grading is summarised overall, it could misleadingly suggest that all controls pertaining to that area have been evaluated and no issues have been identified. Internal Audit cannot provide absolute assurance over controls, no matter how well they have been constructed and operated, as they are affected by inherent limitations. These could include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

It is therefore recommended that the 'full assurance' grading is removed. The following grading terminology is provided to demonstrate an alternative whilst retaining the four-tier approach.

Grading	Description
Substantial	Based upon the issues identified there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our review were being consistently applied.
Reasonable	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation's management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.
Limited	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.

Summary of Recommendations

1. To provide assurance required over complex risks identified within the Corporate Risk Register it is advised that IT audit resource is used to undertake this work for the Council in future.
2. The Internal Audit Charter is updated to provide a Mission Statement and provides details of fraud related work undertaken by the Senior Internal Auditor. The Internal Audit Charter should then be reapproved by Management Team and Audit Committee.
3. Performance metrics are designed across a range of Internal Audit objectives and are agreed by Management Team, the Audit Committee and results against target are provided within progress reports.
4. An externally validated assessment is scheduled to provide independent assurance over conformance with the PSIAS.
5. Internal Audit plan to be revised to reflect the current risk profile of the Council.
6. Risk Maturity Assessment to be undertaken by the Internal Audit Manager ahead of the 2022/23 planning process.
7. Audit Universe populated by the Internal Audit Team and used to support an Assurance Framework.
8. Follow up process to be redesigned allowing for quarterly reporting to Management Team, Audit Committee and to allow for Internal Audit verification of completed recommendations.
9. Audit opinions to be revised.

Conclusion

The Internal Audit Manager has evaluated the Internal Audit function against the Public Sector Internal Audit Standards to determine any improvements required ahead of giving an overall opinion on the governance, risk management and control framework at the Council.

A total of nine key recommendations have been raised for management consideration as a result.

These improvements will enhance the Internal Audit function's ability to provide a value-added service and ensure conformance with the relevant standards. This report is provided to the Audit Committee for their consideration, provide feedback and where appropriate for the recommendations to be endorsed.

Appendix 1 – Internal Audit Plan 2021/22

Audit title	Allocated Audit days	Proposed Audit Quarter.	Status	Previous Assurance Level	Risk
Economic Development	4	1	Complete	Substantial	Corporate risk score 12
Planning Enforcement	5	1	Draft report	Substantial	No significant risk in CRR raised. Report has been issued in draft.
Information Legislation (DPA, FOI, EIR)	10	1	Complete	Substantial	Corporate risk score 16
Street Cleansing	5	1	Testing	Substantial	No significant risk in CRR raised, majority of testing has been completed.
Council Tax & Business Rates	10	2	Draft report	Substantial	Core internal audit – key financial system
Financial Management Systems	20	2	Testing	Full	Corporate risk score 20
Benefits	10	2	Draft report	Substantial	Core internal audit- key financial system
Emergency Planning & Management	15	2	Testing	Full	Corporate risk score 16
Covid-19 Business Grants	17	2	Draft report	New Area	Internal Audit assessed as High Risk
Policies	5	2	Draft report	Limited	No significant risk in CRR raised.
Alive West Norfolk	20	3	Testing		Corporate risk score 20
ICT Disaster Recovery	15	3	Testing	Substantial	Corporate risk score 16
Licencing	15	3	Testing	Substantial	No significant risk in CRR raised. Determined medium risk. Last reviewed in 2016/17.
Accounts Payable	20	3	Testing	Substantial	Core internal audit - key financial system
Financial Governance and Budgetary Control	20	3	Testing	New Area	Corporate risk score 16
Payroll, expenses and allowances	20	4	Planned	Full	Core internal audit - key financial system
Food Safety and Health & Safety	15	4	Planned	Substantial	Corporate risk score 16
Capital Programme	20	4	Planned	Substantial	Corporate risk score 16
Addition - Waste Services	*15*	*4*	Planned	Substantial	Corporate risk score 16
Addition Housing Standards	*10*	*4*	Planned	Limited	Corporate risk score 16
Major Projects	15			Consultancy	Corporate risk score 16

Audit title	Allocated Audit days	Proposed Audit Quarter.	Status	Previous Assurance Level	Risk
Asset Register	-15		Cancelled	Substantial	Key Financial System. Deferred to 2022/23 at request of service area.
Performance & Appraisal	*-15*		Cancelled	Substantial	No significant risk in CRR raised
Compliance with Bribery Act 2010	*-10*		Cancelled	New Area	No significant risk in CRR raised. Incorporated into Fraud and Corruption audit.
ICT Wireless Networks	*-15*		Cancelled	New Area	No significant risk in CRR raised
Democratic Services	-15		Cancelled	Substantial	No significant risk in CRR raised
Play Areas	*-10*		Cancelled	Substantial	No significant risk in CRR raised
Amenity Property & Land	*-15*		Cancelled	Limited	No significant risk in CRR raised. This area will be added to the property audit going forward.
Care & Repair	-7		Cancelled	Substantial	No significant risk in CRR raised
Total	**286**				

Appendix 2 – Follow Up

			Completed			Outstanding			Total Outstanding	Not Yet Due for implementation		
			High	Medium	Low	High	Medium	Low		High	Medium	Low
Audit Ref	**Audit Area**	**Assurance Level**										
2016/17 Internal Audit Reviews												
16/17.4	Insurance	Substantial		5			5	1	6			
2017/18 Internal Audit Reviews												
17/18.3	Ethical Culture	Substantial			5			1	1			
17/18.11	Housing Strategy	Full		1	4				0			
17/18.6	Cost Reduction Programme	Substantial		3	3				0			
CO8	Asset Management	Substantial					5	1	6			1
2018/19 Internal Audit Reviews												
CO7	Accounts Receivable	Full		4	3		6	1	7			
CO4	Benefits	Substantial	1	2					0			
18/19.6	CIL	Substantial	1	1	3		1	1	2			
18/19.12	Electoral Services	Full		1	5			1	1			
18/19.2	Legal Services	Substantial		1	2			6	6		1	3
18/19.14	Waste & Recycling	Substantial					4	2	6			
18/19.1	Risk Management	Substantial		1	10		3	3	6			
18/19.7	Vehicle Fleet	Substantial		1			10	2	12			
18/19.17	Treasury Management	Substantial		1	4				0			
18/19.8	General Data Protection Regulations 2016 & Data Protection Act 2018	Substantial					3	10	13			

			Completed			Outstanding			Total Outstanding	Not Yet Due for implementation		
			High	Medium	Low	High	Medium	Low		High	Medium	Low
Audit Ref	**Audit Area**	**Assurance Level**										
2019/20 Internal Audit Reviews												
19/20.2	Anti-Fraud, Bribery & Corruption	Substantial	1				5	1	6			
19/20.1	Annual Governance Statement	Substantial			7		4	6	10			
19/20.8	Car Parking & Civil Enforcement	Substantial			1		4	6	10			1
19/20.5	Careline	Substantial	2				10	1	11			
19/20.7	Alive West Norfolk - Governance				4	1	1	4	6			
19/20.3	Whistleblowing Arrangements	Substantial						7	7			7
N/A	Personal Identifier & Financial Relationship	Substantial					2		2			
18/19.3	Child Protection	Substantial		1	3	1		4	5			
19/20.4	Council Offices & Sites	Substantial							0		3	5
19/20.5	ICT - Cyber Security	Substantial							0		7	8
19/20.12	Planning Support	Substantial						3	3		3	3
19/20	Economic Development	Substantial									6	
19/20.6	ICT - Document Management	Substantial			5		2	2	4		1	2
2020/21 Internal Audit Reviews												
20/21.11	CCTV	Substantial							0			2
20/21.6	Contract Management	Substantial							0		2	2
20/21.12	Planning Control	Limited		1	2				0		1	1
20/21.16	Planning Enforcement	Substantial							0			7
TOTALS			**5**	**23**	**61**	**2**	**65**	**63**	**130**	**0**	**24**	**42**

REPORT TO:	**AUDIT COMMITTEE**		
DATE:	22 November 2021		
TITLE:	**ANNUAL TREASURY OUTTURN REPORT 2020/2021**		
TYPE OF REPORT:	Recommendation		
PORTFOLIO(S):	Cllr Angie Dickinson E-mail: cllr.angie.dickinson@west-norfolk.gov.uk		
REPORT AUTHOR:	Michelle Drewery E-mail: michelle.drewery@west-norfolk.gov.uk Direct Dial: 01553 616432		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

Date of meeting: 22 November 2021

ANNUAL TREASURY OUTTURN REPORT 2020/2021

Summary
The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2020/2021 and covers:

1. The 2020/2021 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

Appendix 1 - Investments as at 31 March 2021
Appendix 2 - Borrowing as at 31 March 2021
Appendix 3 - Prudential Indicators

The Council's Treasury Policy Statement 2020/2021 and annual Treasury Strategy Statement 2020/2021 were approved by Council on the 27 February 2020.

Recommendations
The Audit Committee is asked to note the annual treasury outturn position for 2020/2021.

Reason for the Decision
The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The Annual Treasury Management Review 2020/2021

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/2021. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 During 2020/2021 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 27 February 2020).
- a mid-year, (minimum), treasury update report (report still not been presented as Chair removed from the Agenda).
- an annual review following the end of the year describing the activity compared to the strategy, (this report).

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken in January 2020. This training was provided by Link, the council's external treasury management advisors, in order to support members' scrutiny role.

2. Executive Summary

2.1 During 2020/2021, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	2019/2020 Actual £'000	2020/2021 Actual £'000
Capital expenditure	29,880	15,204
Capital Financing Requirement	38,337	36,929
Gross borrowing	16,000	10,000
External debt *	16,127	10,094
Investments *	18,952	27,278
Net borrowing/(investments)	(2,825)	(17,184)

* Both the External debt and Investments figures shown in the table above include interest accruals. Whereas elsewhere in the report the amounts shown are the principal amounts only.

2.2 Other prudential and treasury indicators follow below in the main body of this report. The Assistant Director of Finance confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2.3 The year saw a continuation of the low investment returns experienced in previous years.

3. Introduction and Background

3.1 This report covers the following:-

- Capital activity during the year i.e. capital expenditure and financing (section 4 below);
- Impact of this activity on the Council's underlying indebtedness, i.e. the Capital Financing Requirement (section 5 below);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (section 6 below);
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

4. The Council's Capital Expenditure and Financing

4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2019/2020 Actual £'000	2020/2021 Budget £'000	2020/2021 Actual £'000
Capital expenditure	29,880	26,245	15,204
Financed in year	29,880	26,245	15,204
Unfinanced capital expenditure	-	-	-

5. The Council's Overall borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2020/2021 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board (PWLB), or the money markets), or utilising temporary cash resources within the Council.

5.3 Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

5.5 The Council's 2020/2021 MRP Policy, (as required guidance from by the then known MHCLG), was approved as part of the Treasury Management Strategy Report for 2020/2021 on 27 February 2020.

5.6 The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leasing schemes that are on the balance sheet, as these increase the Council's borrowing need.

CFR (£m): General Fund	**31 March 2020 Actual £'000**	**31 March 2021 Budget £'000**	**31 March 2021 Actual £'000**
Opening balance	44,102	43,716	38,377
Voluntary application of capital receipts	(4,505)	-	-
Less MRP/VRP*	(1,220)	(1,953)	(1,448)
Closing balance	**38,377**	**41,763**	**36,929**

Note the MRP / VRP will include finance lease annual principal payments

5.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/2021) plus the estimates of any additional capital financing requirement for the current (2021/2022) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2020 Actual £'000	31 March 2021 Budget £'000	31 March 2021 Actual £'000
Gross borrowing position	16,000	13,000	10,000
CFR	38,337	41,763	36,929
(Under) / over funding of CFR	22,337	28,763	26,929

5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2020/2021 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

	2020/2021 £'000
Authorised limit	53,000
Maximum gross borrowing position during the year	16,000
Operational boundary	58,000
Average gross borrowing position	11,833
Financing costs as a proportion of net revenue stream	4.12%

6. Treasury Position as at 31 March 2021

6.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury

Management Practices. At the end of 2020/2021 the Council's treasury, (excluding borrowing by finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2020 Principal £'000	Rate/ Return	31 March 2021 Principal £'000	Rate/ Return
Fixed rate funding:				
- Market (Maturity Loan)	10,000	3.81%	10,000	3.81%
- Local Authorities (Maturity Loans)	6,000	0.91%	-	-
Total debt	**16,000**	**2.86%**	**10,000**	**3.81%**
CFR	**38,337**		**36,929**	
Over / (under) borrowing	**(22,337)**		**(26,929)**	
Total investments	**18,755**	**0.48%**	**27,240**	**0.33%**
Net	**(3,582)**		**311**	

6.2 The maturity structure of the debt portfolio was as follows:

	31 March 2020 Actual £'000	2020/2021 Original Projection £'000	31 March 2021 Actual £'000
Under 12 months	6,000	3,000	-
12 months and within 24 months	-	-	-
2 years and within 50 years	-	-	-
Over 50 years	10,000	10,000	10,000

6.3 As at the 31 March 2021 the council did not have any temporary loans. There are 2 market loans with Barclays of £5m each and these mature in 2077.

6.4 The investments at the year-end comprised £8,000,000 in Instant Access Accounts, £11,240,000 in Money Market Funds and £8,000,000 in Local Authorities.

6.5 Full details for both the borrowing and the investments can be found in Appendices 1 and 2.

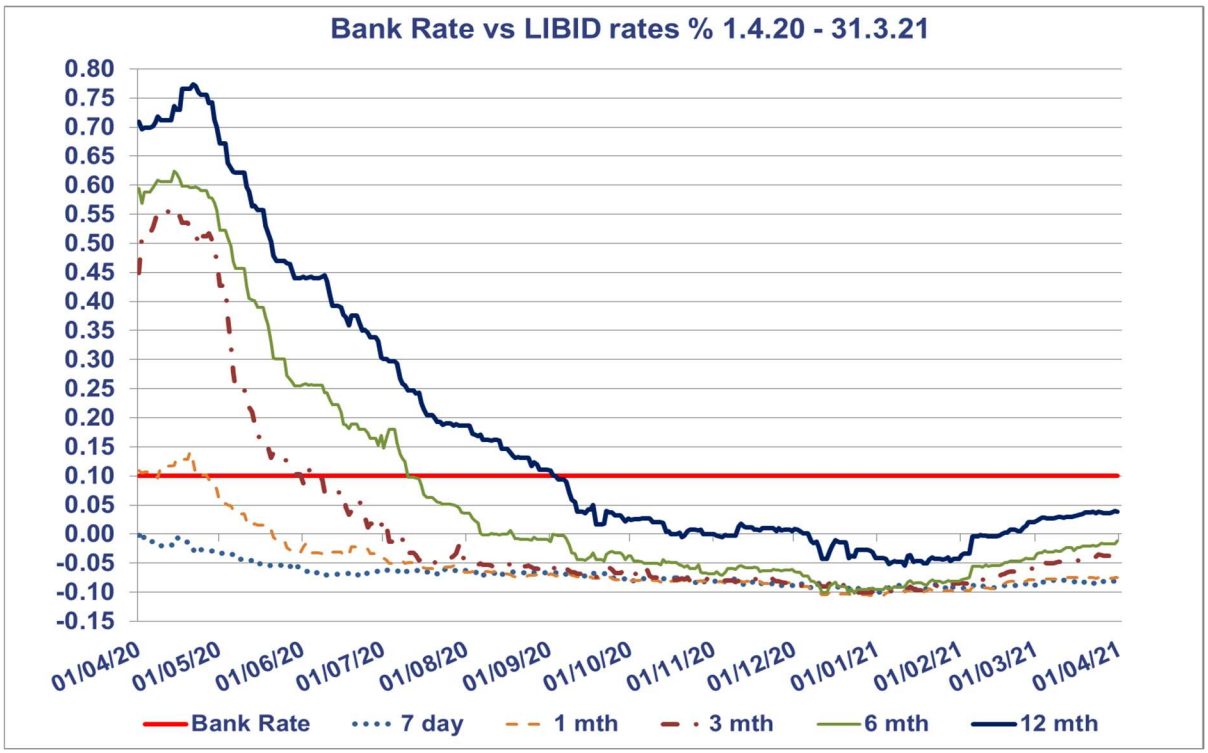
INVESTMENT PORTFOLIO	Actual 31 March 2020 £000	Actual 31 March 2020 %	Actual 31 March 2021 £000	Actual 31 March 2021 %
Treasury investments				
Call Accounts / Instant Access Accounts	3,905	21%	8,000	29%
Money Market Funds	6,850	36%	11,240	42%
Local authorities	8,000	43%	8,000	29%
Other	0	0	0	0
TOTAL TREASURY INVESTMENTS	**18,755**	**100%**	**27,240**	**100%**

6.6 The maturity structure of the treasury investment portfolio was as follows:

	31 March 2020 Actual £000	31 March 2021 Actual £000
Treasury Investments:		
Longer than 1 year	0	0
Up to 1 year	18,755	27,240
Total	**18,755**	**27,240**

7. The Strategy for 2020/2021

7.1 Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

7.2 Investment returns which had been low during 2019/2020, plunged during 2020/2021 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/2021 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/2023 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

7.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

7.4 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

7.5 Borrowing strategy and control of interest rate risk

7.6 During 2020/2021, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was

prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

7.7 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

7.8 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

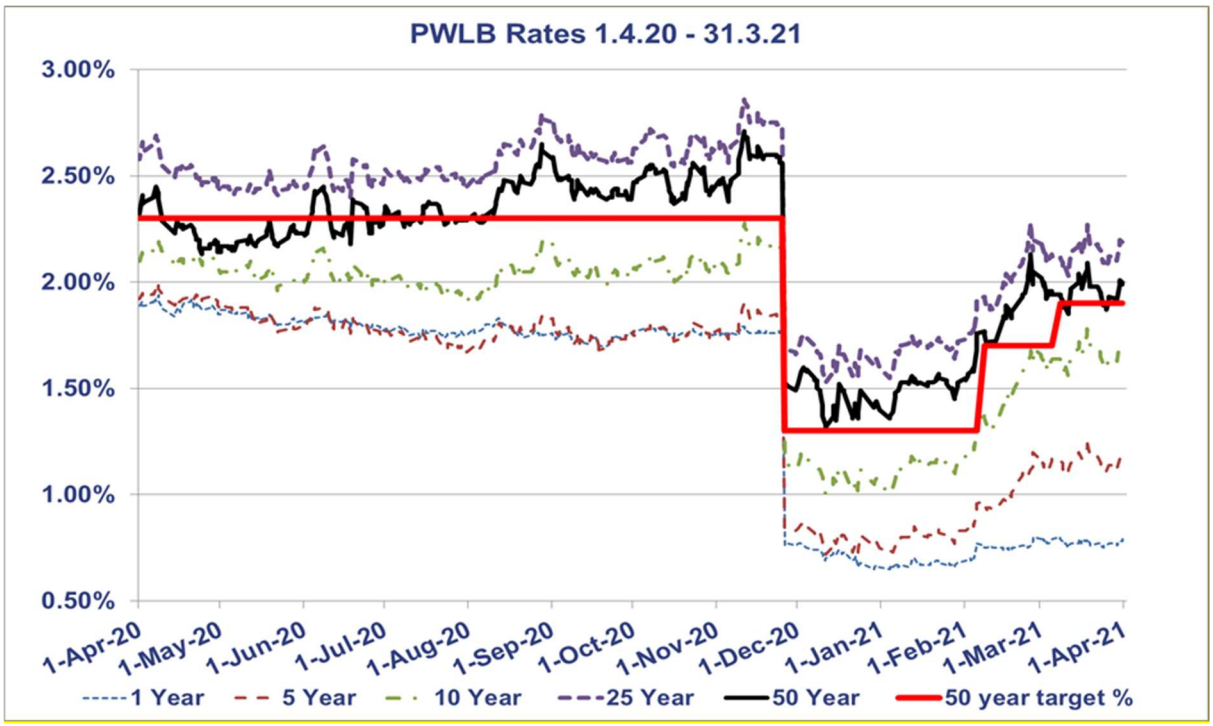
7.9 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Assistant Director of Resources therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.:

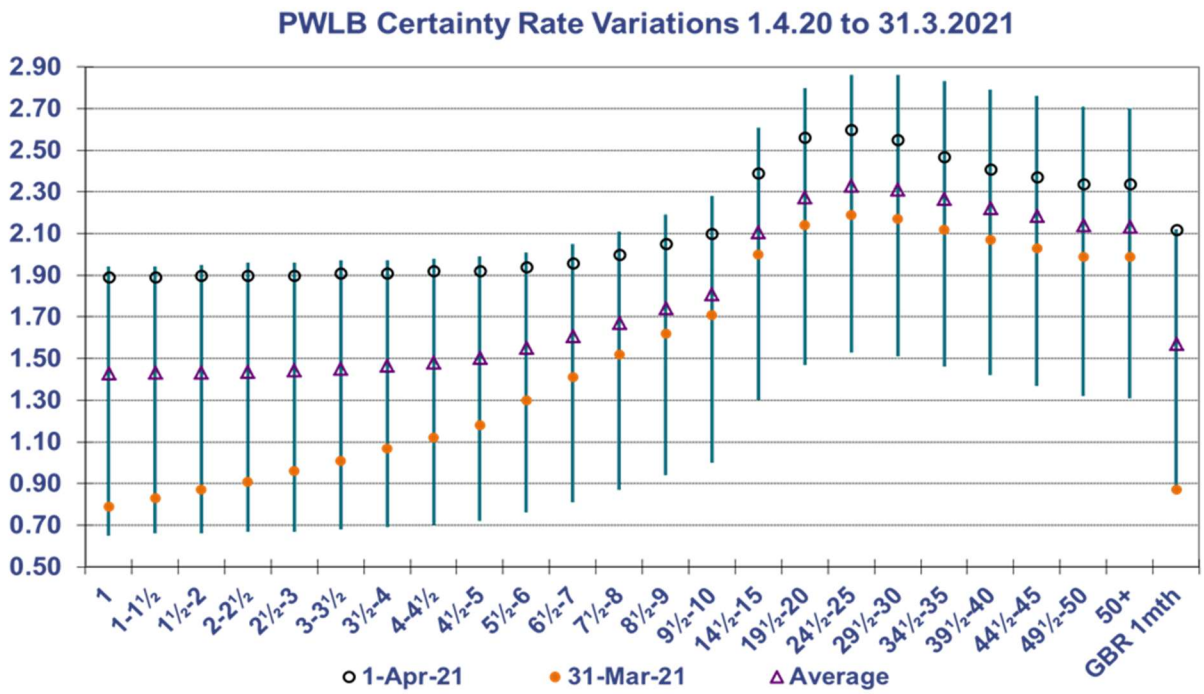
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

7.10 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/2021 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

31 March 2020

Link Asset Services Interest Rate View	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50





	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%

7.11 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements

in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

7.12 Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/2021 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

7.13 At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

7.14 HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019/20** without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates;** the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)

7.15 There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

8. Borrowing Outturn

8.1 Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

8.2 Borrowing in advance of need

8.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.4 Rescheduling

8.5 There was no rescheduling during the year.

9. Investment Outturn

9.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 27 February 2020. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

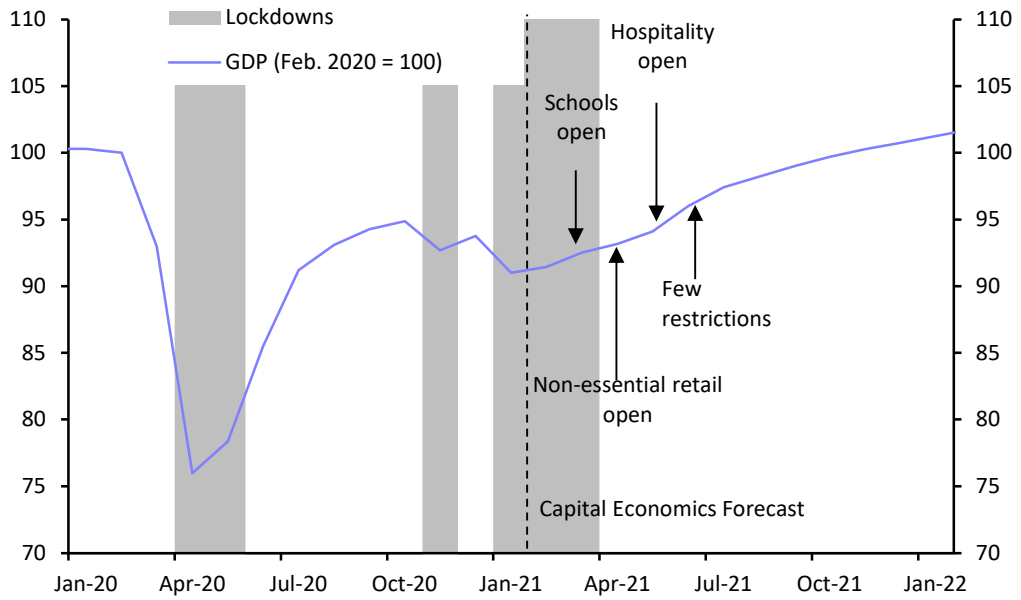
Balance Sheet Resources	31 March 2020 £'000	31 March 2021 £'000
Balances	10,072	8,998
Earmarked reserves	22,127	24,116
Provisions	1,360	944
Usable capital receipts	6,153	6,754
Total	**39,712**	**40,812**

9.4 Investments held by the Council

- The average balance of investments for the year was £23.553m (2019/2020 £21.792m).
- The average rate of return for the year on investments was 0.37% (2019/2020 0.48%).
- Total investment income was £248,670 (2019/2020 £200,290) compared to a budget of £329,590 (2019/2020 £351,560). It should be noted that the shortfall in investment income is due to the continued effects on the Bank of England base rate and subsequent interest rates since Covid-19.

10. The Economy and Interest Rates

10.1 **UK. Coronavirus.** The financial year 2020/2021 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/2009. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.



10.2 Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

10.3 The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established

that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

10.4 **Average inflation targeting.** This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and ***achieving the 2% target sustainably***". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/2021; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

10.5 **Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 2020/2021 and 2021/2022 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/2026. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

10.6 **BREXIT.** The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

10.7 **USA.** The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although

power is more limited in the latter. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

10.8 After Chair Jerome Powell spoke on the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels. However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects. They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.

10.9 **EU.** Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

10.10 Inflation was well under 2% during 2020/2021. **The ECB** did not cut its main rate of -0.5% further into negative territory during 2020/2021. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, **unlikely to be a euro crisis** while the ECB is able to maintain this level of support.

10.11 **China.** After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

10.12 Japan. Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

10.13 **World growth.** World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

10.14 Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will be torn up. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.

10.15 Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on

inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

11. Background Information

- Budget monitoring reports
- Treasury Policy Statement 2020/2021 and Annual Treasury Strategy (Council 27 February 2020)

APPENDIX 1 - Investments as at 31 March 2021:

Treasury Investments	Principal	Start Date	End Date	Rate %	Ratings
BNP (Banque Nationale de Paris) – Money Market Fund	£4,000,000	N/A	N/A	0.015	AAA
Federated PR – Money Market Fund	£3,240,000	N/A	N/A	0.01	AAA
Handelsbanken	£4,000,000	N/A	N/A	0.00	AAA
Santander	£4,000,000	N/A	N/A	0.45	AAA
Total Call Accounts	**£15,240,000**				
Goldman Sachs	£4,000,000	12/03/2021	13/09/2021	0.28	AAA
Thurrock Council	£4,000,000	11/01/2021	12/07/2021	0.20	
Blackpool Borough Council	£4,000,000	30/03/2021	30/09/2021	0.12	
Total Fixed Term Investments	**£12,000,000**				
Total Treasury Investments	**£27,240,000**				

APPENDIX 2 - Borrowing as at 31 March 2021:

Start Date	End Date	Loan No	Value £	Institution	Rate %	Term
Total Short Term			**£0**			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
Total Long Term			**£10,000,000**			
Total Borrowing			**£10,000,000**			

APPENDIX 3: Prudential Indicators

PRUDENTIAL INDICATOR	2019/2020 Actual £000's	2020/2021 Actual £000's
Capital Expenditure	29,880	15,204
Ratio of financing costs to net revenue stream	2.52%	4.12%
Net borrowing		
brought forward 1 April	13,100	16,000
carried forward 31 March	16,000	10,000
Change in year - increase/(decrease)	2,900	(6,000)
Net Investment		
brought forward 1 April	(12,555)	(18,755)
carried forward 31 March	(18,755)	(27,240)
Change in year - increase/(decrease)	6,200	8,485

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2020/2021 unfinanced capital expenditure, and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

CFR (£m): General Fund	31 March 2020 Actual £'000	31 March 2021 Actual £'000
Opening balance	44,102	38,377
Add unfinanced capital expenditure (as above)	-	-
Voluntary application of capital receipts	(4,505)	-
Less Minimum Revenue Provision (MRP)	(345)	(373)
Less voluntary / additional MRP	(875)	(1,075)
Closing balance	**38,377**	**36,929**

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2020/2021. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's

net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2020 Actual £'000	31 March 2021 Actual £'000
Borrowing	16,000	10,000
Investments	(18,755)	(27,240)
Net Position	**(2,755)**	**(17,240)**
Closing CFR	**38,377**	**36,929**

Actual financing costs as a proportion of net revenue stream

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

	2020/2021
Authorised limit	53,000
Maximum gross borrowing position	10,000
Operational boundary	58,000
Average gross borrowing position	11,833
Financing costs as a proportion of net revenue stream	4.12%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2019/2020 £'000	2020/2021 £'000
Authorised limit for external debt -		
Borrowing	50,000	53,000
Operational boundary for external debt -		
Borrowing	45,000	58,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	50,000	53,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	20,000	21,200

Maturity structure of fixed rate borrowing during 2020/2021	upper limit	lower limit	Actual
under 12 months	100%	0%	0%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	100%

REPORT TO:	**AUDIT COMMITTEE**		
DATE:	22 November 2021		
TITLE:	**ANNUAL TREASURY OUTTURN REPORT 2019/2020**		
TYPE OF REPORT:	Recommendation		
PORTFOLIO(S):	Cllr A Dickinson E-mail: cllr.angie.dickinson@West-Norfolk.gov.uk		
REPORT AUTHOR:	Michelle Drewery E-mail: michelle.drewery@west-norfolk.gov.uk Direct Dial: 01553 616432		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

Date of meeting: 22 November 2021

ANNUAL TREASURY OUTTURN REPORT 2019/2020

Summary
The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2019/2020 and covers:

1. The 2019/2020 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

Appendix 1 - Investments as at 31 March 2020
Appendix 2 - Borrowing as at 31 March 2020
Appendix 3 - Prudential Indicators

The Council's Treasury Policy Statement 2019/2020 and annual Treasury Strategy Statement 2019/2020 were approved by Council on the 11 April 2019.

Recommendations
The Audit Committee is asked to note the annual treasury outturn position for 2019/2020.

Reason for the Decision
The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The Annual Treasury Management Review 2019/2020

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 11 April 2019)
- a mid-year, (minimum), treasury update report (Audit Committee 12 November 2019)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken in January 2020. This training was provided by Link, the council's external treasury management advisors, in order to support members' scrutiny role.

2. Executive Summary

2.1 During 2019/20, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	**2018/19 Actual £'000**	**2019/20 Budget £'000**	**2019/20 Actual £'000**
Capital expenditure	27,228	30,432	29,880
Capital Financing Requirement	44,251	43,716	38,885
Gross borrowing	13,100	9,374	16,000
External debt *	13,199	9,374	16,127
Investments * • Longer than 1 year • Under 1 year • Total	 10,000 2,705 12,705	6,052	 - 18,952 18,952
Net borrowing/(investments)	494	3,322	(2,825)

* Both the External debt and Investments figures shown in the table above include interest accruals. Whereas elsewhere in the report the amounts shown are the principal amounts only.

2.2 Other prudential and treasury indicators follow below in the main body of this report. The Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2.3 The year saw a continuation of the low investment returns experienced in previous years.

3. Introduction and Background

3.1 This report covers the following:-

- Capital activity during the year i.e. capital expenditure and financing (section 4 below);
- Impact of this activity on the Council's underlying indebtedness, i.e. the Capital Financing Requirement (section 5 below);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (section 6 below);
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

4. The Council's Capital Expenditure and Financing

4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2018/19 Actual £'000	2019/20 Budget £'000	2019/20 Actual £'000
Capital expenditure	27,228	30,432	29,880
Financed in year	22,031	30,432	29,880
Unfinanced capital expenditure	5,197	-	-

5. The Council's Overall borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

5.3 Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

5.5 The Council's 2019/20 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2019/20 on 11 April 2019.

5.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes that are on the balance sheet, as these increase the Council's borrowing need.

CFR (£m): General Fund	**31 March 2019 Actual £'000**	**31 March 2020 Budget £'000**	**31 March 2020 Actual £'000**
Opening balance	39,335	44,251	44,251
Add unfinanced capital expenditure (as above)	6,143	-	-
Voluntary application of capital receipts			(4,146)
Less MRP/VRP*	(1,227)	(534)	(1,220)
Closing balance	**44,251**	**43,716**	**38,885**

Note the MRP / VRP will include finance lease annual principal payments

5.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2019 Actual £'000	31 March 2020 Budget £'000	31 March 2020 Actual £'000
Gross borrowing position	£13,100	£9,374	£16,000
CFR	£44,251	£43,716	£38,885
(Under) / over funding of CFR	(£31,151)	(£34,343)	£22,885

5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2019/20 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2019/20 £'000
Authorised limit	£44,000
Maximum gross borrowing position during the year	£16,100
Operational boundary	£39,000
Average gross borrowing position	£14.956m
Financing costs as a proportion of net revenue stream	2.52%

6. Treasury Position as at 31 March 2020

6.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury

Management Practices. At the end of 2019/20 the Council's treasury, (excluding borrowing by finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2019 Principal £'000	Rate/ Return £'000	31 March 2020 Principal £'000	Rate/ Return
Fixed rate funding:				
- PWLB (E.I.P Loan)	£0,100	2.92%	-	-
- Market (Maturity Loan)	£10,000	3.81%	£10,000	3.81%
- Local Authorities (Maturity Loans)	£3,000	0.52%	£6,000	0.91%
Total debt	**£13,100**	**2.85%**	**£16,000**	**2.86%**
CFR	**£44,251**		**£38,885**	
Over / (under) borrowing	**(£31,151)**		**(£22,885)**	
Total investments	**£12,555**	**0.70%**	**£18,755**	**0.48%**
Net debt	**£0,545**		**(£2,755)**	

6.2 The maturity structure of the debt portfolio was as follows:

	31 March 2019 Actual £'000	2019/20 original projection £'000	31 March 2020 Actual £'000
Under 12 months	£3,100	£2,500	£6,000
12 months and within 24 months	-	£400	-
2 years and within 50 years	-	-	-
Over 50 years	£10,000	£10,000	£10,000

6.3 As at the 31 March 2020 the council had two temporary loans of £3m each from local authorities which one was repaid in April 2020 and one was repaid in October 2020. There are 2 market loans with Barclays of £5m each and these mature in 2077.

6.4 The investments at the year-end comprised £3,905,000 in Instant Access Accounts, £6,850,000 in Money Market Funds and £8,000,000 in Local Authorities.

6.5 Full details for both the borrowing and the investments can be found in Appendices 1 and 2.

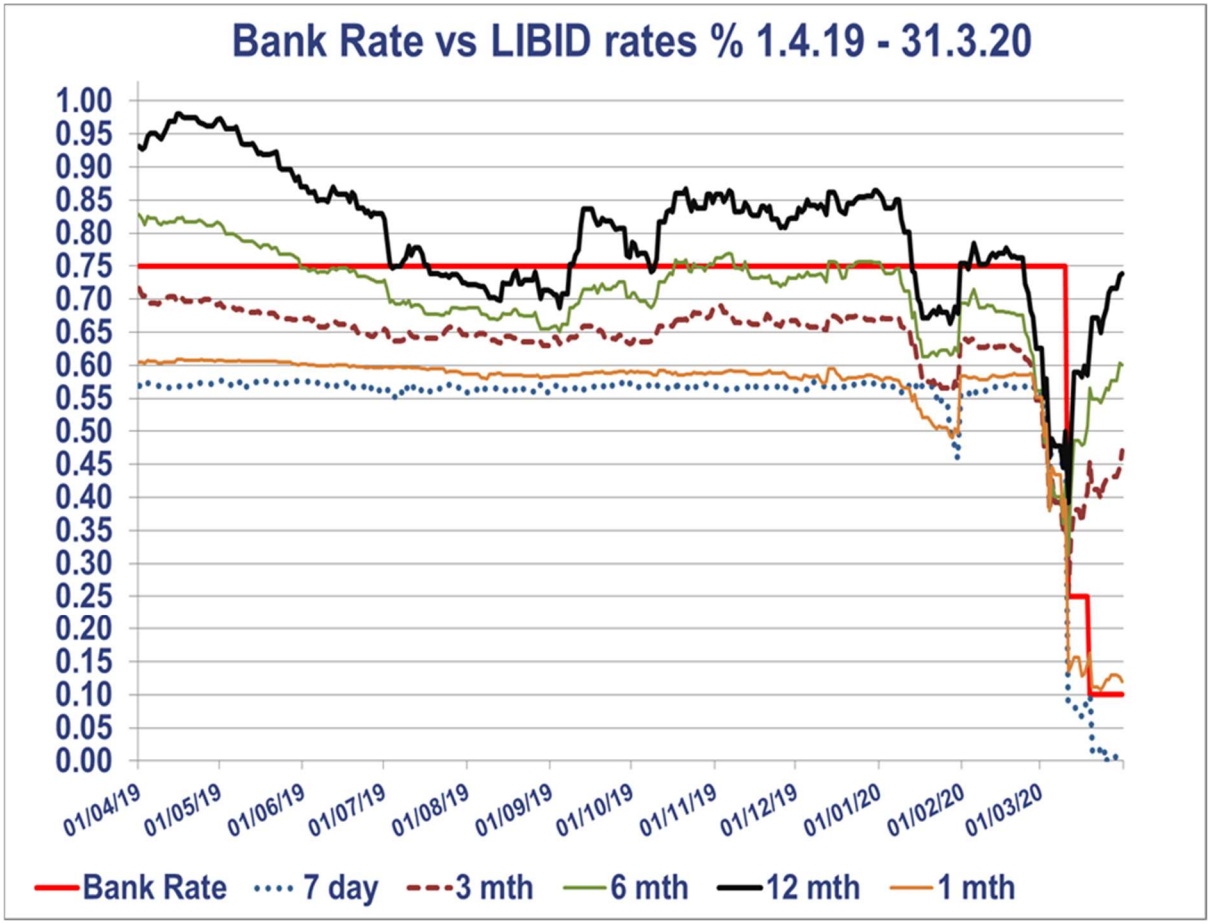
INVESTMENT PORTFOLIO	Actual 31.3.19 £000	Actual 31.3.19 %	Actual 31.3.20 £000	Actual 31.3.20 %
Treasury investments				
Call Accounts / Instant Access Accounts	0	0	3,905	21%
Money Market Funds	2,555	20.4%	6,850	36%
Local authorities	10,000	79.6%	8,000	43%
Other	0	0	0	0
TOTAL TREASURY INVESTMENTS	**12,555**	**100%**	**18,755**	**100%**

6.6 The maturity structure of the treasury investment portfolio was as follows:

	31 March 2019 Actual £000	31 March 2020 Actual £000
Treasury Investments:		
Longer than 1 year	10,000	0
Up to 1 year	2,555	18,755
Total	**12,555**	**18,755**

7. The Strategy for 2019/20

7.1 Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.10	0.00	0.11	0.26	0.31	0.39
Low Date	19/03/2020	25/03/2020	23/03/2020	11/03/2020	11/03/2020	11/03/2020
Average	0.72	0.53	0.56	0.63	0.70	0.80
Spread	0.65	0.58	0.50	0.46	0.52	0.59

Link Asset Services Interest Rate View 31.3.20								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

7.2 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that the Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

7.3 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

7.4 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

7.5 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

7.6 Borrowing strategy and control of interest rate risk

7.7 During 2019/20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

7.8 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

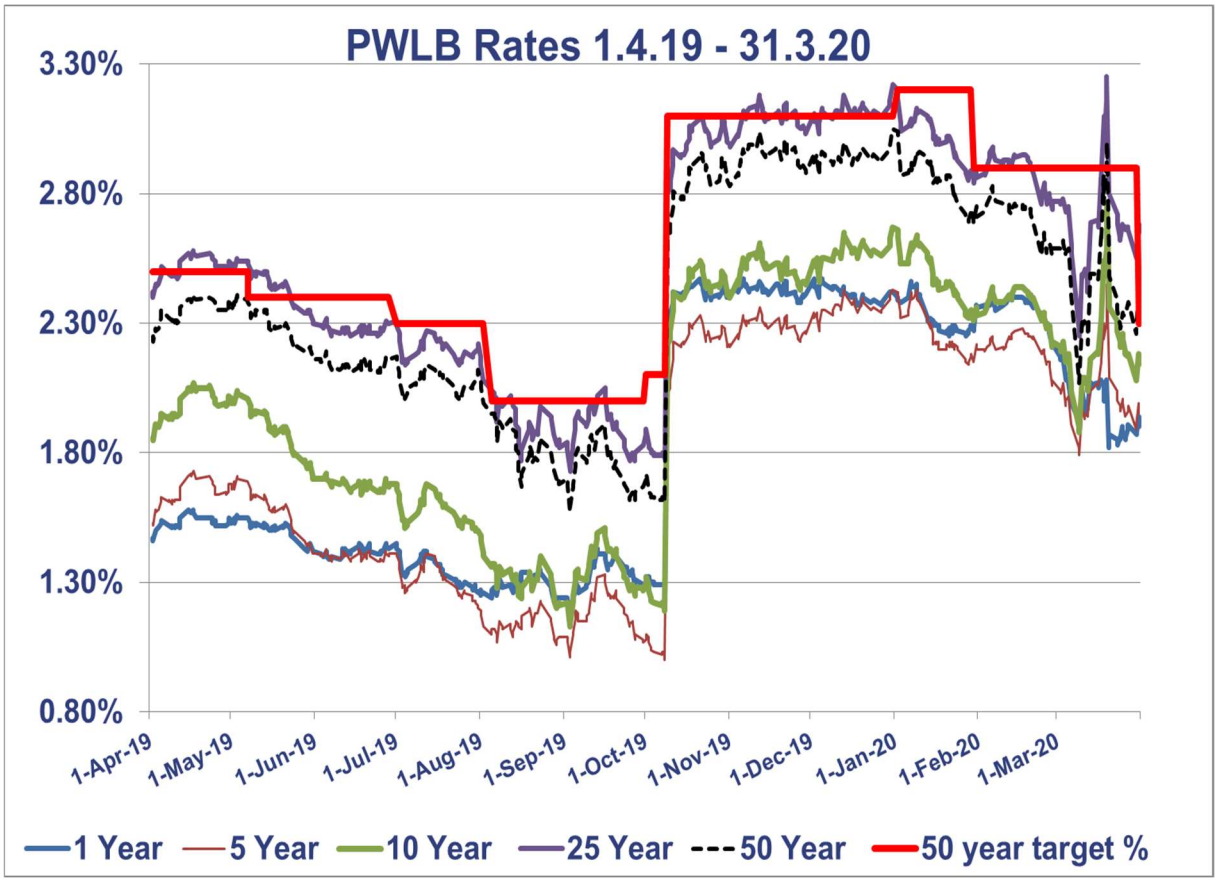
7.9 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

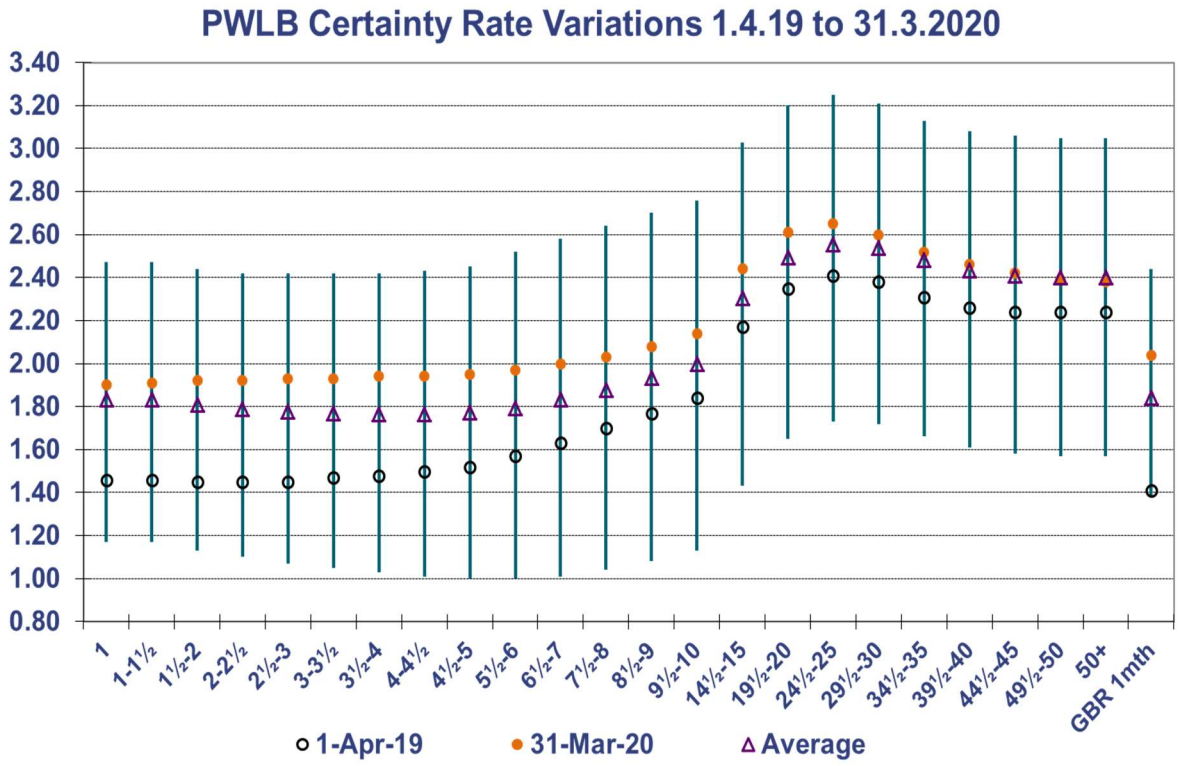
7.10 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

7.11 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 31.3.20								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50





	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

7.12 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below

shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

7.13 Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

7.14 However, HM Treasury has imposed **two changes in the margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

7.15 Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)

7.16 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

8. Borrowing Outturn

8.1 Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

8.2 Borrowing in advance of need

8.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.4 Rescheduling

8.5 There was no rescheduling during the year.

9. Investment Outturn

9.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 11 April 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2019 £'000	31 March 2020 £'000
Balances	7,672	10,072
Earmarked reserves	25,473	22,127
Provisions	2,132	1,360
Usable capital receipts	6,100	6,160
Total	**41,377**	**39,719**

9.4 Investments held by the Council

- The average balance of investments for the year was £21.792m (2018/19 £14.446m).
- The average rate of return for the year on investments was 0.48% (2018/19 0.70%).
- This compares with a budget assumption of £6m investment balances earning an average rate of 0.75%.
- Total investment income was £200,290 (2018/19 £247,106) compared to a budget of £351,560 (2018/19 £337,880). It should be noted that the shortfall in investment income is due to the decision taken to internally borrow to fund capital expenditure. This reduced the level of cash available for investing which impacted on the returns achieved.

10. The Economy and Interest Rates

10.1 **UK. Brexit.** The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January

2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

10.2 **Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

10.3 After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in April and beyond. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

10.4 **Inflation** has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

10.5 **Employment** had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

10.6 **USA.** Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition there will be $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

However, all this will not stop the US falling into a sharp recession in quarter 2 of 2020; some estimates are that growth could fall by as much as 40%. The first two weeks in March of initial jobless claims have already hit a total of 10 million and look headed for a total of 15 million by the end of March.

10.7 **EUROZONE.** The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting it announced a third round of TLTROs; this provided banks with cheap two year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory,

from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more TLTRO measures. Once coronavirus started having a major impact in Europe, the ECB took action in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.

10.8 **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. While it appears that China has put a lid on the virus by the end of March, these are still early days to be confident and it is clear that the economy is going to take some time to recover its previous rate of growth. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

10.9 **JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It appears to have missed much of the domestic impact from coronavirus in 2019-20 but the virus is at an early stage there.

10.10 **WORLD GROWTH**. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

11. Background Information

- Budget monitoring reports
- Treasury Policy Statement 2019/2020 and Annual Treasury Strategy (Council 11 April 2019)

APPENDIX 1 - Investments as at 31 March 2020:

Treasury Investments	Principal	Start Date	End Date	Rate %	Ratings
BNP (Banque Nationale de Paris) – Money Market Fund	£1,000,000	N/A	N/A	0.71	AAA
HSBC Sterling – Money Market Fund	£1,900,000	N/A	N/A	0.69	AAA
LGIM Sterling – Money Market Fund	£3,950,000	N/A	N/A	0.70	AAA
Barclays FIBCA	£3,905,000	N/A	N/A	0.47	AAA
Total Call Accounts	**£10,755,000**				
Barnsley Metro Borough Council	£2,000,000	21/09/2017	21/09/2020	0.92	
Dudley Metro Borough Council	£3,000,000	04/04/2018	06/04/2020	1.08	
Northamptonshire County Council	£3,000,000	23/04/2018	23/10/2020	1.25	
Total Fixed Term Investments	**£8,000,000**				
Total Treasury Investments	**£18,755,000**				

APPENDIX 2 - Borrowing as at 31 March 2020:

Start Date	End Date	Loan No	Value £	Institution	Rate %	Term
29.04.19	27.04.20	3817	£3,000,000	Gloucestershire CC	0.97	364 day temporary loan
15.01.20	15.10.20	3819	£3,000,000	Chesterfield BC	1.0	274 day temporary loan
Total Short Term			**£6,000,000**			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
Total Long Term			**£10,000,000**			
Total Borrowing			**£16,000,000**			

APPENDIX 3: Prudential Indicators

PRUDENTIAL INDICATOR	2018/2019 Actual £000's	2019/2020 Actual £000's
Capital Expenditure	27,288	29,880
Ratio of financing costs to net revenue stream	2.67%	2.52%
Net borrowing		
brought forward 1 April	13,800	13,100
carried forward 31 March	13,100	16,000
Change in year - increase/(decrease)	(700)	2,900
Net Investment		
brought forward 1 April	(12,500)	(12,555)
carried forward 31 March	(12,555)	(18,755)
Change in year - increase/(decrease)	(55)	(6,200)

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2019/2020 unfinanced capital expenditure, and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

CFR (£m): General Fund	31 March 2019 Actual £'000	31 March 2020 Actual £'000
Opening balance	39,335	44,251
Add unfinanced capital expenditure (as above)	6,143	-
Voluntary application of capital receipts		(4,146)
Less Minimum Revenue Provision (MRP)	(281)	(345)
Less voluntary / additional MRP	(935)	(864)
Less finance lease repayments (where the Council is lessor)	(11)	(11)
Closing balance	**44,251**	**38,885**

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2019/2020. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's

net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2019 Actual £'000	31 March 2020 Actual £'000
Borrowing	13,100	16,000
Investments	(12,555)	(18,755)
Net Position	**(545)**	**2,755**
Closing CFR	**44,251**	**38,885**

Actual financing costs as a proportion of net revenue stream

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

	2019/2020
Authorised limit	£44,000
Maximum gross borrowing position	£16,000
Operational boundary	£39,000
Average gross borrowing position	£14.956m
Financing costs as a proportion of net revenue stream	2.52%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2018/2019 £'000	2019/2020 £'000
Authorised limit for external debt -		
Borrowing	54,000	50,000
Operational boundary for external debt -		
Borrowing	49,000	45,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	52,000	50,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	21,600	20,000

Maturity structure of fixed rate borrowing during 2019/2020	upper limit	lower limit	Actual
under 12 months	100%	0%	37.5%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	62.5%

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	22 November 2021		
TITLE:	External Auditor Appointment		
TYPE OF REPORT:	Monitoring		
PORTFOLIO(S):	Cllr Dickinson, Finance Portfolio Holder		
REPORT AUTHOR:	Michelle Drewery, Assistant Director Resources		
OPEN/EXEMPT	OPEN	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

REPORT SUMMARY/COVER PAGE

PURPOSE OF REPORT/SUMMARY:
This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/2024.
KEY ISSUES:
Options for alternative appointments are limited and involve additional cost and resource to progress without any guarantee of securing better quality or value than the national scheme offers.
OPTIONS CONSIDERED:
Appointing own external auditor or joint procurement with other authorities.
RECOMMENDATIONS:
That the Audit Committee recommends that Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.
REASONS FOR RECOMMENDATIONS:
To comply with the deadlines to appoint an external auditor to the Council.

REPORT DETAIL

1. Introduction

1.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/2023 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/2023.

1.2 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/2024 to 2027/2028. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/2024. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

1.3 The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
- supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

1.4 If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at Full Council. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/2024, the Council/Authority needs to return completed opt-in documents to PSAA by 11 March 2022.

2. Procurement

2.1. Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options;

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.

- To act jointly with other authorities to procure an auditor following the procedures in the Act.

- To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

2.2. In order to opt in to the national scheme, a council must make a decision at a meeting of the Full Council.

3. The Appointed Auditor

3.1 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

3.2 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

3.3 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.

3.4 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.

3.5 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

4. Appointment by the council itself or jointly

4.1. The Council may elect to appoint its own external auditor under the Act, which would require the council to;

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

- Manage the contract for its duration, overseen by the Auditor Panel.

4.2. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

4.3. From informal discussions with Section 151 Officers across Norfolk, the current view is to opt in to the national auditor appointment scheme administered by PSAA.

5. The national auditor appointment scheme

5.1. PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/2019 to 2022/2023. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/2024 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

5.2. In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

6. Pressures in the current local audit market and delays in issuing opinions

6.1. Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

6.2. During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

6.3. The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

6.4. This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.

6.5. None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

7. The invitation

7.1. PSAA is now inviting the Council/Authority to opt in for the second appointing period, for 2023/2024 to 2027/2028, along with all other eligible authorities. Based on the level

of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's/Authority's auditor. Details relating to PSAA's invitation are provided in Appendix 1 to this report.

8. The next audit procurement

8.1. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);
- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.

8.2. PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

8.3. The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office)[1], the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

8.4. There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

9. Assessment of options and officer recommendation

9.1. If the Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

9.2. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

9.3. These would be more resource-intensive processes to implement for the council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.

9.4. The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

9.5. The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.

9.6. The recommended approach is therefore to opt in to the national auditor appointment scheme.

10. The way forward

10.1. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole), except where the authority is a corporation sole.

10.2. The Council then needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).

10.3. PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the

appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

11. Risk Management

11.1. The principal risks are that the Council:

- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- does not achieve value for money in the appointment process.

11.2. These risks are considered best mitigated by opting into the sector-led approach through PSAA.

12. Legal implications

12.1. Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

12.2. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.

12.3. Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

12.4. Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

13. Financial Implications

13.1. There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

13.2. Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

13.3. If the national scheme is not used, additional resource will be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/2024.

14. Conclusion

14.1. That the Audit Committee recommend that Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

15. Background Papers

15.1. None

Public Sector Audit Appointments

22 September 2021

To: Ms Gore, Chief Executive
Borough Council of King's Lynn and West Norfolk

Copied to: Ms Drewery, S151 Officer
Councillor Lowe, Chair of Audit Committee or equivilent

Dear Ms Gore,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the scheme prospectus and our procurement strategy. Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

18 Smith Square, London, SW1P 3HZ

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and

3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to frequently asked questions on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in the scheme prospectus.

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on our website and in the scheme prospectus.

Appointing Period 2023/24 to 2027/28 **APPENDIX 1**

Form of notice of acceptance of the invitation to opt in

(Please use the details and text below to submit to PSAA your body's formal notice of acceptance of the invitation to opt into the appointing person arrangements from 2023)

Email to: ap2@psaa.co.uk

Subject:	**Borough Council of King's Lynn and West Norfolk**
	Notice of acceptance of the invitation to become an opted-in authority

This email is notice of the acceptance of your invitation dated 22 September 2021 to become an opted-in authority for the audit years 2023/2024 to 2027/2028 for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that **Borough Council of King's Lynn and West Norfolk** has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations, and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: **[insert name of signatory]**

Title: **[insert role of signatory]** (authorised officer)

For and on behalf of: **Borough Council of King's Lynn and West Norfolk**

Date: **[insert date completed]**

APPENDIX 1

Public Sector
Audit Appointments

22 September 2021

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Copied to: Ms Drewery, S151 Officer
Councillor Lowe, Chair of Audit Committee or equivilent

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In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the scheme prospectus and our procurement strategy. Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

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Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and

3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

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- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in the scheme prospectus.

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on our website and in the scheme prospectus.

Borough Council of
King's Lynn &
West Norfolk

The
Budget 2021/2022

Monitoring Report

August 2021

Michelle Drewery
Assistant Director Resources
Section 151 Officer

The Budget 2020/2021

Monitoring Report – August 2021

Summary

The budget for 2021/2022 was presented to Cabinet on 2 February 2021 and approved by Council on 25 February 2021 in accordance with the process for approving the financial plan 2021-2026. Since the budget was approved, the council has remained in uncertain times as recovery from the pandemic (Covid-19) takes shape during 2021/2022.

The lasting effects on the local economy, the council, its residents and businesses are still uncertain. This budgetary control monitoring summary report has been prepared and provides a summarised update of any variances against the original budget for 2021/2022.

The amount that will be transferred to the General Fund Reserve balance at 31st March 2022 is estimated to be £436,060 an increase of £180,670 resulting from the forecast reduction in spend as shown below.

	Original Budget 2021/22	Forecast 31 August 2021	Variance
Borough Spend	21,467,800	21,287,130	**(180,670)**
Financing	(21,723,190)	(21,723,190)	**0**
Contributions to/(from) General Fund Balance	**255,390**	**436,060**	**180,670**

A target for Turnover Savings of £552,210 was approved and is included in the budget for 2021/2022. Turnover savings of £298,800 have been achieved in the period 1st April 2021 to 31st August 2021. Details of Turnover savings are included in section 2.3 of this report.

The Capital Programme 2020/2025 was presented to Cabinet on 21 September 2021. Section 7 includes details of the Capital Programme for 2021/2022.

Appendix 1 provides notes of the cash limit rules which apply to all budgets.

If further information relating to any budget highlighted within this report is required, please do not hesitate to contact Michelle Drewery on Ext. 6432

1. Introduction

1.1 This report covers the period to 31st August 2021.

1.2 Budget monitoring has been undertaken and revisions made to forecast taking account variations to date as reported in section 2 of this report. This has resulted in a favourable movement in the estimated contribution to reserves of £180,670 totalling £436,060 compared to that set in the original budget of £255,390. The Council has incurred additional expenditure and identified reductions in income, which are attributable to the continuing impact of the pandemic, more detail is provided in paragraphs 2.2.1 and 2.2.2 below. As such, further financial pressures may still emerge as a result of the pandemic. These impacts may not yet be fully apparent and will need to be closely monitored, scrutinised and reported accordingly.

1.4 Central Government have continued the Sales, Fees and Charges Compensation scheme into 2021/2022, up to the 30 June. A claim is currently being prepared to draw down support as appropriate to recover eligible losses to income. In addition, other funding streams have been made available to support various Covid related workstreams (see paragraph 2.2.4).

2. Revenue Budget 2021/2022

2.1 Budget Summary

2.1.1 A summary of the budget position as at 31st August 2021 is shown below.

	Budget Agreed by Council 25 February 2021	**August Budgetary Control Monitoring Report 2021/2022**	**Report Variance**
	£	**£**	**£**
Central Services	2,909,310	2,872,810	(36,500)
Community and Partnerships	329,710	318,510	(11,200)
Companies and Housing Delivery	285,880	289,880	4,000
Environment and Planning	2,117,340	1,799,340	(318,000)
Operations and Commercial	1,293,770	1,224,480	(69,290)
Property and Projects	(1,584,540)	(1,575,040)	9,500
Regeneration Housing & Place	884,030	890,280	6,250
Resources	8,112,130	8,206,880	94,750
Chief Executive	304,860	304,860	0
Culture and Leisure	2,573,860	2,573,860	0
Turnover Savings	(552,210)	(298,800)	253,410
Financing Adjustment	1,903,940	1,790,350	(113,590)
Internal Drainage Boards	2,868,510	2,868,510	0
Council Tax Support to Parishes	21,210	21,210	0
Borough Spend	**21,467,800**	**21,287,130**	**(180,670)**
Contributions to/(from) General Fund Balance	255,390	436,060	180,670
Borough Requirement	**21,723,190**	**21,723,190**	**0**

	Budget Agreed by Council 25 February 2021	August Budgetary Control Monitoring Report 2021/2022	Report Variance
Revenue Support Grant	(627,670)	(627,670)	
Rural Service Delivery Grant	(485,690)	(485,690)	0
New Homes Bonus	(837,670)	(837,670)	0
Other Government Grants	(1,309,230)	(1,309,230)	0
Taxation			
Business Rates Retention Baseline Funding	(5,491,230)	(5,491,230)	0
Business Rates Retention Additional Funding	(2,350,120)	(2,350,120)	
Business Rates Funding from Growth	(1,101,870)	(1,101,870)	0
Business Rates Renewable Energy	(2,500,000)	(2,500,000)	0
Council Tax	(7,019,710)	(7,019,710)	0
Funding Position	**0**	**0**	**0**

2.1.2 Turnover savings have been split out from the Resources budget line to show the full effect of these savings.

2.2 Impact of pandemic

2.2.1 A review of the latest forecast expenditure due to COVID has resulted in an estimated cost of £330,000 to the council since 1 April 2021. These costs are summarised below:

Additional Expenditure	**Total £**
Homelessness Accommodation – supported by Grant	175,000
Additional Provision of Refuse and Recycling Services	7,000
ICT Support (Remote Working/Virtual Meetings)	14,000
Covid Compliance and Enforcement – funded by Contained Outbreak Management Fund (COMF) contributions.	80,000
Lockdown Compliance and Reopening Support	1,000
Public Health – Testing, contact tracing and outbreak	38,000
Elections – equipment to meet covid safe measures	15,000
Total Expenditure	**330,000**

2.2.2 The following summarises the latest update on loss of income due to COVID which is currently estimated at £370,000 since 1 April 2021:

Estimated loss of income	**Total £**
Events and Bookings	40,000
Management Fee/Service Level Agreement (AWN)	151,000
Printing Services	5,000
Rental Income from Commercial Properties	80,000
Food Waste income	61,000
Car Parking Fees	33,000
Total Income	**370,000**

2.2.3 The council received support in respect of a number of Covid related funds from Government in 2020/2021. An unspent balance of £651,481 from the Contain Outbreak Management Fund (COMF) has been placed in reserves and is assigned for use in 2021/2022. The Council also have a further allocation of COMF in 2021/2022, of £238,077.

2.2.4 In addition to the funding above, the council has also received the following funds in support of various Covid related workstreams. These were announced as part of the Local Government Funding Settlement and are included in the budget already:

Funding	**Total £**	**Purpose**
Covid 19 Expenditure Pressures grant (un-ringfenced)	922,550	Awarded in 2021/22 settlement towards supporting Covid related costs.
Local Council Tax Support Grant	152,760	In recognition of the increased costs of providing local council tax support and other help to economically vulnerable households following the pandemic.
Lower Tier Services Grant (un-ringfenced)	233,860	A one-off national settlement grant to support the Council's core spending power, following cessation of other revenue grants.
Total Grant	**1,309,170**	

2.3 Turnover Savings

2.3.1 An original target for Turnover Savings of £552,210 was set for 2021/2022. At 31 August 2021, £298,800 of turnover savings have been identified since 1st April 2021. Movement across the service areas are shown below:

Service Area	**Amount £**
Central Services	(39,000)
Community & Partnerships	(11,200)
Companies and Housing Delivery	4,000
Environment and Planning	(68,000)
Operations & Commercial	(152,000)
Property & Projects	(45,000)

Service Area	Amount £
Regeneration Housing & Place	(33,600)
Resources	46,000
Total	**(298,800)**

2.3.2 It should be noted that the increase in turnover savings can be attributable to holding numerous vacancies across the council during the pandemic. It is expected that these vacancies will be filled as service demand progresses towards pre-pandemic levels.

2.4 Budget Monitoring variances

2.4.1 The following table details the variances for each Assistant Director area.

	£	£
Central Services		
Reduction in income from partners due to revised approach to Recruitment Portal during COVID	500	
Members Training Essential targeted training required for Standards Committee Members	2,000	
Turnover Savings	(39,000)	
Total Central Services		**(36,500)**
Community & Partnerships		
Turnover Savings	(11,200)	
Total Community & Partnerships		**(11,200)**
Companies & Housing Delivery		
Turnover (additional cost)	4,000	
Total Companies & Housing Delivery		**4,000**
Environment & Planning		
Income from Planning Fees is currently higher for this period compared to budget	(250,000)	
Turnover Savings	(68,000)	
Total Environment & Planning		**(318,000)**
Operations & Commercial		
Cost of ambulance and medical cover for resort events on Hunstanton Promenade	25,000	
Refuse and Recycling additional budget required to upgrade software - £20k and re-introduction of food waste campaign - £20k.	40,000	
Car Parking Increase in rent, insurance and service charges on town centre premises - £8k, additional costs and reduced income from vacant properties - £11k and increase in contract price for rent of car parks - £13k.	31,710	
Reduced expenditure as a result of shared depot space from new waste collection	(14,000)	

	£	£
contract.		
Turnover Savings	(152,000)	
Total Operations & Commercial		**(69,290)**
Property & Projects		
Industrial Estates extra cost for contract cleaning - £4,500.	4,500	
Shops and Offices The timescale for a town centre building renovation project has been extended, resulting in an extension to a rent free period leading to a delay in anticipated rental income	50,000	
Turnover Savings	(45,000)	
Total Property & Projects		**9,500**
Regeneration, Housing & Place		
Tourism annual printing has increased each year - £3,500. For brochure and lead generation, website and social media marketing, to assist recovery to the local tourism economy fees are not being charged for promotion of day visitor awareness nor the King's Lynn Maritime Trail - £36,750. Vouchers are no longer provided for Discover King's Lynn Distribution creating a saving of £400.	39,850	
Turnover Savings	(33,600)	
Total Regeneration, Housing & Place		**6,250**
Resources		
Internal Drainage Board notifications are more than estimated in the budget	16,890	
Costs have arisen due to a requirement to perform heritage assets valuation	4,000	
ICT duplicated income from internal recharges budget	72,840	
Corporate Costs and Provisions – Reduction in rental income following vacation of rental property	10,300	
Revenues and Benefits grant budget increased as more grant income received than expected	(55,280)	
Turnover (additional costs)	46,000	
Total Resources		**94,750**
Turnover Savings Target less achieved to date.		**253,410**
Financing Adjustment		
Additional Interest receivable from Capital loan	(113,590)	

	£	£
Total Financing Adjustment		**(113,590)**
Grand Total		**(180,670)**

2.4.2 Assistant Director Area Movements

There were budget movements between Assistant Director areas in this monitoring period as follows:

Assistant Director	Service Area	Reason for Movement	Amount £
Companies and Housing Delivery	Corporate Projects	Procurement income to new cost centre	(19,000)
Resources	Procurement	Procurement income to new cost centre within Resources	19,000

3. Movement on Balances

3.1 As reported to Council in February 2021, the budget set out an estimated contribution to the General Fund Reserve of £255,390. The estimated contribution has now increased to £419,840 as a result of the changes set out in this report. The revised impact on balances is detailed in the table below.

Projected Movements in General Fund Balances	**2021/22 £**
Balance brought forward 1 April 2021	**8,998,382**
Estimated to/(from) Balances (Monitoring - August)	436,060
Projected General Fund Balance 31 March 2022	**9,434,442**

3.2 The projected balance for 2021/2022 remains above the minimum level of £1,086,160 required of the Council.

3.3 The General Fund Balance is held at a higher level than it might normally be to provide for a planned and measured response to the reduction in grant funding that will occur in the medium term. Significant draws from the general funding balance remain necessary in future years of the medium-term financial plan in order to set a balanced budget.

4. Cost Reduction Target

4.1 The uncertainty and the impact from the pandemic during 2020/21 on service demand and use of resources impeded the Council's planned progress towards the cost reduction target. A detailed review of cost reduction and income generation initiatives is currently being undertaken with a view to incorporate these into the estimates and Financial Plan for 2021/2026.

4.2 The refreshed plans will take account of existing initiatives that are deemed to remain viable as well as any newly identified cost saving or income generating initiatives in order to address an estimated budget gap in in 2024/2025.

5. Fees and Charges

5.1 The Council has delegated authority to the Executive Director of the appropriate services (in consultation with the relevant portfolio holder and the Leader) to vary charges having regard to market conditions and the Council's policy framework. The 2021/2022 fees and charges were originally detailed in the Financial Plan 2020/2025 and submitted to Cabinet on 02 February 2021 and approved by Council on 25 February 2021.

5.2 No additional changes to fees and charges are being reported in August 2021.

6. Treasury Management 2021/2022

6.1 The "Treasury Management Strategy Statement and Annual Investment Strategy 2021/2022" was approved by Council on 25 February 2021. The Council's Treasury Management Strategy will be updated as appropriate for any changes made to the code of practice by CIPFA.

6.2 The monitoring report includes prudential indicators, updates on movements in borrowing and investments during the period, together with the credit rating changes of counter parties and average rate of return on investments.

Prudential Indicators

Indicator	**Original Limit 2021/2022**	**Actual Borrowing 31st August 2021**
Operational Boundary (Limit of borrowing)	£53m	£10m
Short-term and variable rates borrowing limits	40%	0%

Loans

Institution	**Principal £**	**Rate %**
Short Term borrowing	0	
Total Short Term	**0**	
Barclays	5,000,000	3.810%
Barclays	5,000,000	3.810%
Total Long Term	**10,000,000**	
Total Borrowing	**10,000,000**	

Investments

Institution	**Principal £**	**Rate %**
Aberdeen Standard - MMF	4,000,000	0.010%

BNP (Banque Nationale de Paris) – MMF	4,000,000	0.013%
Federated PR – MMF	4,000,000	0.010%
HSBC Sterling – MMF	4,000,000	0.009%
LGIM Sterling - MMF	1,500,000	0.000%*
Total Money Market Fund Investment	**17,500,000**	
Blackpool Borough Council	4,000,000	0.120%
Handlesbanken	4,000,000	0.000%*
Santander	4,000,000	0.450%
Total Other Investments	**12,000,000**	
Overall Investments	**29,500,000**	

*These investments have nil interest as they are based on holding surplus cash on a security basis to comply with the Treasury Management Strategy

6.3 Council treasury investment decisions are made in accordance with the Treasury Strategy and additional support and guidance is provided by the Council's treasury advisors, Link Asset Services.

Credit Ratings

The Council uses independent ratings (Fitch) to derive part of its counterparty criteria, in accordance with the currently adopted Treasury Management Practices.

The BCKLWN minimum ratings for banks are:

Short term Rating	Viability Rating	Support Rating	Long Term Rating
F1	**BB+**	**3**	**A**

F1 = Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments.
Have an added "+" to denote any exceptionally strong credit feature.

B = A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

3 = A bank, for which support from a state or from an institutional owner is likely but not certain.

A = A low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. There may be some vulnerability to changes in circumstances or in economic conditions than is the case for higher ratings.

7. Capital Programme 2021/2022

7.1 The Capital Programme 2020/2021 was updated at Cabinet on 21 September 2021 and a summary position is shown in the table below. The report included the updated budget position of the programme for the 2021/2022 financial year including amendments and rephasing from the closedown on the previous financial year.

	Budget 2021/2022 (Reported to Cabinet 21 Sept 2021)	**Spend to August 2021**	**Percentage**
	£	**£**	**%**
Major Projects	41,287,560	3,513,180	8.51
Community and Partnerships	2,751,660	793,970	28.85
Resources (S151 Officer)	431,250	12,760	2.96
Property and Projects	94,000	40,700	43.30
Operational and Commercial Services	2,898,650	428,910	14.80
Alive West Norfolk	1,261,490	0	0.00
Total	**48,724,610**	**4,789,520**	**9.83**
Exempt Corporate Schemes	22,583,950	3,498,130	15.49
Total Capital Programme	**71,308,560**	**8,287,650**	**11.62**

7.2 No further amendments are reported to the end of August 2021.

Appendix 1

Cash Limits

In all cases the Budget Cash Limit will be seen to be the 'bottom line' of a service cost centre as presented in the Financial Plan 2020/2025 and the financial ledger.

It will be the responsibility of the Assistant Director to make sure that any anticipated overspending in a cost centre, as a first option, is compensated by a reduction in the same service area. In the event that this is not possible the Assistant Director must as a second option look for compensating reductions within another service area under their responsibility. (It is accepted that this may mean changes across Portfolios).

If this is not possible then the Assistant Director must report the circumstances to the Management Team requesting the forecast overspend to be met from corporate resources.

The decision on how to meet the shortfall will be made by Management Team in consultation with the portfolio holder for Resources, before the overspending is authorised.

These cash limits rules will not apply to elements of the budget that are 'outside' of the control of the service manager. These will include;

- rent and rates
- insurances
- benefit payments
- support service charges
- capital financing
- asset rentals
- interest on capital receipts

Where there are increase/reductions in the above, it will be necessary for the Assistant Director to report to Management Team and complete the appropriate Exercise of Delegated Authority (EDA) form or Cabinet report.

In all other cases the cash limits rules will apply although Management Team, in consultation with the portfolio holder for Resources, will consider exceptions in particular cases. (As an example, this may be the case where the pressure comes from reduced levels of income from 'demand led' services).

In all cases Financial Regulations require the Assistant Director to gain Portfolio Holder(s) approval for them to complete the EDA form. A copy of the form must be sent to the Financial Services Manager for adjustments to be made to the budget records in the financial ledger.

Any budget transfer with a value of £500,000 or above is a 'key decision' and must be subject of a report to Cabinet.

In dealing with the overspending it will be the responsibility of the Executive Director to identify compensating reductions within one month of the issue being identified. This will form part of the Monthly Monitoring Report.

As a reminder, the Financial Regulations state;

- transfers must not be made into permanent staffing budgets;
- savings in non-recurring expenditure or income should not be used to finance additional recurring expenditure

Michelle Drewery
Assistant Director Resources (s151 Officer)

FORWARD DECISIONS LIST

Date of meeting	Report title	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
16 November 2021	Gambling Act – Statement of Principles	Non	Council	Environment Assistant Director – S Ashworth		Public
	Enforcement Policy on Fly Tipping and Public Nuisance	Non	Council	Environment Assistant Directors – J Greenhalgh and M Chisholm		Public
	Review of Corporate Business Plan	Key	Council	Leader Chief Executive		Public
	Commercial Team Service Plan	Non	Cabinet	Environment Asst Dir – S Ashworth		Public
	Update to the Major Project Board terms of reference	Non	Cabinet	Leader Asst Dir Property & Projects – M Henry		Public
	CIL Report- application for grant for 3G and Coaching Academy	Non	Cabinet	Regeneration & Development Asst Dir S Ashworth		Public
	Lynnsport - 3G Pitch and coaching academy	Non	Cabinet	People & Communities Chief Executive		Public
	Request for the review of Parish Council numbers	Non	Council	Leader Chief Executive		Public
	Community Infrastructure Levy (CIL) – Consideration of lessons learnt from the first round of grant applications for CIL funding	Non	Cabinet	Development Asst Dir – S Ashworth		Public

Date of meeting	Report title	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting

14 December 2021						
	Council's Insurance Tender	Key	Cabinet	Finance Asst Dir – M Drewery		Private - Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)

Date of meeting	Report title	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
11 January 2022						
	Hackney Carriage and Private Hire Licensing Procedures and Conditions Review	Non	Council	Environment Assistant Director – S Ashworth		Public
	Review of Governance of Council Companies	Non	Cabinet	Leader Chief Executive		Public
	Guildhall Future Governance Options	Non	Council	Business, Culture and Heritage – G Middleton Asst Director – D Hall		Public
	Custom and Self Build Site – Stoke Ferry	Non	Cabinet	Regeneration and Development Assistant Director - D Hall		Public
	Members Allowances Independent Review	Non	Council	Finance Chief Executive		Public
	Asset Management – Land and Property Disposals	Key	Cabinet	Property Asst Dir Property and Projects		Private - Contains exempt Information under para 3 – information relating to the

						business affairs of any person (including the authority)
	Balloon and Lantern Policy	Non	Cabinet	Corporate Services and Environment Asst – M Chisholm		Public
	Corporate Enforcement Policy	Non	Council	Development Asst Dir J Greenhalgh		Public
	Notice of Motion 7-21 – Councillor Kemp – Equalities	Non	Council	Leader Asst Dir B Box		Public
	Review of Legal Services	Key	Council	Leader Chief Executive		Private - Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)
	Appointment of External Auditors	Key	Council	Finance S151 officer		Public

Date of meeting	Report title	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
8 February 2022						

	Budget	Key	Council	Leader S151 Officer Asst Dir Resources		Public
	Capital Programme	Key	Council	Leader S151 Officer Asst Dir Resources		Public
	Treasury Management Strategy	Key	Council	Leader S151 Officer Asst Dir Resources		Public
	Capital Strategy	Key	Council	Leader S151 Officer Asst Dir Resources		Public
	Derelict Land & Building Group	Non	Council	Regeneration & Development Asst Director – Duncan Hall & S Ashworth		
	Lynnsport One	Key	Council	Project Delivery Asst Dir Companies & Housing Delivery – D Ousby		Private - Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)
	Procurement Strategy	Non	Cabinet	Finance Asst Dir Resources		Public
	Housing Delivery Test Action Plan	Non	Cabinet	Development & Regeneration Asst Director S Ashworth		Public
	Five Year Housing Land Supply assessment	Non	Council	Development & Regeneration Asst Director S Ashworth		Public

Date of meeting	Report title	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
15 March 2022						

AUDIT COMMITTEE WORK PROGRAMME 2021/2022

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
16 June 2021	Appointment of Vice Chair for the Municipal Year 2021/2022			To appoint a Vice Chair for the Municipal Year 2021/2022.
16 June 2021	Certification of Grant Claims and Annual Report for previous financial year	Annual		To receive the annual report from the previous financial year.
16 June 2021	Corporate Risk Register – Half Yearly Update	Update	G Greaves	To receive the half yearly update report
16 June 2021	Internal Audit Annual Report and Opinion covering the previous financial year	Annual	Audit Manager	To receive the annual report and opinion covering the previous financial year.
16 June 2021	Internal Audit Full Year Progress Report covering the previous financial year	Annual	Audit Manager	To receive the half-year progress report covering the previous financial year.
16 June 2021	Update on Audit Progress and Timetable	Update	Assistant Director	To receive an update.
16 June 2021	Cabinet Forward Decisions List			To identify any items to be considered by the Audit Committee.
16 June 2021	Work Programme 2021/2022			To identify any items for the work programme.

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
26 July 2021	Annual Governance Statement covering the previous financial year 2019/2020	Annual	G Greaves	To receive the draft Annual Governance Statement covering the previous financial year.
26 July 2021	Draft Statement of Accounts 2019/2020	Draft	M Drewery	To receive the draft statement of accounts.
26 July 2021	Quarterly Budget Monitoring	Quarterly	M Drewery	
26 July 2021	Cabinet Forward Decisions List			To identify any items to be considered by the Audit Committee.
26 July 2021	Work Programme 2021/2022			To identify any items for the work programme.
26 July 2021	Exempt Report: Risk Based Verification – Changes to Policy	EXEMPT	Jo Stanton	
16 September 2021 - Meeting Postponed to 12 October 2021				
12 October 2021	Business Continuity Update	Annual - Update	G Greaves	To receive the annual update report.
12 October 2021	Insurance Claims		M Drewery	
12 October 2021	Revenue Outturn report		M Drewery	To receive the Revenue Outturn report.

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
12 October 2021	Member Major Projects Board – Update	Update	Chair	To receive an update from the Chair.
12 October 2021	Cabinet Forward Decisions List			To identify any items to be considered by the Audit Committee.
12 October 2021	Work Programme 2021/2022			To identify any items for the work programme.
22 November 2021	Internal Audit Half Year Progress Report	Progress	F Haywood/ J Hay	To receive the half year progress report.
22 November 2021	Fraud and Corruption Half Year Progress Report 2021/2022	Progress	J Hay	To receive the half year progress report.
22 November 2021	Public Sector Internal Audit Standards (PSIAS) Review Internal Audit Function		F Haywood	
22 November 2021	Future of the Audit Committee Cross Party Working Group		A Baker	To consider a report from the Monitoring Officer on the future of the Cross Party Working Group.
22 November 2021	Treasury Outturn Report 2019/20 and 2020/21		M Drewery/ C Holland	Training Session for Members will be held prior to consideration of this item
22 November 2021	Appointment of External Auditor		M Drewery	

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
22 November 2021	Budget Monitoring Report August 2021	Monitoring	M Drewery	
22 November 2021	Cabinet Forward Decisions List			To identify any items to be considered by the Audit Committee.
22 November 2021	Work Programme 2021/2022			To identify any items for the work programme.
13 January 2022	Corporate Risk Register – half yearly update	Update	G Greaves	The Committee to receive the half yearly update report.
13 January 2022	Mid-Year Treasury Report	Mid-Year	M Drewery/ C Holland	The Committee to receive the mid-year report.
13 January 2022	External Auditors' Report and ISA 260 for 2019/2020	Annual	External Auditors	To receive Audit opinion on the financial statements for the year and any recommendations.
13 January 2022	Statement of Accounts for 2019/2020	Annual	M Drewery	
13 January 2022	Annual Governance Statement 2019/2020	Annual	G Greaves	
13 January 2022	Cabinet Forward Decisions List			
13 January 2022	Work Programme 2021/2022			

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
28 February 2022	Draft Annual Governance Statement covering the current financial year	Annual – Draft	G Greaves	To receive the draft Annual Governance Statement for the current financial year.
28 February 2022	Quarterly Budget Monitoring Report	Monitoring – Quarterly	M Drewery	To receive the quarterly budget monitoring report.
28 February 2022	Strategic External Audit Plan for the following Financial Year	Strategic	External Auditors	External Auditors to present the strategic external audit plan.
28 February 2022	Strategic Internal Audit Plan for the following Financial Year	Strategic	Internal Audit Manager	To receive the Strategic Internal Audit Plan for the following Financial Year.
28 February 2022	Cabinet Forward Decisions List			To identify any items to be considered by the Audit Committee.
28 February 2022	Work Programme 2021/2022			To identify any items for the work programme.
14 March 2022	External Audit Plan	Annual	External Auditors – Ernst and Young	
14 March 2022	Internal Audit Plan	Annual	Internal Audit Manager	
14 March 2022	Governance of Major Projects – Quarterly Update	Quarterly Update	M Henry	
14 March 2022	Cabinet Forward Decisions List			To identify any items to be considered by the Audit Committee.

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
14 March 2022	Work Programme 2021/2022			
11 April 2022	Cabinet Forward Decisions List			To identify any items to be considered by the Audit Committee.
11 April 2022	Work Programme 2022/2023			To identify any items for the work programme.

Potential Future Training Sessions

Alternatives for service delivery (services in house and those contracted out)
Companies and Structures
Corporate Risk Register

Forthcoming Items – Date to be Identified

External Auditors' Report and ISA 260 for 2020/2021 – External Auditors
Statement of Accounts for 2020/2021– M Drewery
Annual Governance Statement covering the financial year 2020/2021 – G Greaves
Additional Audit Work – RIPA Desktop Inspection and GDPR legislation
General overview on the Council's various sources of funding
Housing Benefit Subsidy Report
Internal Audit Terms of Reference
Audit Committee Terms of Reference (revised draft from 17 December 2020)
Audit Committee Effectiveness Report 2020/2021 (2019/2020 report went to AC 27 July 2020)
Risk Management Policy and Strategy Review
Record Retention and Disposal Policy Review
Governance of Major Projects – Quarterly Update (March/June/September/December)