

# Corporate Audit Committee

**Date: Thursday, 3rd February, 2022**

**Time: 4.00 pm**

**Venue: Council Chamber - Guildhall, Bath**

## **Agenda**

**To: All Members of the Corporate Audit Committee**

Councillors: Mark Elliott (Chair), Andrew Furse, Colin Blackburn, Lucy Hodge and Brian Simmons

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

The agenda is set out overleaf.



**Enfys Hughes**

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## NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

Paper copies are available for inspection at the Guildhall - Bath.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. **Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds live via the internet [www.bathnes.gov.uk/webcast](http://www.bathnes.gov.uk/webcast). The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Public Speaking at Meetings**

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

**Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.**

Further details of the scheme can be found at:

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

5. **Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

6. **Supplementary information for meetings**

Additional information and Protocols and procedures relating to meetings

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

**Corporate Audit Committee-Thursdays, 3rd February, 2022**

**at 4.00 pm in the Council Chamber - Guildhall, Bath**

**A G E N D A**

**1. EMERGENCY EVACUATION PROCEDURE**

The Chair will draw attention to the emergency evacuation procedure as set out under Note 7.

**2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

**3. DECLARATIONS OF INTEREST**

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

**4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

The Chair will announce any items of urgent business.

**5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

**6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

**7. MINUTES - 15TH DECEMBER 2021 (Pages 7 - 12)**

**8. EXTERNAL AUDIT - UPDATE (Pages 13 - 36)**

**9. TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23 (Pages 37 - 66)**

**10. INTERNAL AUDIT PLAN 2022/2023 - CONSULTATION (Pages 67 - 70)**

**11. ANNUAL GOVERNANCE STATEMENT 2021/2022 (Pages 71 - 76)**

The Committee Administrator for this meeting is Enfys Hughes who can be contacted on 01225 394410.

**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Wednesday, 15th December, 2021, 4.00 pm

**Councillors:** Mark Elliott (Chair), Andrew Furse, Colin Blackburn and Lucy Hodge

**Independent Member:** John Barker

**Officers in attendance:** Jeff Wring (Service Director - One West), Andy Rothery (Chief Finance Officer (S151)), Gary Adams (Head of Financial Management), Andy Cox (Head of Audit and Assurance (One West)) and Andrea Frow (Landlord and Tenant Team Manager)

**Guests in attendance:** Peter Barber and Liam Royle (Grant Thornton external auditors)

**12 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer read out the emergency evacuation procedure.

**13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Councillor Brian Simmons sent apologies for the meeting.

Councillor Lucy Hodge was late attending due to an overlap with the Planning Committee on which she was also a member.

**14 DECLARATIONS OF INTEREST**

There were none.

**15 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

**16 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

**17 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

**18 MINUTES - 23RD SEPTEMBER 2021**

**RESOLVED** that the minutes of the meeting held on 23 September 2021 were confirmed and signed as a correct record.

**19 GOVERNANCE REPORTS FOR COUNCIL AND AVON PENSION FUND AND AUDITED STATEMENT OF ACCOUNTS 2020/21**

The Head of Financial Management Gary Adams gave a presentation on the report. He explained it would cover the areas of change, future changes, the main statements, the annual governance statement and audit findings. The main change was in response to the Redmond Review which had extended deadlines for the 2020-21 and 2021-22 accounts. Future changes to IFRS16 accounting for leases were delayed until 2022-23 due to resourcing and Covid.

As regards the main statements, the main changes in expenditure and income were related to the impacts of Covid. The Original estimate of Covid pressures (before any government funding) was £42m, with significant impacts on Heritage, Parking and Commercial Estate Income. In response, a Financial Recovery report was approved by Cabinet including recovery measures of £20.7m, of which £14.8m was delivered in full. Government grant funding of nearly £12m was received in respect of general Covid Support and £17.7m from the Sales, Fees and Charges income compensation grant. Other specific Covid grants came to £14m and the Council also distributed Covid Business Support grants totalling £69m during the financial year. The capital spend was £62m which represented 63% of budget, primarily reflecting the delivery time to complete projects requiring re-phasing of budgets to future financial years.

In respect of the Movement in Reserves Statement, it showed a net transfer of £55m to earmarked reserves. This included a technical accounting adjustment in respect of s31 Business Rate Retail Relief Compensation Grant of £39m to offset the Collection Fund deficit that accrued from granting these reliefs in year as well as transfers of some Covid funding for use in 2022/23. There was a decrease in Unusable Reserves of £132m, relating to statutory accounting movements which included £42m in respect of the Business Rate Collection Fund, £38m increase in future Pensions Liabilities and £47m of capital accounting movements relating to valuation changes.

He explained the key balance sheet movement, including: –

- Land and Buildings value reduction of £5m
- Assets Under Construction increase of £13m
- Investment Properties reduction of £48m, due to revaluation losses
- Long-Term Debtors reduction of £6.5m
- Short-Term Debtors increase of £30m
- Reserves Movements in line with the Movement in Reserves Statement

The Cashflow Statement showed the level of cash and cash equivalents had increased by £26m, reflecting the maturity profile of investments held at 31<sup>st</sup> March 2021.

The Collection Fund Statement showed a deficit on Business Rates of £42m, mainly due to the accounting impacts of the Retail Relief granted to businesses due to Covid and a small surplus on Council Tax of £0.2m.

It was the second year that Group Accounts had been produced to incorporate Aequus, the Council's owned housing company. The impact of income and expenditure and consolidated movement in reserves showed a net increase in Aequus' reserves of £3.1m, taking their reserves to £3.2m.

The Annual Governance Statement came to this Committee so that Corporate Audit could oversee the process. The Council Leader and Chief Executive had reviewed and signed the statement. In outline, there were no failings but there were significant risks with the Covid pandemic – these included the impact on public health, the local economy, financial/organisational resilience, safeguarding and democracy.

During questions the following issues were raised:

- In response to a question from Councillor Andy Furse about fraud in respect of business grants, it was stated that 0.3% of the total amount of grant funding issued to businesses was subject to recovery action and some of that had already been recovered
- A question was asked in respect of the unspent Covid grants balance of £4.85m which had gone to reserves, whether this was in effect profit. It was stated that this was not a profit, the funding was transferred to reserves so it was available to fund pressures in 2021/22.
- A question was asked on what the level of reserves would be this year. The level of reserves would depend on actual specific use during the year, but it was highlighted that the £39m increase due to 2020/21 Business Rate Retail Relief grant treatment was used in 2021/22 to offset the Collection Fund deficit.
- Following a question from Councillor Colin Blackburn, the statement that Commercial Estate income was down 42% but this was only a snapshot in time, what is the movement over 5 years? The Section 151 Officer explained income had been impacted in 2020-21 and the 2021-22 budget had been rebased to align the budget with the forecast position for future years. Bounce back to pre-Covid income levels will take some time, this is not anticipated before 2025. There would be a period of uncertainty now with the new variant, however there has been a good level of market interest on the Estate. Andrea Frow Property Services envisaged a rebalancing of rents over the next few years and she could foresee levels stabilising not growing. It was agreed that a 5 year view of these figures would be useful.
- It was helpful for Councillors to see the trends (Councillor Mark Elliott)
- John Barker (Independent Member) stated that the purpose of the Annual Governance Statement was to look back over the last year so it would be appropriate to record that the Committee recognised best endeavours
- In response to Councillor Lucy Hodge, it was explained that there two main types of Covid grants – one was ring-fenced and conditions on what money could be spent on were specifically set out by Government, non ring-fenced grants were for services under pressure and could be bid for.

Peter Barber (Grant Thornton external auditors) explained that progress on the audit was impacted by resourcing issues. The Pension Fund audit was now completed, and the Council's was well progressed. Subject to approval at this Committee, unqualified opinions would be issued on both the Council and the Pension Fund accounts, he highlighted that the timeline had improved since last year. He outlined that no material errors had been identified that impact on the outturn position and that the Council accounts were complex with the large number of investment properties.

In respect of the Council's Audit Findings Report, he highlighted the following two areas which were included in the Action plan following issues identified during the audit.

For the Group Accounts, Aequus' accounts had been consolidated into the Council accounts. The CIPFA Accounting Code of Practice requires that the valuation of the company's investment properties are carried out by a qualified valuer each year. This requirement would be put in place for future years and further testing by the auditors had confirmed that there was not a material difference arising from the 2020/21 valuation treatment. The impact of ADL operating under commercial principles and the valuation of properties was explained.

In respect of the valuation of land and buildings, an adjustment was required in relation to 7 assets due to the double counting of componentised assets, and 2 assets had been included on the valuation report where no valuation had been undertaken.

One updated page was circulated to the Committee, Section C Audit Adjustments.

The following updates were provided, including in relation to further audit work that had completed since the draft Audit Finding's report in respect of the Council's Accounts had been issued:

- Journals were an important area, all had been completed and there were no further findings
- The pension fund was complete with no issues arising
- Minimum Revenue Provision (MRP) – this was calculated every year and had previously been below materiality. Some councils had calculated this incorrectly. B&NES MRP calculation had been reviewed and it fairly reflects the position of the Council
- Expectation that Council services would continue to be delivered over the next 12 months so the Council was a going concern
- An area of focus was the valuation of property, plant and equipment as B&NES has a large asset base

In response to a question from Councillor Elliott on the timing of signing off next year's accounts, Peter Barber explained that the statutory deadline was September 2022. He reported that, in relation to the 2020/21 accounts, only 9% of audits were completed by the September date and it would again be incredibly challenging to meet these timescales. The aspiration was to improve on this year's date.

The External Auditor moved on to the Pension Fund Accounts audit and reported that the accounts had been presented earlier and good progress was made. There were no material errors and a small number of narrative clarifications were recommended in respect of the estimation and uncertainty notes to the accounts.

The Service Director – Commercial and Governance, Jeff Wring explained that VFM was a new process and was well under way with a deadline for it to be completed by mid March 2022. The report would be shared with this Committee for information and consideration but did not require Committee approval.

**RESOLVED** that

- 1) the issues contained within the Audit Findings Reports for the Council and Avon Pension Fund are noted; and
- 2) the audited Statement of Accounts, including the Letters of Representation for both Bath & North East Somerset Council and the Avon Pension Fund for 2020/21, are approved.

**20 PROCUREMENT OPTIONS - EXTERNAL AUDIT**

The Service Director – Commercial and Governance Jeff Wring explained that the Council had been written to by PSAA in respect of the procurement of external auditors from 2023-24 to 2026-27. 95% of local authorities had joined this national exercise and there were benefits to BANES to join.

During discussion the following points were raised:

- This was a pragmatic solution (John Barker, Independent member)
- No other local authorities wanted to do it themselves joining with BANES so there was no other option (Section 151 Officer)

**RESOLVED** that the Audit Committee recommend to full Council that they approve the use of (PSAA) to carry out the re-procurement of External Auditors to the Council (all agreed).

**21 TREASURY MANAGEMENT PERFORMANCE REPORT TO 30TH SEPTEMBER 2021**

The Head of Financial Management Gary Adams presented the report. He explained that the report had already been to Council and Cabinet in November. He outlined the main highlights – the average rate for investment performance was 0.27%, this was above the benchmark and reflected the low interest rates. The average investment balance over the period was £80 million and the forecast investment income was estimated at £30k above budget.

In line with the Environmental, Sustainability and Governance Investment policy included in the Treasury Management Strategy, £5m was deposited in the Lloyd's Sustainability 95 day notice investment account and investment in the two selected LT ESG focussed investment funds was made at the end of November.

In respect of borrowings, the total at the end of the period was £226m, which reflected the repayment of a £15m 1 year fixed loan that was taken at the start of the Covid pandemic in response to potential liquidity concerns. There was no further borrowing in the period. The forecast borrowing costs are £630k below budget as a result of the delayed borrowing need. In respect of the potential LOBO refinancing mentioned in the report, the projected savings have been impacted by interest rate movements so this is currently being kept under review. The Bank of England was meeting shortly to review interest rates, the decision on whether to increase rates was finely balanced as the Bank needs to consider both the impact of the Omicron variant on the economy and the current high level of inflation.

During questions the following issue was raised:

- in respect of the £630k underspend, various capital projects were being re-phased due to Covid delay including Bath Quays North, this resulted in savings on borrowings.

**RESOLVED** that

- 1) the Treasury Management Report to 30th September 2021, prepared in accordance with the CIPFA Treasury Code of Practice, is noted; and
- 2) the Treasury Management Indicators to 30th September 2021 are noted.

**22 INTERNAL AUDIT - UPDATE REPORT**

The Head of Audit & Assurance Andy Cox presented the report. He stated that the majority of audit reviews that were carried forward at the last meeting were now completed. In the 2021-22 audit plan there were 36 to review, as of 19<sup>th</sup> November, 22 were a work in progress, 10 were finalised, 8 had an assurance rating of level 3 or above. 7 of the 36 related to Covid government funding – Adult Social Care, Supplier Relief, DWP Winter Support and the Emergency Assistance Grant. He was about to issue the draft report for which they used data analysis to review the payments made and the recovery of £240,000. Internal audit had contributed £100,000. He commented it had been well administered.

He explained that £1.7 million had been received for next debtor accommodation, relating to rough sleepers and one of two properties had been purchased. All 7 of the funding reviews would be completed by February. The grant certification provided independent assurance to the Chief Executive. In relation to anti-fraud work, 8 follow-up reviews were identified as good implementation and 2 were for further monitoring. In respect of property compliance the Chief Operating Officer would attend the next Committee to give a further update.

**RESOLVED** that

- 1) the Corporate Audit Committee notes the progress in delivery of the 2021/22 Annual Audit Assurance Plan; and
- 2) the Corporate Audit Committee requests the attendance of the Chief Operating Officer and other Officers to a meeting of the Committee in early 2022 to provide an update report on progress related to implementation of recommendations in response to the weaknesses highlighted by the 2021 Property Compliance Audit.

The meeting ended at 5.39 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>Corporate Audit Committee</b>	
MEETING DATE:	<b>3<sup>rd</sup> February 2022</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>External Audit - Update</b>	EXECUTIVE FORWARD PLAN REFERENCE:  <b>E</b>
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>  <b>Appendix 1 – Update Report</b>		

## **1 THE ISSUE**

1.1 The External Auditor will present an update on their work and next steps.

## **2 RECOMMENDATION**

2.1 The Corporate Audit Committee is asked to note the update report.

## **3 FINANCIAL IMPLICATIONS**

3.1 There are no new financial implications from this report directly.

## **4 THE REPORT**

4.1 Appendix 1 details an update on the External Auditor's work and progress towards the completion of all elements of their work for this year. The External Auditor will provide a verbal update at the meeting.

## **5 RISK MANAGEMENT**

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

## 6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

## 7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

<b>Contact person</b>	Jeff Wring (01225 47323)
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

# Bath and North East Somerset Council Audit Progress Report and Sector Update

**Year ending 31 March 2021**

24 January 2022

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

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# Introduction



Peter Barber

Engagement Lead

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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

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

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

# Progress at January 2022

## Financial Statements Audit and Value for Money

We issued our Audit Opinions on the 2020/21 financial statements for both the Council and Pension Fund on 16 December 2021.

At the time of issuing this opinion we were unable to issue the Audit Certificate which signifies the audit being closed.

We were unable to issue the certificate due to:

- Guidance from the NAO relating to Whole of Government Accounts (WGA) procedures not being issued, and
- Our work on the Council's Value for Money (VFM) arrangements not being complete.

At the time of writing this report we are still waiting for the WGA guidance to be issued.

As a result of the ongoing pandemic, and the additional time required to discharge our responsibilities, the National Audit Office guidance allows auditors to defer completion of our VFM work until 3 months after the opinion date.

For Bath and North East Somerset Council the deadline for the completion of the VFM work is therefore 16 March 2022.

At the time of writing this report our VFM work is well progressed and we are confident of meeting this deadline. Our VFM findings will be set out in our Auditors Annual Report.

Once finalised we will then be in a position to issue our certificate for 2020/21 confirming completion of our audit.

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in November. DWP has extended the deadline for reporting the findings of this work to 31 January 2022. However, as with many Council's, our work will not be complete by this deadline. In discussion with officers a request has been made to the DWP to extend the sign off period to the end of March. We will report our findings to the Corporate Audit Committee in our update report in March 2022.

Our work to date has not identified any significant issues.

### Meetings

We continue to meet with Finance and Senior Officers as part of our quarterly liaison meetings. Furthermore we continue to be in discussions with finance staff regarding emerging developments to ensure the audit process is smooth and effective. This will continue over the next few months as we turn our attentions to the 2021/22 audit.

### Events

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

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

# Audit deliverables 2020/21

2020/21 Deliverables	Relevance	Planned Date	Status
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the 2020/21 financial statements.	Council and Pension Fund	April 2021	Complete
<b>Audit Findings Report</b> The Audit Findings Report will cover the findings on our financial statements audits.	Council and Pension Fund	December 2021 (revised)	Complete
<b>Auditors Report</b> This is the opinion on your financial statements and annual governance statement.	Council and Pension Fund	December 2021 (revised)	Complete
<b>Auditor's Annual Report</b> This summarises the work undertaken as part of our Value for Money assessment.  The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given.	Council only	March 2022 (revised)	omngoing

2020/21 Audit-related Deliverables	Planned Date	Status
<b>Housing Benefit Subsidy – certification</b> This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	March 2022 (revised)	ongoing

# Financial Reporting Council annual report

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

[FRC AQR Major Local Audits October 2021](#)

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

## Our file review results

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

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

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

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

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

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

# FRC report (cont.)

## Our continued commitment to Audit quality and continuous improvement

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

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

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

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

## Conclusion

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

# Sector Update

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

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

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

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# What can be learned from Public Interest Reports?– Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

- 1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
- 2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

- 3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
- 4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1) The context of local government in a COVID-19 world
- 2) Governance, scrutiny, and culture
- 3) Local authority leadership.

The full report is available here:

<https://www.granthornton.co.uk/en/insights/lessons-from-recent-public-interest-reports/>

# Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

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The transparency report provides details of our:

- Leadership and governance structures
- Principal risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry of Housing, Communities & Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to COVID-19 in 2020-21. Overall, local authorities spent £7.2bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

**Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)**

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	0.473	1,254.880	848.656	663.404	413.842	<b>3,181.254</b>
Children's social care - total (excluding SEND)	0.000	94.933	131.127	89.799	62.987	<b>378.846</b>
Housing - total (including homelessness services) excluding HRA	63.129	5.254	74.949	42.281	112.971	<b>298.584</b>
Environmental and regulatory services - total	33.564	68.097	67.512	66.704	63.556	<b>299.433</b>
Finance & corporate services - total	48.222	53.445	83.984	76.923	78.284	<b>340.858</b>
All other service areas not listed in rows above	184.550	634.578	584.924	564.737	395.137	<b>2,363.926</b>
<b>Total</b>	<b>329.937</b>	<b>2,111.187</b>	<b>1,791.153</b>	<b>1,503.848</b>	<b>1,126.777</b>	<b>6,862.902</b>



The figures are available in full here:  
<https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>

**Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)**

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276.498	0.000	194.192	207.351	537.667	<b>1,215.708</b>
Council tax	399.037	0.000	217.633	191.219	232.727	<b>1,040.616</b>
Sales fees and charges	516.426	194.923	553.907	396.745	475.728	<b>2,137.728</b>
Commercial income	82.448	24.159	120.629	204.211	52.154	<b>483.600</b>
Other	33.494	39.947	27.163	53.664	45.166	<b>199.435</b>
<b>Total</b>	<b>1,307.903</b>	<b>259.029</b>	<b>1,113.524</b>	<b>1,053.190</b>	<b>1,343.441</b>	<b>5,077.087</b>

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

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

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

The report includes sections on:

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

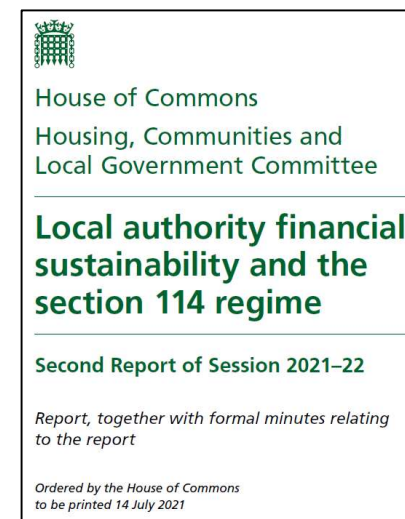
The report made 13 recommendations, and the Government response to these was published in October. The response notes “Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will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

The initial report can be found here:

<https://committees.parliament.uk/publications/6777/documents/72117/default/>

Government response can be found here:

<https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime>



# Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond's independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states "The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively."

The press release goes on to state the "measures finalise the government's response to Sir Tony Redmond's independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.



The press release can be found here:

[Government publishes update to audit review response - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response)

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

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

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

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.

- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

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

The PAC report and response can be found here:

[Timeliness of local auditor reporting on local government in England - Committees - UK Parliament](#)



House of Commons  
Committee of Public Accounts

**Local auditor reporting  
on local government in  
England**

Eleventh Report of Session 2021–22

# 2020/21 audited accounts – Public Sector Audit Appointments

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

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

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



The news article can be found here:

<https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/>

# 2023-24 audit appointments – Public Sector Audit Appointments

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

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

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

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

- establishing arrangements that are able to evolve in response to changes to the local audit framework.

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



The news article can be found here:

<https://www.psaa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/>

The procurement strategy can be found here:

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

# Councils given power to build more homes for first time buyers and for social rent – MHCLG

The Ministry of Housing, Communities & Local Government (MHCLG) has announced that councils in England will have more freedom on how they spend the money from homes sold through Right to Buy to help them build the homes needed in their communities.

The MHCLG press release states the “package will make it easier for councils to fund homes using Right to Buy receipts, including homes for social rent, and give them greater flexibility over the types of homes they provide to reflect the needs of their communities.

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It will also give councils more time to use receipts and to develop ambitious building programmes. The government wants homes supplied using Right to Buy receipts to be the best value for money, and to add to overall housing supply, to help towards delivering 300,000 new homes a year across England by the mid-2020s.”

The press release goes on to note “New measures include:

- extending the time councils have to spend Right to Buy receipts from 3 years to 5 years
- increased cap on the percentage cost of new homes councils can fund from Right to Buy receipts raised from 30% to 40% per home, making it easier to build replacement homes
- allowing receipts to be used for shared ownership, First Homes, as well as affordable and social housing, to help councils build the homes their communities need
- introducing a cap on the use of Right to Buy receipts for acquisitions to help drive new supply.”



The press release can be found here:

[Councils given power to build more homes for first time buyers and for social rent - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/press-releases/2021/05/councils-given-power-to-build-more-homes-for-first-time-buyers-and-for-social-rent)

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

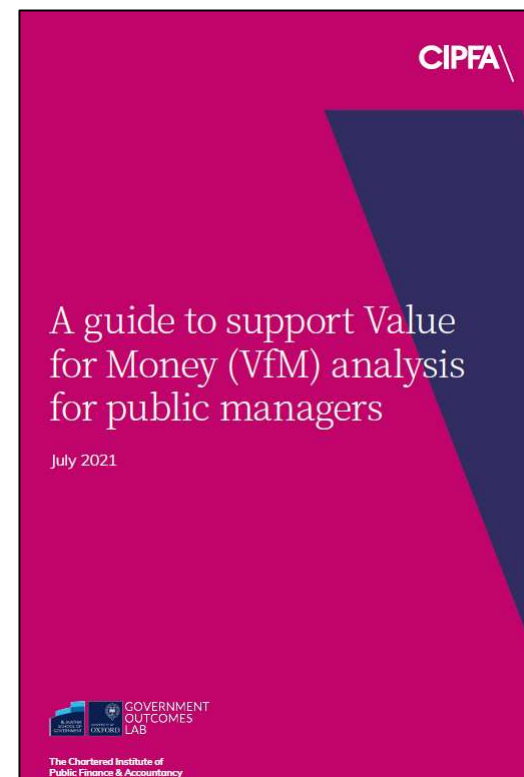
The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

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

CIPFA explain that the guide:

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

The guide is available to CIPFA members through the website.



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

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

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

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

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

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

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



The report can be found here:

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

# Local government and net zero in England – NAO

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

- clarify the role of local authorities in contributing to the UK's statutory net zero target; and
- ensure local authorities have the right resources and skills for net zero.

The NAO comment "While the exact scale and nature of local authorities' roles and responsibilities in reaching the UK's national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector's powers and responsibilities for waste, local transport and social housing, and through their influence in local communities."

Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government's approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities' overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities' ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

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

Key findings include:

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

The report can be found here:

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



# Cyber and information security: Good practice guide – NAO

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

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

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

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

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

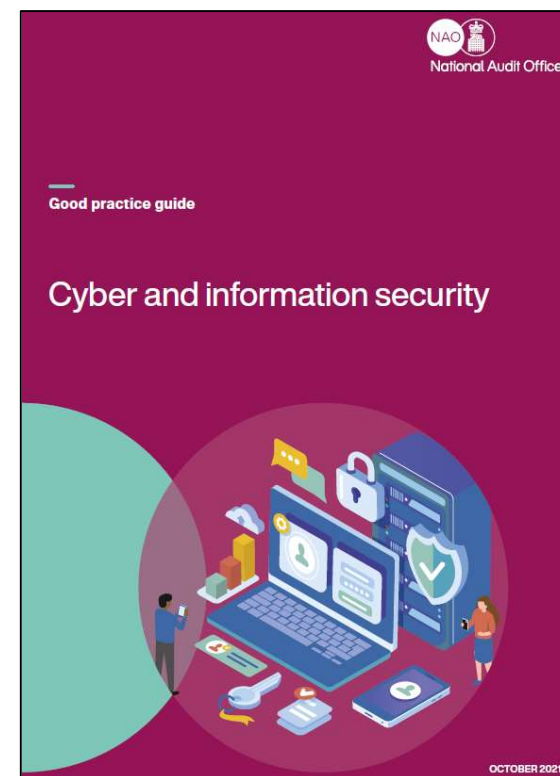
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

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

The report can be found here:

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





<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>Corporate Audit Committee</b>
MEETING DATE:	<b>3<sup>rd</sup> February 2022</b>
TITLE:	<b>Treasury Management Strategy Statement 2022/23</b>
WARD:	All
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b> <b>Appendix 1</b> - Treasury Management Strategy 2022/23 <b>Appendix 2</b> –Authorised Lending List	

## **1 THE ISSUE**

- 1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.2 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.
- 1.3 Investments held for service or commercial purposes are considered in the Capital and Investment Strategy within the Budget Report which is also included on this meeting's agenda.

## 2 RECOMMENDATIONS

The Corporate Audit Committee agrees to;

- 2.1 Recommend the actions proposed within the Treasury Management Strategy Statement (**Appendix 1**) to February Council.
- 2.2 Note the Treasury Management Indicators detailed in **Appendix 1**.

## 3 THE REPORT

### Background

- 3.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 3.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare a Treasury Management Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 3.3 The suggested strategy for 2022/23 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Arlingclose.

The strategy covers:

•	Treasury limits in force which will limit the treasury risk and activities of the Council;
•	Treasury Management Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;
•	The investment strategy.

- 3.4 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code). This requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Corporate Audit Committee have been nominated by Council to carry out this function.

## 2022/23 Treasury Management Strategy Statement

- 3.5 The Strategy Statement for 2021/22 set Treasury Indicators for 2021/22 – 2023/24, which included a forecast for total borrowing requirement at the end of 2021/22 of £438 million. At the end of December 2021, actual external borrowing was at £220.8 million, with no further borrowing anticipated this financial year due to the temporary high level of cash balances. The level of borrowing is in line with the policy of utilising internal cash to reduce net borrowing costs and investment counterparty risk.
- 3.6 The proposed Treasury Management Strategy is attached as **Appendix 1** and includes the Treasury Management Indicators required by the Treasury Management Code.
- 3.7 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.
- 3.8 The Budget Report, which is also on the agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.
- 3.9 **Appendix 1** also details the Council's current portfolio position as at 31<sup>st</sup> December 2021, which shows after the netting off of the £82.9 million investments, the Council's net debt position was £137.9 million.
- 3.10 The Treasury Investment Strategy section of **Appendix 1** sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy, officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in previous years, which has protected the Council against losses of investment, for example in Icelandic banks.
- 3.11 The Counterparty listing in **Appendix 2** includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in **Appendix 1** as at 31<sup>st</sup> December 2021 are included in the listing in **Appendix 2**.
- 3.12 The Council has met the conditions to opt up to MiFID II professional status and intends for this to continue in 2022/23 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

## 4 STATUTORY CONSIDERATIONS

- 4.1 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

## 5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 The resource implications are included in the report and appendices.

## 6 RISK MANAGEMENT

- 6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.
- 6.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.
- 6.3 The 2017 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.
- 6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

## 7 CLIMATE CHANGE

- 7.1 The 2022/23 Treasury Management Strategy includes options for ESG (Environmental, Social and Corporate Governance) focussed investments.

## 8 OTHER OPTIONS CONSIDERED

- 8.1 The Chief Financial Officer, having consulted the Cabinet Member for Economic Development & Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are the table below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times.	Interest income will be lower.	Lower chance of losses from credit related defaults, but any such losses may be greater.
Invest in a wider range of counterparties and/or for longer times.	Interest income will be higher.	Increased risk of losses from credit related defaults, but any such losses may be smaller.
Borrow additional sums at long-term fixed interest rates.	Debt interest costs will rise; this is unlikely to be offset by higher investment income.	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain.
Borrow short-term or variable loans instead of long-term fixed rates.	Debt interest costs will initially be lower.	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain.
Reduce level of borrowing.	Saving on debt interest is likely to exceed lost investment income.	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain.

## 9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Economic Development & Resources, Chief Finance Officer and Monitoring Officer.

<b>Contact person</b>	<i>Gary Adams - 01225 477107; Jamie Whittard - 01225 477213</i> <a href="mailto:Gary_Adams@bathnes.gov.uk">Gary_Adams@bathnes.gov.uk</a> ; <a href="mailto:Jamie_Whittard@bathnes.gov.uk">Jamie_Whittard@bathnes.gov.uk</a>
<b>Background papers</b>	<i>2021/22 Treasury Management &amp; Investment Strategy</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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## Appendix 1

### Treasury Management Strategy Statement 2022/23

#### 1. Introduction

##### 1.1 Treasury management overview

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service or commercial purposes are considered in the Capital & Investment Strategy document which is included as an appendix to the Council's 2022/23 Budget Report.

##### 1.2 External Context

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

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the

unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

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

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

**1.22 Credit outlook:** Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

**1.23** Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that short term treasury investments will be made at an average rate of 0.25% and long term strategic investments will yield an average rate of 3.5%. It is forecast that new long-term loans will be borrowed at an average rate of 2.5% during 2022/23.

### 1.3 Local Context

**1.31 Council position as at 31<sup>st</sup> December 2021:** The Authority held £220.8m of borrowing and £82.9m of treasury investments. This is set out in further detail in Table 1 below.

*Table 1: Balance sheet summary*

	31/12/2022 <b>Actual portfolio</b> £m	31/12/2022 <b>Average rate</b> %
<b>External borrowing:</b>		
Public Works Loan Board	196	3.00%
Local authorities	5	1.65%
LOBO loans from banks	20	4.50%
Other loans		
<b>Total external borrowing</b>	<b>220.8</b>	<b>3.11%</b>
<b>Treasury investments:</b>		
The UK Government	10	0.07%
Local authorities	5	0.30%
Banks (unsecured)	23.5	0.03%
Building societies (unsecured)		
Money market funds	36.9	0.04%
Strategic pooled funds	7.5	3.50%
Other investments		
<b>Total treasury investments</b>	<b>82.9</b>	<b>0.36%</b>
<b>Net debt</b>	<b>137.9</b>	

### 1.32 Capital Financing Requirement:

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council's Capital Financing Requirement (CFR, or underlying need to borrow) as at 31st March 2022 is expected to be £348.8m, and is forecast to rise to £464.2m by March 2023 as capital expenditure is incurred.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

## **2. Borrowing Strategy**

### **2.1 Current borrowing**

The Authority currently holds £220.8 million of loans, a decrease of £23.6 million on the previous year due to maturing of short term loans which did not need refinancing due to high cash balances.

### **2.2 Objectives**

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

### **2.3 Strategy**

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose may assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

## **2.4 Sources of borrowing**

The Approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Avon Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

**Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

**2.41 Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject to specific approval in accordance with the Council's appropriate delegation.

**2.42 LOBOs:** The Authority holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £20m of these LOBOs have options during 2022/23, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

**2.43 Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate

exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

**2.44 Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

### **3. Treasury Investment Strategy**

#### **3.1 Current investments**

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £61.6m and £106.2m, however it is expected that levels will be lower in 2022/23. Invested funds held have been particularly high during 2021/22 due to holding some of the residual Covid Business Support government grants as well as some slippage in the capital programme.

#### **3.2 Objectives**

The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**3.3 Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

#### **3.4 Strategy**

Given the current risks in the financial system the Council will continue to invest the majority of any surplus funds into highly rated money market funds, other Local Authorities or banks on short notice periods in line with advice from Arlingclose. The Council will continue to hold the £5m long term strategic investment balance in the CCLA

LA Property fund as well as the £5m invested into 2 ESG funds as planned for 2021/22; FP Foresight UK Infrastructure Income fund (£3m) & VT Gravis Clean Energy Income Fund (£2m), further details of this are provided in section 3.9.

The Council has opted up to Professional status for MiFID II purposes which allows it to place its treasury assets in a greater range of financial products which has been of significant importance over the last few years. To be categorised as Professional the Council must hold at least a £10m investment balance, the council's two pooled investments mentioned above which are medium – long term investments guarantee that this balance will always be held. By placing this required £10m balance in these two pooled funds the Council aims to achieve a total return that is equal or higher than the prevailing rate of inflation thus preserving the spending power of this £10m balance.

The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the 2022/23 authorised borrowing limit of £464m. The maximum period between borrowing and expenditure is expected to be two years, although the Council links loans with its budgeted programme, individual items within that programme are not linked to the loans at a granular level.

Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

As noted under section 3.9 below the Council has also now developed an initial approach to Environment, Social and Governance (ESG) investment to align with the Council's wider strategy related to the climate emergency which has been declared.

### **3.5 Approved counterparties**

The Authority may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the limits shown.

*Table 3: Treasury investment counterparties and limits*

<b>Sector</b>	<b>Minimum credit rating*</b>	<b>Time limit</b>	<b>Counterparty limit</b>	<b>Sector limit</b>
The UK Government	NA	50 years	Unlimited	Unlimited
Local authorities & other government entities	NA	25 years	£10m	Unlimited
Secured investments	A-	25 years	£10m	Unlimited
Banks (unsecured)	A-	13 months	£10m	Unlimited
Building societies (unsecured)	A-	13 months	£10m	£15m
Registered providers (unsecured)	A-	5 years	£5m	£5m
Money market funds	A-	n/a	£10m	£60m
Strategic pooled funds	NA	n/a	£5m	£10m
Foreign countries per country	AA+	13 months	£10m	£10m
ESG focussed short term deposits	A-	13 months	£5m	£5m
Other investments	A-	5 years	£5m	£5m

This table must be read in conjunction with the notes below

**\* Minimum credit rating:** Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

**3.50 Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**3.51 Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured

has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

**3.52 Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**3.53 Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**3.54 Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**3.55 Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly. Note that this classification covers the Council's 2 ESG strategic fund investments.

**3.56 Foreign countries:** This category covers investment with both the governments of foreign countries and banks based in foreign countries. Where a bank is domiciled in a foreign country, the bank must meet the minimum credit criteria set out in Table 3 of A-for 'Banks (unsecured)' and be domiciled in a country which meets the minimum credit rating criteria set of AA+.

**3.57 ESG focussed short term deposits:** Some banks and credit institutions now offer deposit accounts where the funds raised by the banks in these accounts are ring fenced to only be lent on for activities with an ESG focus. Such deposit accounts afford the same protections as other deposits with the bank hence allowing the Council to support the ESG agenda whilst acting within the strict requirements for security and liquidity. As detailed in section 3.9 below, where such accounts exist the Council will act with

discretion, allowing for some flexibility around duration of the deposit. Any investment will be subject to agreement of the S151 Officer.

**Note:** Any funds placed with an institution under this category will also count towards the overall limit for that individual counterparty under whichever sector limit it falls. For example, if £5m is placed with a bank on an ESG deposit, that £5m will also count towards the overall £10m limit for that bank.

**3.58 Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk. Any investment under this category will only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

**Note:** Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**3.59 Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

## **3.6 Risk assessment and credit ratings**

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**3.61 Other information on the security of investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

### **3.7 Investment limits**

The Authority's revenue reserves (including earmarked reserves) available to cover investment losses was £71 million as at 31st March 2021. To limit risk from any a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million which represents 14.1% of reserves. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

### **3.8 Liquidity management**

The Authority uses forward looking forecasting based on prior year cashflows combined with knowledge of upcoming income/spending to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

### **3.9 Environment Social and Governance investment approach**

**3.9.1 The Climate Emergency:** In 2019 Bath and North East Somerset Council declared a Climate emergency reflecting the concern that the Council has over climate change, and the commitment of the Council to address the issue with regards to evaluating the climate change impact of all our decisions. Actions available to be taken by the treasury management function are limited in scope due to the principles of Security, Liquidity and Yield, as set out in the CIPFA Treasury Management Code and MHCLG Investment Guidance, which remain at the heart of local authority treasury decisions and risk management.

**3.9.2 Background:** In light of the restrictions around what the Council is able to commit to in relation to its treasury investments the Council adopted an ESG investment approach as part of its 2021/22 Treasury Management Strategy.

### **3.9.3 Long term ESG investments:**

The potential for making future ESG focussed investments was included in the 2021/22 Treasury Management Strategy for the first time and was approved by Council in February 2021. Following a review carried out by Arlingclose of possible ESG (Environmental, Social and Corporate Governance) funds, and their presentation of findings and recommendations to Officers and Members in August 2021, the Chief Finance Officer agreed the investment of £5m split across the following two ESG focussed funds;

- £3m into FP Foresight UK Infrastructure fund; &
- £2m into VT Gravis Clean energy income fund;

On 30th November 2021, the Council made the first of its purchases of shares into the 2 funds with £1.5m placed with FP Foresight and £1m placed with VT Gravis. A further purchase of the same amount is planned for late February / early March 2022, which will be 3 months from the initial investment.

### **3.9.4 Short term ESG investments:**

The Council will consider options for investment of up to a total of £5 million of short-term funds with institutions who ring fence the use of such funds for ESG related matters. The criteria for credit rating of security of such deposits will need to remain in line with the wider Council policy, however where appropriate and at the Council's discretion, some flexibility will be provided to allow for slightly longer durations of investment and potentially lower returns in order to support the ESG focus. Any investment will be subject to agreement of the S151 Officer taking these factors into consideration.

Direct involvement and financing of Green energy projects is treated as capital expenditure, and as such is not covered within the remit of treasury management.

### **3.10 Other matters**

**Avon Pension Fund Investments:** The Council's Treasury Management team also manage the Avon Pension Fund's internally held cash on behalf of the Fund. The cash balance held internally is a working balance to cover pension payments at any point in time and it is estimated will be an average of £25 million, being around 0.5% of the overall assets of the Fund. The regulations require that this cash is accounted for separately and invested separately from the Council's cash.

Investments held will operate within the framework of this Investment Strategy, but the maximum counterparty limit and investment term with any counterparty are set annually by the Avon Pension Fund Committee. These limits are in addition to the Council's limits for counterparties as set out in Appendix 3.

The Fund's investment managers, are responsible for the investment of cash held within their portfolios and this policy does not relate to their cash investments. The Brunel Pension Partnership does not have any direct impact on the Council's treasury management activities.

#### **4. Treasury Management Prudential Indicators**

The Authority measures and manages its exposures to treasury management risks using the following indicators.

##### **4.1 Treasury Borrowing Limits for 2022/23 to 2024/25**

It is a statutory duty under s.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'.

The Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit. The Code requires an authority to ensure that its total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council tax levels is 'acceptable'.

The Affordable Borrowing Limit must include all planned capital investment to be financed by external borrowing and any other forms of liability, such as credit arrangements. The Affordable Borrowing Limit is to be set on a rolling basis for the forthcoming year and two successive financial years.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

*Table 4: Operational and authorised borrowing limits*

	2022/23	2023/24	2024/25
Operational boundary – borrowing	£435m	£455m	£478m
Operational boundary – other long-term liabilities	£4m	£4m	£4m
<b>Operational boundary – TOTAL</b>	<b>£439m</b>	<b>£459m</b>	<b>£482m</b>
Authorised limit – borrowing	£464m	£483m	£506m
Authorised limit – other long-term liabilities	£4m	£4m	£4m
<b>Authorised limit – TOTAL</b>	<b>£468m</b>	<b>£487m</b>	<b>£510m</b>

## 4.2 Security

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

*Table 5: Portfolio average credit rating criteria*

Credit risk indicator	Target
Portfolio average credit rating	A-

## 4.3 Liquidity

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

*Table 6: Minimum 3 month liquidity limit*

Liquidity risk indicator	Target
Total cash available within 3 months	£15m

## 4.4 Interest rate exposures

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m

Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m
---	---------

The impact of this limit is that the council should never be holding a maturity adjusted net debt/investment position of more than £100m subject to variable interest rates.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates, this includes amounts which are maturing each year in PWLB annuity loans.

#### 4.5 Maturity structure of borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

*Table 8: Borrowing maturity limits*

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and within 25 years	100%	25%
Over 25 years	100%	

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. For LOBO's this will now be shown as the date of their maturity.

#### 4.6 Long-term treasury management investments

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

*Table 9: Investment maturity limits*

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£50m	£20m	£10m

### **5. Related Matters**

The CIPFA Code requires the Authority to include some of the following in its treasury management strategy.

## 5.1 Treasury management advisers

The Council's has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is monitored by officers on a regular basis, focusing on supply of relevant, accurate and timely information across the headings above.

## 5.2 Financial derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

### **5.3 External Funds**

Where schools have not opted to have their own bank account, the Council manages their investment balances as part of their own. The Council treats the schools' balances in its accounts as part of the Council's investment portfolio but assigns a return at a rate of base rate less 0.25% (capped to a minimum of zero where base rate drops below 0.25%) to schools for their respective balances.

### **5.4 Markets in Financial Instruments Directive**

The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

### **5.5 Staff training**

The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff performance development review process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

### **5.6 Financial Implications**

The budget for treasury management investment income in 2022/23 is £0.4 million, based on an average investment portfolio of £28 million at an interest rate of 1.5%. The budget for debt interest paid in 2022/23 is £7.9 million, based on an average debt portfolio of £267 million at an average interest rate of 3%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Where investment income from strategic pooled funds exceeds budget, then 50% of the revenue savings will be transferred to the Capital Financing Reserve to mitigate the risk of capital losses in future years should valuation losses on fair value treasury assets require recognition, or where capital losses were crystallised on the sale of treasury assets.

## 5.7 Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Economic Development & Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

*Table 10: Alternative treasury strategy options considered*

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## **Appendix A - Arlingclose Economic & Interest Rate Forecast - December 2021**

### **Underlying assumptions:**

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth - Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geopolitical and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

### **Forecast:**

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market rate													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

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## Appendix 2: Proposed Counterparty list - Unsecured Bank Investments (ratings as at 31/12/2021)

Counterparty	Country of Domicile	FITCH RATINGS					MOODY'S RATINGS				STANDARD & POOR'S RATINGS			Banking Group	Accepts Deposits	Notes	AUTHORITY SPECIFIC LIMITS						
		Short-term	Long-term	Viability	Support	Outlook	Short-term	Long-term	Assess	Outlook	Short-term	Long-term	Outlook				Individual Cash Limit (£/%)	Group Cash Limit (£/%)	Max Investment period				
UNITED KINGDOM: BANKS																							
BANK OF SCOTLAND PLC	GB	F1	A+	a	5	STABLE	P-1	A1	a3	STABLE	A-1	A+	STABLE	Lloyds Banking Group	Yes	Ringfenced bank	10	10	13 months				
LLOYDS BANK PLC	GB	F1	A+	a	5	STABLE	P-1	A1	a3	STABLE	A-1	A+	STABLE		Yes	Ringfenced bank	10		13 months				
BARCLAYS BANK PLC	GB	F1	A+	a	5	STABLE	P-1	A1	baa3	STABLE	A-1	A	POS	Barclays Group	Yes	Non-ringfenced bank	10	10	13 months				
BARCLAYS BANK UK PLC	GB	F1	A+	a	1	STABLE	P-1	A1	a3	STABLE	A-1	A	POS		Yes	Ringfenced bank	10		13 months				
HANDELSBANKEN PLC	GB	F1+	AA		1	STABLE					A-1+	AA-	STABLE	Svenska HB	Yes		10	10	13 months				
HSBC BANK PLC	GB	F1+	AA-	a	1	NEG	P-1	A1	ba1	STABLE	A-1	A+	STABLE		Yes	Non-ringfenced bank	10		13 months				
HSBC UK BANK PLC	GB	F1+	AA-	a	1	NEG	P-1	A1	a3	STABLE	A-1	A+	STABLE	HSBC Group	Yes	Ringfenced bank	10	10	13 months				
NATIONAL WESTMINSTER BANK	GB	F1	A+	a	5	STABLE	P-1	A1	a3	STABLE	A-1	A	STABLE		Yes	Ringfenced bank	10		13 months				
NATWEST MARKETS PLC	GB	F1	A+		1	STABLE	P-1	A2	ba1	POS	A-2	A-	STABLE	NatWest Group	Yes	Non-ringfenced bank	10	10	13 months				
ROYAL BANK OF SCOTLAND PLC/T	GB	F1	A+	a	5	STABLE	(P)P-1	A1	a3	STABLE	A-1	A	STABLE		Yes	Ringfenced bank	10		13 months				
SANTANDER UK PLC	GB	F1	A+	a	2	STABLE	P-1	A1	baa1	STABLE	A-1	A	STABLE	Santander	Yes	Ringfenced bank	10	10	13 months				
STANDARD CHARTERED BANK	GB	F1	A+	a	1	NEG	P-1	A1	baa2	STABLE	A-1	A+	STABLE		Yes		10		10	13 months			
UK: BUILDING SOCIETIES																							
NATIONWIDE BUILDING SOCIETY	GB	F1	A+	a	5	STABLE	P-1	A1	baa1	STABLE	A-1	A+	STABLE		Yes		10	10	13 months				
UK: OTHER INSTITUTIONS																							
UK GOVERNMENT	GB	F1+	AA-			STABLE		Aa3		STABLE	A-1+u	AAu	STABLE		Yes		Unlimited		50 years				
LOCAL AUTHORITIES	GB	F1+	AA-			STABLE		Aa3		STABLE	A-1+u	AAu	STABLE		Yes		10	Unlimited	25 years				
LCR FINANCE PLC	GB		AA-			STABLE		Aa3		STABLE		AA					10		25 years				
NETWORK RAIL INFRASTRUCTURE	GB		AA-			STABLE	P-1	Aa3		STABLE							10		25 years				
WELLCOME TRUST FINANCE PLC	GB							Aaa		STABLE		AAA	STABLE				10		25 years				
AUSTRALIA																							
AUST AND NZ BANKING GROUP	AU	F1	A+	a+	1	STABLE	P-1	Aa3	a2	STABLE	A-1+u	AAu	STABLE		Yes		10	10	13 months				
COMMONWEALTH BANK OF AUSTRAL	AU	F1	A+	a+	1	STABLE	P-1	Aa3	a2	STABLE	A-1+	AA-	STABLE		Yes		10		13 months				
NATIONAL AUSTRALIA BANK LTD	AU	F1	A+	a+	1	STABLE	P-1	Aa3	a2	STABLE	A-1+	AA-	STABLE		Yes		10		13 months				
WESTPAC BANKING CORP	AU	F1	A+	a+	1	STABLE	P-1	Aa3	a2	STABLE	A-1+	AA-	STABLE		Yes		10		13 months				
CANADA																							
BANK OF MONTREAL	CA	F1+	AA+			STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE					10	13 months				
BANK OF NOVA SCOTIA	CA	F1+	AA	aa-	5	NEG	P-1	Aa2	a3	STABLE	A-1	A+	STABLE		Yes		10		13 months				
CAN IMPERIAL BK OF COMMERCE	CA	F1+	AA	aa-	5	STABLE	P-1	Aa2	a3	STABLE	A-1	A+	STABLE		Yes		10		13 months				
NATIONAL BANK OF CANADA	CA	F1+	AA-	a+	5	STABLE	P-1	Aa3	baa1	STABLE	A-1	A	STABLE		Yes		10		13 months				
ROYAL BANK OF CANADA	CA	F1+	AA	aa-	5	STABLE	P-1	Aa2 +	a3 +		A-1+	AA-	STABLE		Yes		10	13 months					
TORONTO-DOMINION BANK	CA	F1+	AA	aa-	5	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE		Yes		10	13 months					
FINLAND																							
NORDEA BANK ABP	FI	F1+	AA	aa-	5	STABLE	P-1	Aa3	a3	STABLE	A-1+	AA-	STABLE		Yes		10	10	13 months				
OP CORPORATE BANK PLC	FI						P-1	Aa3	baa2	STABLE	A-1+	AA-	STABLE		Yes		10		13 months				
GERMANY																							
BAYERISCHE LANDESBANK	GE	F1	A	bbb	1	STABLE	P-1	Aa3	baa2	STABLE	NR	NR			Yes		10	10	13 months				
DZ BANK AG DEUTSCHE ZENTRAL-	GE	F1+	AA-			STABLE	P-1	Aa2	baa2	STABLE	A-1	A+	STABLE		Yes		10		13 months				
KREDITANSTALT FUER WIEDERAUFBAU (KfW)	GE	F1+	AAA		1	STABLE	P-1			STABLE	A-1+	AAA	STABLE			"KfW"	10		13 months				
LANDESBANK BADEN-WUERTTEMBER	GE	F1	A	bbb	1	STABLE	P-1	Aa3	baa2	STABLE	NR	NR				"KfW"	10		13 months				
LANDESBANK HESSEN-THURINGEN	GE	F1+	A+			STABLE	P-1	Aa3	baa2	STABLE	A-2	A-	STABLE		Yes	"LBBW"	10	13 months					
NETHERLANDS																							
COOPERATIEVE RABOBANK UA	NE	F1+	AAA			STABLE	P-1u	Aaa		STABLE	A-1+u	AAAu	STABLE					10	13 months				
SINGAPORE	SI	F1+	AAA			STABLE		Aaa		STABLE	A-1+u	AAAu	STABLE						10	13 months			
DBS BANK LTD	SI	F1+	AA-	aa-	1	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE		Yes		10		13 months				
OVERSEA-CHINESE BANKING CORP	SI	F1+	AA-	aa-	1	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE		Yes		10		13 months				
UNITED OVERSEAS BANK LTD	SI	F1+	AA-	aa-	1	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE		Yes		10	13 months					
UNITED STATES OF AMERICA																							
SUPRANATIONAL																							
COUNCIL OF EUROPE DEVELOPMENT BANK (CEDB)	FR	F1+	AA+			POS	P-1	Aa1		STABLE	A-1+	AAA	STABLE				10		25 years				
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)	GB	F1+	AAA			STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE				10		25 years				
EUROPEAN INVESTMENT BANK (EIB)	LX	F1+	AAA			STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE				10		25 years				
INTER-AMERICAN DEVELOPMENT BANK (IADB)	US	F1+	AAA			STABLE	(P)P-1	Aaa		STABLE	A-1+	AAA	STABLE				10		25 years				
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (THE WORLD BANK)	US	F1+	AAA			STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE	World Bank Group		"World Bank"	10		25 years				
NORDIC INVESTMENT BANK (NIB)	FI						P-1	Aaa		STABLE	A-1+	AAA	STABLE					10		25 years			

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	3 <sup>rd</sup> February 2022	AGENDA ITEM NUMBER
TITLE:	Internal Audit Plan 2022/2023 - Consultation	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: None		

## 1 THE ISSUE

- 1.1 This report updates the Audit Committee on the methodology used to create the Internal Audit Plan and asks for comments on areas or themes they would like to be considered within the plan for 2022/23.

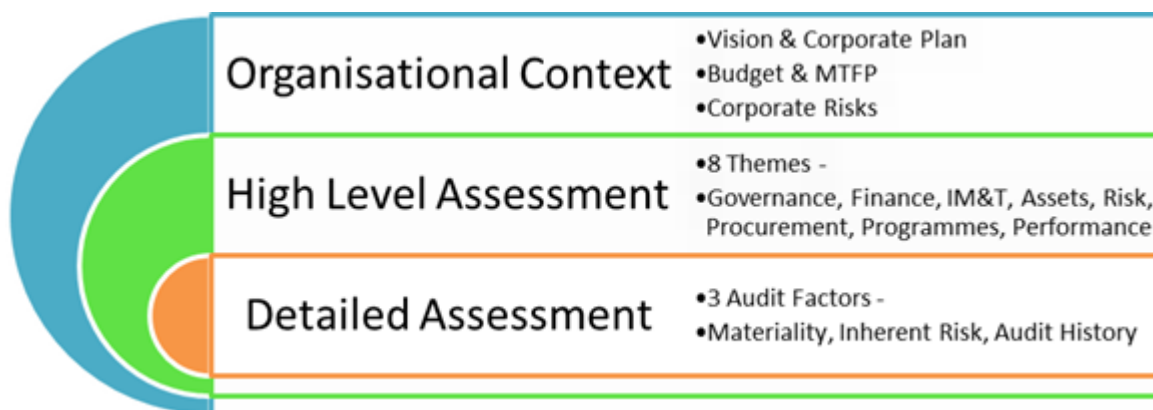
## 2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to comment on any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2022/23.
- 2.2 The Corporate Audit Committee is asked to note the intention to keep the plan under review, including a formal re-assessment of the Plan at the half year point. Any changes will be reported to Committee.

## 3 THE REPORT

### 3.1 Background - Reasonable Assurance Model

- 3.1.1 The planning process is based on the fundamental requirement that the Audit Plan proposed will deliver sufficient work to enable the Chief Internal Auditor to independently assess the internal control framework of the Council and provide a 'reasonable assurance' opinion at the end of each year. The model we use – the Reasonable Assurance Model - has previously been reported to the Committee.
- 3.1.2 It was created and adopted in conjunction with a number of other councils in the South West and the Model approach won a Public Finance award in 2017.
- 3.1.3 The model is outlined in the following diagram with the key element being the high-level assessment of 8 'good governance' themes.
- 3.1.4 We are continuing to review the themes and the enquiries to be made in relation to these themes, for example the need to consider 'climate change' within each of the themes.



### **3.2 A Flexible Internal Audit Plan and reporting to Committee on performance and changes to the approved Plan**

3.2.1 During the financial year 2020/21, members will recall that changes to planned work were required to redirect audit resources to unforeseen issues arising from the then emerging COVID-19 pandemic. It was agreed by Committee that a flexible Internal Audit Plan was necessary to respond as appropriate to risks and issues.

3.2.2. It is the intention of the Internal Audit Service to continue to present and agree an Internal Audit Plan at the beginning of each financial year using the reasonable assurance model. However, we will continually assess the best use of Internal Audit resources and activity and if considered necessary we will carry out 'unplanned' work and report back to the Audit Committee on any changes to the approved Internal Audit Plan. The Head of Audit and Assurance will report back to the Committee to provide updates on performance and any changes to the Audit Plan.

### **3.3 Consultation & Input – Audit Committee**

3.3.1 The Audit Committee is a key stakeholder and have responsibility for approving the Internal Audit Plan. The purpose of this report is to obtain Committee Member views and feedback on areas which should be considered during the planning process for potential inclusion in the Internal Audit Plan to be submitted to this Committee at its next meeting (before the end of April 2022).

3.3.2 In addition to Covid-19 factors around Financial Resilience, local economic impacts and ongoing financial assurance around the use of Covid-19 grants the Chartered Institute of Internal Auditors has drawn up ten key areas for 2022 which organisations should take account of in preparing their audit plans. These are detailed below as a point of reference to help the committee in understanding where they feel audit coverage may be beneficial.

- IT security: response and recovery
- Rising sustainability regulations
- Accelerated digitisation and low-code adoption
- Workforce fatigue and cultural erosion
- Pandemic response: organisational and strategic resilience
- Financial risk and the looming insolvency wave
- Rising inflation and the global tax clampdown
- Risk of Climate change and sustainability
- Supply chain strains and the race to flexibility
- Health and safety amid the continued COVID-19 threat

3.3.3 It should be noted that in addition to compiling a list of 'planned audit reviews', Internal Audit will continue to:

- Provide support to the corporate governance framework within the Council including completing the Annual Governance review work required to publish the Council's Annual Governance Statement;
- Provide support to assess the Council's risk management framework;
- Carry out the Co-ordination and Investigation roles to complete the work required through the Cabinet Office Data Matching 'National Fraud Initiative';
- Provide advice on systems of internal control including Council policies and procedures. This is particularly important when systems and processes are being developed or changed;
- Provide support to Services on carrying out investigations in relation to financial irregularities. This may require Audit staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures.

## **4 STATUTORY CONSIDERATIONS**

4.1 There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIFPA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

## 5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 There are no direct resource implications relevant to this report.

## 6 RISK MANAGEMENT

6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance. Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees, undetected fraud and inadequate coverage of risks arising from COVID-19. Internal Audit assists the council in identifying risks, improvement areas and recommending good practice.

6.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

## 7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## 8 CLIMATE CHANGE

8.1 There are no direct climate change implications related to this report.

## 9 OTHER OPTIONS CONSIDERED

9.1 No other options to consider related to this report.

## 10 CONSULTATION

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and has cleared it for publication.

<b>Contact person</b>	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>29<sup>th</sup> April 2021 Internal Audit Plan 2021/22</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	3 <sup>rd</sup> February 2022	AGENDA ITEM NUMBER
TITLE:	Annual Governance Statement 2021/2022	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 - High Level Methodology for Preparing the Annual Governance Statement		

## **1 THE ISSUE**

- 1.1 The aim of the report is to inform the Committee on the Annual Governance Review process and enable the Committee to fulfil its responsibilities associated with the publication of the Council's Annual Governance Statement 2021/22.

## **2 RECOMMENDATION**

- 2.1 The Corporate Audit Committee notes the report on the process to produce the Annual Governance Statement 2021/22.

## **3 THE REPORT**

### **3.1 Background -**

- 3.1.1 The Annual Governance Statement is based on the Council's 'Local Code of Corporate Governance' which forms part of the Council's Constitution. As the publication of an Annual Governance Statement is statutory requirement it's important that the Council takes account of any guidance provided by the Chartered Institute Public Finance Accountants (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The CIPFA / SOLACE guidance is also used by the External Auditor in their audit of the accounts

- 3.1.2 The Delivering Good Governance in Local Government Framework, published by CIPFA in association with SOLACE, sets the standard for local authority governance in the UK. The concept underpinning the framework is to support local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way.

- 3.1.3 The purpose of the Framework is to assist authorities individually in reviewing and accounting for their own unique approach, with the overall aim to ensure that:

- Resources are directed in accordance with agreed policy and according to priorities.
- There is sound and inclusive decision making.
- There is clear accountability for the use of those resources to achieve desired outcomes for service users and communities.

3.1.4 Governance is a term used to describe the arrangements (including political, economic, social, environmental, administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

3.1.5 Good governance enables the Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times.

3.1.6 This Council's Local Code (adopted 10<sup>th</sup> May 2018) and forms part of the Council Constitution (Part 6) is based on the following key principles of good governance:

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

3.1.7 The Local Code within the Council's Constitution ([link](#)) provides further detail for each of the key principles to describe expectations and is used as part of the Annual Governance Review.

3.1.8 The 2020/21 Annual Governance Statement was presented to the last meeting of this Committee (15<sup>th</sup> December 2021) as part of the Governance Report of the Council and Audited Statement of Accounts 2020/21.

## **3.2 Process for compiling the 2021/22 Annual Governance Statement**

3.2.1 The adopted process to compile and obtain sign-off of the Annual Governance Statement has been in operation for a number of years and an overview of the process is recorded in Appendix 1.

3.2.2. The impacts of the ongoing Coronavirus Pandemic (COVID-19) including – Public Health, Local Economy, Financial / Organisational Resilience, Safeguarding & Democracy was the single significant issue recorded in the 2020/21 Statement. This issue was judged to be 'significant' based on the guidance. The Statement should record any matters which could be considered a:

- Significant failure in decision making at Council or Executive
- Significant unexpected use of Resources
- Significant performance failing or failures in service delivery
- Significant issues from inspections, audits, complaints etc
- Significant issues failures in respect of statutory duties
- Significant issues from operational issues and third parties

### **3.3 Consultation & Input – Audit Committee**

3.3.1 At the next meeting of the Committee in April a report will be presented to provide an update position in relation to findings of the review to that date and provide an opportunity for the Committee members to provide further input.

## **4 STATUTORY CONSIDERATIONS**

4.1 The Accounts & Audit Regulations set out the expectations of provision of an Annual Governance Statement. This is supported by CIPFA/SOLACE standards and the Council's Local Code of Corporate Governance. Implications of not providing this statement would include potential qualification of the Accounts, increase in External Audit fees, potential significant reputational risks and ultimately additional costs to rectify.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

5.1 There are no direct resource implications relevant to this report.

## **6 RISK MANAGEMENT**

6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance. Failure to compile an Annual Governance Statement would result in non-compliance with statutory legislation and leave the Council open to criticism by External Audit and external stakeholders.

## 7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## 8 CLIMATE CHANGE

8.1 There are no direct climate change implications related to this report.

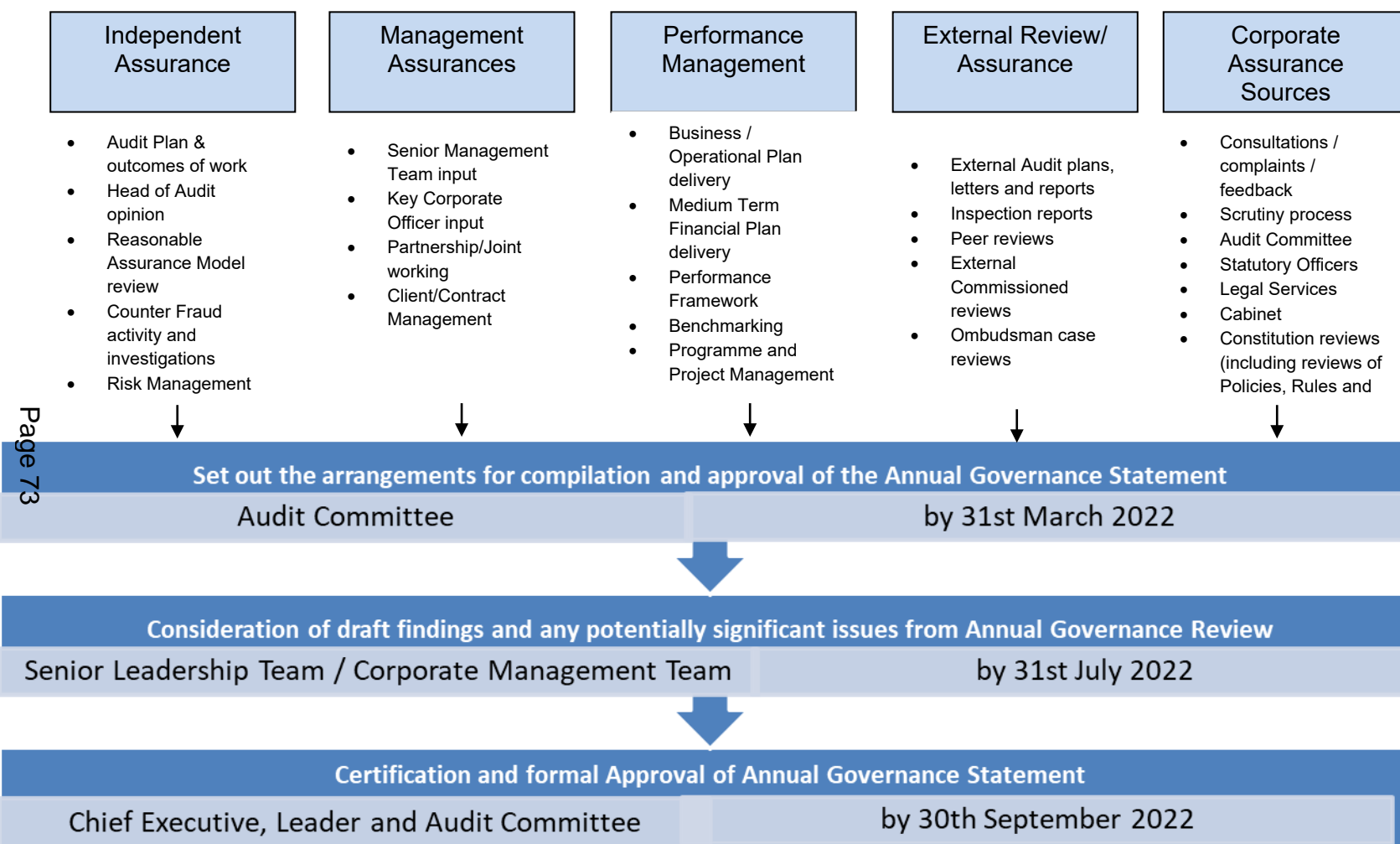
## 9 OTHER OPTIONS CONSIDERED

9.1 No other options to consider related to this report.

## 10 CONSULTATION

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and has cleared it for publication.

<b>Contact person</b>	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
<b>Background papers</b>	<i>15<sup>th</sup> December 2021 Corporate Audit Committee – Governance Reports of the Council and Avon Pension Fund and Audited Statements of Accounts 2020/21</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	



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