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Tuesday, 26 January 2021

Dear Sir/Madam

AUDIT AND MEMBER STANDARDS COMMITTEE

A meeting of the Audit and Member Standards Committee has been arranged to take place on **WEDNESDAY, 3RD FEBRUARY, 2021 at 6.00 PM** to consider the following business.

In light of the current Covid-19 pandemic and government advice on social distancing, the meeting will be held online and streamed live on the Council's YouTube channel

Yours faithfully

Christie Tims
Head of Governance and Performance

To: Members of Audit and Member Standards Committee

Councillors Greatorex (Chairman), Ho (Vice-Chair), Checkland, Grange, A Little, Norman, Robertson, Spruce and White

AGENDA

AUDIT AND MEMBER STANDARDS COMMITTEE

12 NOVEMBER 2020

PRESENT:

Councillors Greatorex (Chairman), Ho (Vice-Chair), Checkland, Grange, A Little, Robertson, Spruce and White

Observer: Councillor Strachan, Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

Officers in Attendance: Miss W Johnson, Ms Rebecca Neill and Mr Anthony Thomas

14 APOLOGIES FOR ABSENCE

There were no apologies for absence received.

15 DECLARATIONS OF INTEREST

Councillor Grange declared a personal interest in any discussion relating to the capital spend at Friary Grange Leisure Centre as she was a Friend of the Friary Grange Leisure Centre.

Councillor Grange also declared a personal interest in respect of agenda item no. 9 GDPR/Data Protection Policy as she was working with a technical company in the GDPR area.

16 MINUTES OF THE PREVIOUS MEETINGS

The Minutes of the Meeting held on 22 July 2020 previously circulated, were taken as read and approved as a correct record and the Minutes of the Special Meeting held on 7 October 2020 also previously circulated, were taken as read and approved as a correct record as well.

17 MID-YEAR TREASURY MANAGEMENT REPORT

Mr Anthony Thomas (Head of Finance and Procurement) delivered a Presentation on the Mid-Year Treasury Management Report, which covered the projected mid-year (30 September 2020) Treasury Management performance in 2020/21.

The impact of removing the investment in property budget was highlighted and the effect of lower council tax/business rates income and grants. Mr Thomas said there was a significant collection fund deficit projected in 2020/21 (council tax and business rate income) and said the deficit and grants would impact on the council's balance sheet at 31 March 2021. Mr Thomas explained that the government's mandate suggests that deficits are to be spread over a three-year period and there were indications of further assistance from the government with these collection fund deficits, although no details were yet known.

The strategic investments current values were illustrated at 31 March, 30 September and 31 October and the projected earmarked volatility reserve figures were explained as held to manage the type of risk. (Mr Thomas warned that this was very volatile at the moment and a lot of the book loss could either get reduced or increase).

The Treasury Management Practices were reviewed and Mr Thomas said these were all supported by Arlingclose guidance and had been shared recently with the Internal Audit team. Minor changes had taken place and they had suggested that they be reviewed by this committee and then go to full council for approval. This was being done so we were compliant with the internal audit recommendations and to ensure the Prudential Indicators were all compliant.

Questions were asked about the collection fund deficit and how Lichfield District Council compared to other authorities, but Mr Thomas said that this was hard to compare as it depended on demographics/nature of business rate payers etc. Even so, it was felt we were at the lower end of the spectrum of deficit collecting. In the projections, approximately 5% for non-collections had been assumed based on research undertaken across a cross section of authorities. Mr Thomas was asked about the investments at other authorities as Croydon LBC had recently been issued with a S.114 notice and he confirmed we had no investments with that authority and reminded the committee that while upper tier authorities were avoided, all investments would be monitored in the future. It was noted that the council has an investment with Monmouthshire and yet this was a top tier authority. Mr Thomas said he believed all authorities in Wales were unitary councils but he agreed to check on this and report back via email to the committee members. He said he believed that the Welsh government were potentially able to be more financially supportive of local authorities than in England.

The forecasting spend to date figure was queried and Mr Thomas said some projects had not progressed and this would be revisited, so he anticipated that figure would come down significantly. The investment in the property company income was queried and it was explained that all of the budgets related to the former investment in property. These budgets had now been removed from the MTFS, although the loan to the property company was still assumed. However, at this stage the loan had not been requested by the company and therefore the interest receivable assumed in the MTFS would not be receivable. It was noted that this was a relatively low level value and was only assumed for a five-year period, in line with the terms of the loan agreed by council. A question was asked regarding investments in call accounts (one with HSBC and one with Lloyds) holding £2m worth of funds. Mr Thomas explained that it was problematic trying to get counter-parties to take our cash at the moment and so he was trying to place it in a risk-managed level, in terms of the entire portfolio.

RESOLVED:- (1) The Report was reviewed and noted;
(2) The Prudential Indicators contained within the report were reviewed and noted;
(3) The Committee reviewed and recommended to Council for approval the updated Treasury Management Practices shown at Appendix D.

18 CIPFA FINANCIAL MANAGEMENT CODE

Mr Anthony Thomas (Head of Finance and Procurement) provided the committee with a report on the CIPFA Financial Management Code and he explained the key points in more detail.

Mr Thomas advised that this code had actually been conceived pre-Covid and the drivers around it had been what had happened at Northamptonshire City Council. It was meant to help provide long term sustainability for local governments by setting out some principles and standards. (Mr Thomas said he felt it would be applicable to every single sector not just local authorities). He explained that 2020/21 was a shadow year for these principles to be trialled and then it was envisaged in 2021/22 it would go live. He said after having visited each area of the code, he felt LDC was compliant with the majority of the code but there were a few minor things we needed to action i.e. to continue to develop the approach to budget consultation in line with the new engagement strategy.

Mr Thomas said that the new service and financial planning process to provide a more robust MTFS had been implemented in 2020/21, and a lessons learnt exercise would be undertaken to see what could be improved for future years. He said he had built a 25-year revenue model as a consequence, which he would like to develop and build in more on the capital element so that the nature of the transactions were also listed. It was queried if it was realistic to have a 25-year revenue model and Mr Thomas said he felt it was beneficial as it would paint a picture and, he believed, could identify funding gap trends and enable financial planning for projects over a longer cycle in terms of assessing financial stability.

Engagement with key stakeholders was highlighted and it was hoped, with the help of the new Communications Manager, engagement could be improved upon and we could notify people how we spend their money. Mr Thomas said, with regards to financial stability, we currently do two separate reports: financial and non-financial, and these reports could be integrated.

The balance sheet risks were reviewed, and where it was recognised that four risks had been identified, it was questioned why the pension risks were not included. Mr Thomas explained that local authority deficits were statutorily mitigated on the balance sheet through an unusable reserve and to undertake a projection the Actuary would need to be involved in addition to the assessment at the end of the financial year.

RESOLVED:- The Report was reviewed and it was noted that:-

- The publication of the Financial Management Code and the requirement for it was to be applied from 1 April 2020;
- That the first year, 2020/21, is a shadow year where Local Authorities are able to demonstrate that they are working towards full implementation which, for the first full year of compliance, would be 2021/22;
- That an initial assessment had been carried out at Appendix A of the council's assessed level of compliance compared to the standards contained in the Financial Management Code.

19 INTERNAL AUDIT PROGRESS REPORT

Ms Rebecca Neill (Internal Audit Manager) presented the Internal Audit Progress Report for Quarter 2 which highlighted work done to the end of September 2020. As advised to the committee previously, there had been a delay in the section's ability to undertake audit work due to council services needing to concentrate on the response to Covid-19. Ms Neill said this had impacted on the plan, follow-ups and KPI's and she stated that a summary of work and performance was detailed at Appendix 1 and performance against the new suite of KPIs which was at section 5. She explained that using the new approach to clear the backlog of audit recommendations and managers as well as the committee having greater visibility of what was outstanding, meant there was a marked progress but there was still work to do. Ms Neill stated that she was confident that a vast improvement would be seen by February's meeting.

In terms of follow-up, Ms Neill stated that the only item to highlight was the GDPR follow-up report which had again received limited assurance. She explained this committee had the option to call-in the ICT Manager and Head of Service to February's meeting if they felt it appropriate. She said that a follow-up audit was currently being undertaken and also that some context was necessary as the ICT Manager concerned had been deeply involved in the council's Covid response. She stated that she was hopeful of a more positive progress report from this follow-up. Ms Neill therefore suggested that if the follow-up remained limited assurance again at this second stage, the committee might want to invite the ICT Manager and Head of Service to February's committee meeting to discuss further. Discussions took place around this item and it was felt that waiting until February's meeting was too much of a delay and that the GDPR risk, in conjunction with the risk from the remote working audit (reporting that not all council laptops were encrypted and this was noted as a risk since 2017), assurances were needed as soon as possible. It was agreed that as the actions were due to expire on 31 October 2020 that the responsible manager should provide a "Position

Statement" to all the committee members as soon as possible, which could then decide if a special meeting should be arranged to discuss these risks. This was noted.

As a level of comfort, Ms Neill advised that there had been no data breaches, no specific issues nor irregularities associated with these risks identified.

The proportion of returns of Customer Satisfaction Surveys was queried and Ms Neill was able to report that the number had increased significantly and was now 13 returned out of 18. She said that the team had simplified the process, and this seemed to be improving the returns received. The Covid-19 Flash Audits were discussed. Members were conscious that the welfare and mental health of staff needed to be monitored as it was known a lot of staff had worked many extra hours during the first lockdown and should not be asked to do it again in a second one. Ms Neill said this was part of the productivity flash audit remit which was due to be undertaken shortly.

The Audit team were thanked by the committee members. To achieve 39% of the Audit Plan for the first half year despite the circumstances and to be confident of achieving 90% by the year end was remarkable. All members of the Audit team were congratulated.

> **RESOLVED:** The Report was reviewed and noted, and it was agreed that the responsible Head of Service and managers would provide a Position Statement as soon as possible in respect of the GDPR Audit and the unencrypted laptops risk.

20 RISK MANAGEMENT UPDATE

Ms Rebecca Neill (Internal Audit Manager) presented the Risk Management Update report which provided the committee with their routine risk management update. She said that the risk profile was changing constantly at the moment but highlighted the changes since July's meeting. These being:-

SR2 change in score from 9 to 16 so this now becomes the highest rate risk.

Discussions took place around SR2 and it was asked if flooding within the Lichfield district could be included within the SR2 mitigating controls section as it could be that it runs alongside Covid and it is linked to climate change/green agenda. Ms Neill agreed to consider this and report back to Leadership Team.

All other risks remained unchanged but the target score for SR3 had been revised from 2 to 4 to take into account the increased pressures on delivery of the Strategic Plan.

Ms Neill advised that she had reviewed and revised SR1 and SR6 since the previous meeting and welcomed any comments.

She said the progress with service risk registers was ongoing and it was hoped to have the three lines of assurance for each Head of Service soon. Discussions took place around the scoring of risks. Ms Neill was able to advise that while there is a lot of subjectivity involved, debating risk scores is the best way of achieving the "check and challenge". She was happy with her oversight and this committee's challenges, such that the scoring methodology was sufficient.

> **RESOLVED:** The Committee noted the risk management update and received assurance on the actions taking place to manage the Council's most significant risks.

21 COUNTER FRAUD UPDATE

Ms Rebecca Neill (Internal Audit Manager) presented the Counter Fraud Update report which was a suite of policies which the committee were asked to endorse. Ms Neill explained that the Counter Fraud and Corruption Policy Statement Strategy & Guidance notes were a refresh from last year, as was the Confidential Reporting (Whistleblowing) Policy. She said the Anti-Laundering Money Policy had been updated to include some more relevant legislation and a new policy: the Prevention of the Facilitation of Tax Evasion policy had been written as this had been adopted by other Local Authorities as good practice. Ms Neill said in the past, these policies had been subject to an annual review cycle but recommended that this be increased to a three yearly cycle giving delegation to herself and the Principal Auditor to undertake minor amendments as necessary. Discussions took place around the review cycles and it was suggested these be brought in line with the Risk Management policy which was every four years with a two-year light touch review. Ms Neill agreed this seemed a sensible approach.

Ms Neill said there had been no suspected fraud or whistleblowing in 2019/20 and she hoped to relaunch all the policies after the committee's endorsement today.

It was noted that at Appendix 4 of the Counter Fraud & Corruption Policy Statement Strategy and Guides, the contact for the External Auditors was mentioned and it was queried if an explanation of their role could be inserted as they performed different functions to the Internal Auditors. This was agreed.

The wording in the Confidential Reporting (Whistleblowing) Policy was questioned as some areas did not seem to actively encourage whistleblowing. Ms Neill said she would look at this again and especially reinforce this message in terms of training.

The new Tax Evasion policy was reviewed and it was asked if some detail of how possible breaches may be investigated could be explained.

RESOLVED: (1) The Committee noted the contents of the Counter Fraud update report and endorsed:-

(a) The Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes (refresh at Appendix 1);
(b) Confidential Reporting (Whistleblowing) Policy (refresh at Appendix 2);
(c) Anti-Money Laundering Policy (refresh at Appendix 3);
(d) Prevention of the Facilitation of Tax Evasion policy (new policy at Appendix 4).

(2) That the review cycle for all these policies be extended from annually to four years around the elections cycle with a two-year light touch review (unless there is a major change required in accordance with legislation/best practice) with minor amendments (e.g. job title changes) delegated to the Shared Head of Audit/Principal Auditor to undertake.

22 GDPR/DATA PROTECTION POLICY

In the absence of Ms Christie Tims (Head of Governance & Performance/Monitoring Officer), the Chairman presented the report and said it was an update on the actions taken since the implementation to ensure the Council remains compliant with the General Data Protection Regulations (GDPR).

Comments were that the risk descriptions should be phrased from the residents' perspective rather than the council's perspective. It was agreed that the assurance levels be reconsidered and updated to show the impact on residents as the victims of any transgressions. This was noted.

The committee asked for an addition of “any subsequent legislation” to be inserted in the policy. It was also suggested that an addition to the scope of the policy referencing a specific section on members responsibility and actions, as well as officers. It was also recommended that the impact on GDPR compliance during the pandemic, with staff working from home, be referenced in the policy.

RESOLVED:- (1) The Committee received the report and noted the ongoing work to improve assurance of compliance with the General Data Protection Regulations (GDPR); and

(2) The Committee approved the updated Data Protection Policy and Appendix A making the above observations and comments and granted delegated authority to the Head of Governance & Performance to undertake minor changes such as job titles and links as necessary in future.

23 WORK PROGRAMME

The Work Programme for the Audit & Member Standards Committee 2020/21 was considered, and it was noted that there were fewer items for the March agenda compared to the February and April’s meetings. It was therefore suggested to spread out officer and members time, the items be reviewed and moved if possible to even out the agendas for each meeting. This was agreed.

(The Meeting closed at 7.40 pm)

CHAIRMAN

The Treasury Management Strategy Statement (TMSS) 2021/22

Report of the Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

Lichfield district council
www.lichfielddc.gov.uk

Date:	3 February 2021
Agenda Item:	4
Contact Officers:	Anthony Thomas
Tel Number:	01543 308012
Email:	anthony.thomas@lichfielddc.gov.uk
Key Decision?	**YES**
Local Ward Members	Full Council

AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

Introduction

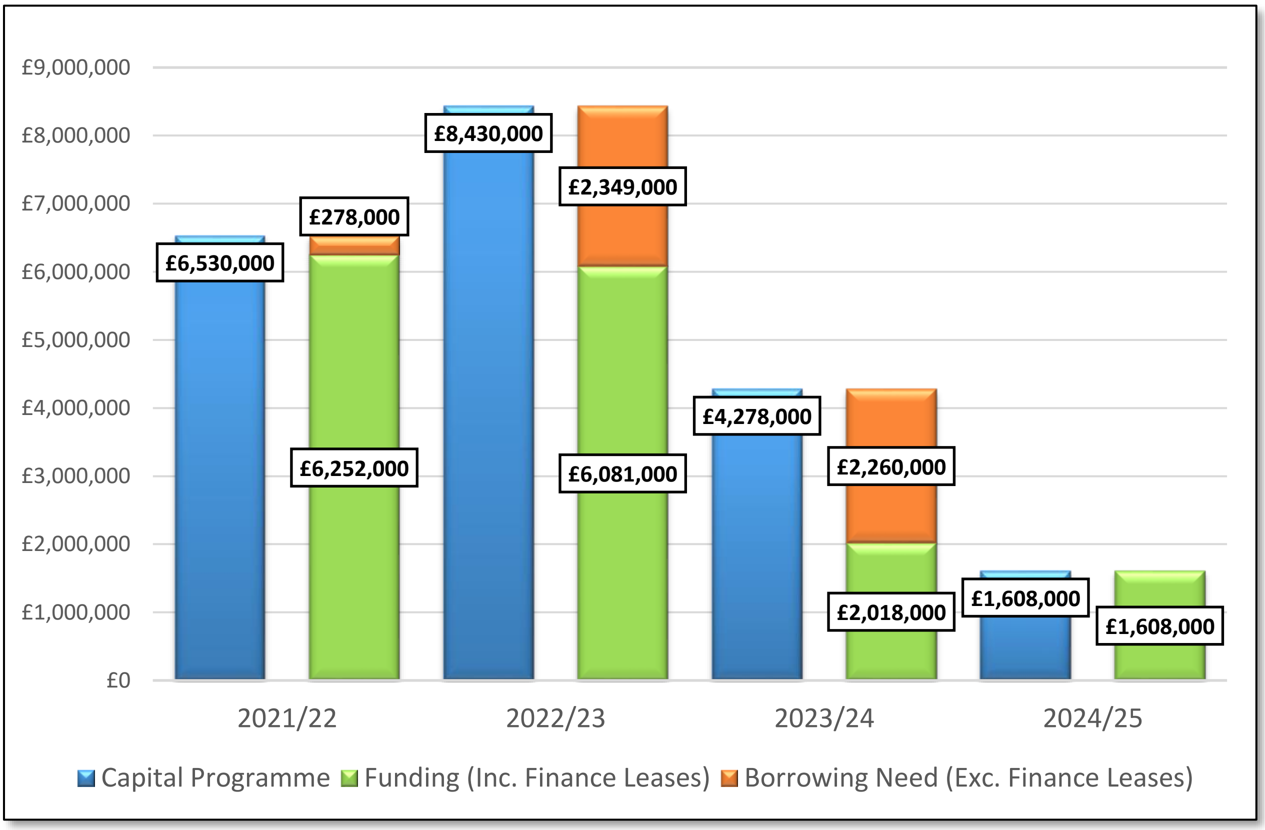
1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2018 Edition (the CIPFA) Code which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 This report fulfils the Authority's legal obligation, under the Local Government Act 2003, to have regard to both the CIPFA Code and the Ministry of Housing, Communities and Local Government (MHCLG) Guidance.

The Capital Strategy and Capital Programme

1.3 The Capital Programme is part of the Medium Term Financial Strategy (MTFS) and shows longer term investment for our **Strategic Plan**.

1.4 The Capital Strategy required by the Prudential Code is outlined at **APPENDIX A** and the Capital Programme is outlined in **APPENDIX B** and below:



Treasury Management

1.5 The Treasury Management Strategy Statement incorporates the Annual Investment Strategy and it covers the financing and investment strategy for the forthcoming financial year.

1.6 The purpose of this paper is, therefore, to review:

- The Capital Strategy and Capital Programme, outlined in **APPENDICES A & B.**
- Minimum Revenue Provision Statement for 2021/22 **(APPENDIX C).**
- Treasury Management Strategy Statement for 2021/22 **(APPENDIX D).**
- Treasury Investments and their Limits **(APPENDIX D)**.
- The Investment Strategy Report for 2021/22 **(APPENDIX E)** as required under Statutory Guidance in January 2018.
- The Capital and Treasury Prudential Indicators 2020-25 in the financial implications section.

1.7 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Recommendations

That Members consider the Treasury Management Strategy Statement and highlight any changes or recommendations to Cabinet in relation to:

2.1 The Capital Strategy and Capital Programme, outlined in **APPENDICES A** & **B**.

2.2 The Minimum Revenue Provision Statement for 2021/22, at **APPENDIX C**, which sets out the Council's policy of using the asset life method for making prudent provision for debt redemption.

2.3 Treasury Management Strategy Statement for 2021/22 including proposed limits shown at **APPENDIX D**. The only change being proposed is based on Arlingclose advice to remove the £21m overall investment limit for Money Market Funds to manage credit and liquidity risk.

2.4 The plan to undertake a further Strategic Fund investment up to **£2m**.

2.5 The Investment Strategy Report **(APPENDIX E)** including the proposed limits for 2021/22.

2.6 The Capital and Treasury Prudential Indicators for 2020-25 in the financial implications section.

2.7 The Authorised Limit Prudential Indicator shown within the financial implications section.

That Members also note:

2.8 The Public Works Loans Board (PWLB) response to the consultation on changes to lending terms.

3. Background

The Capital Strategy

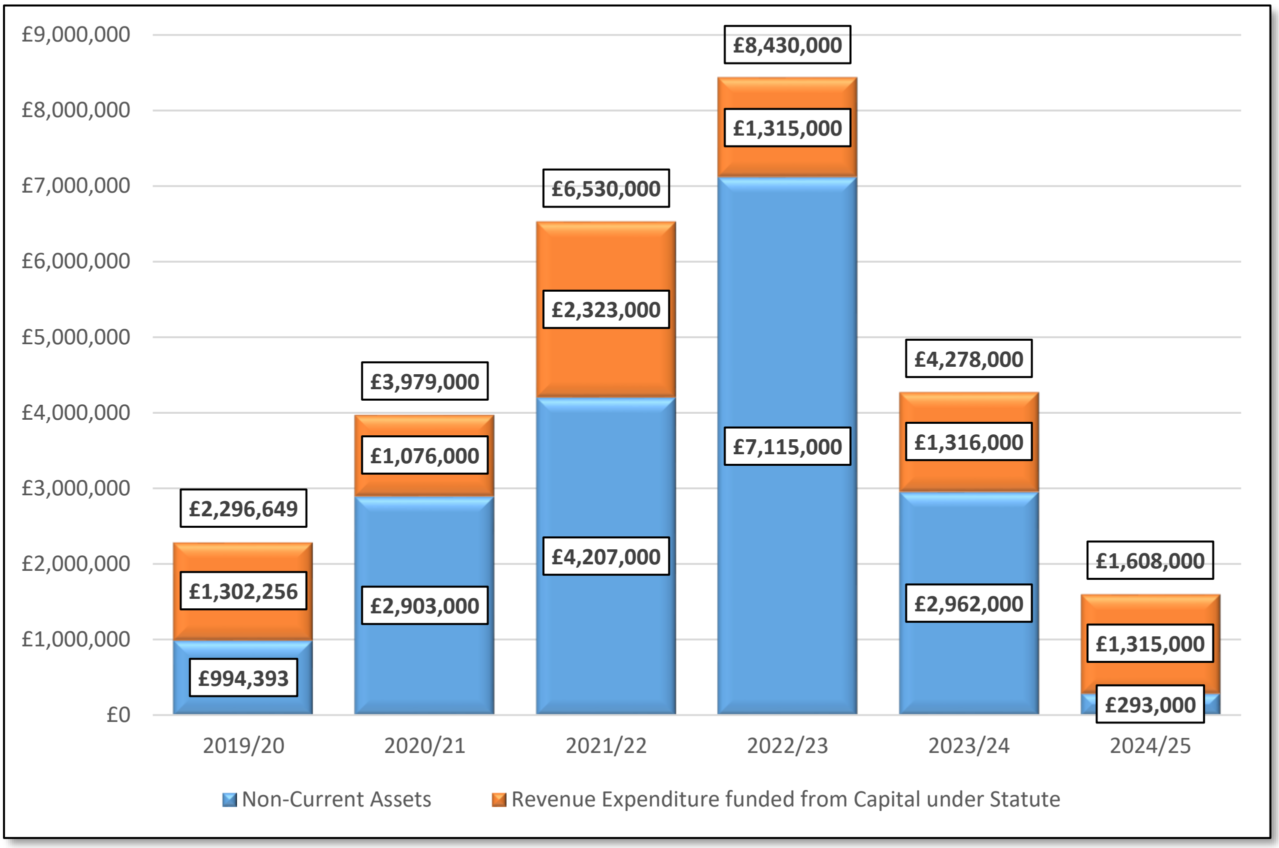
3.1 The Capital Strategy at **APPENDIX A** sets out the Council's framework for managing the Capital Programme including:

- **Capital expenditure**, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.
- **Debt and borrowing and treasury management**, including projections for the level of borrowing, capital financing requirement (Borrowing Need) and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the authority's approach to treasury management.
- **Commercial activities**, including due diligence processes, the authority's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.
- **Other long-term liabilities**, such as financial guarantees.
- **Knowledge and skills**, including a summary of that available to the authority and its link to the authority's risk appetite.

3.2 The Council's Chief Financial Officer has assessed the current risk for the Capital Strategy as **material (yellow)**.

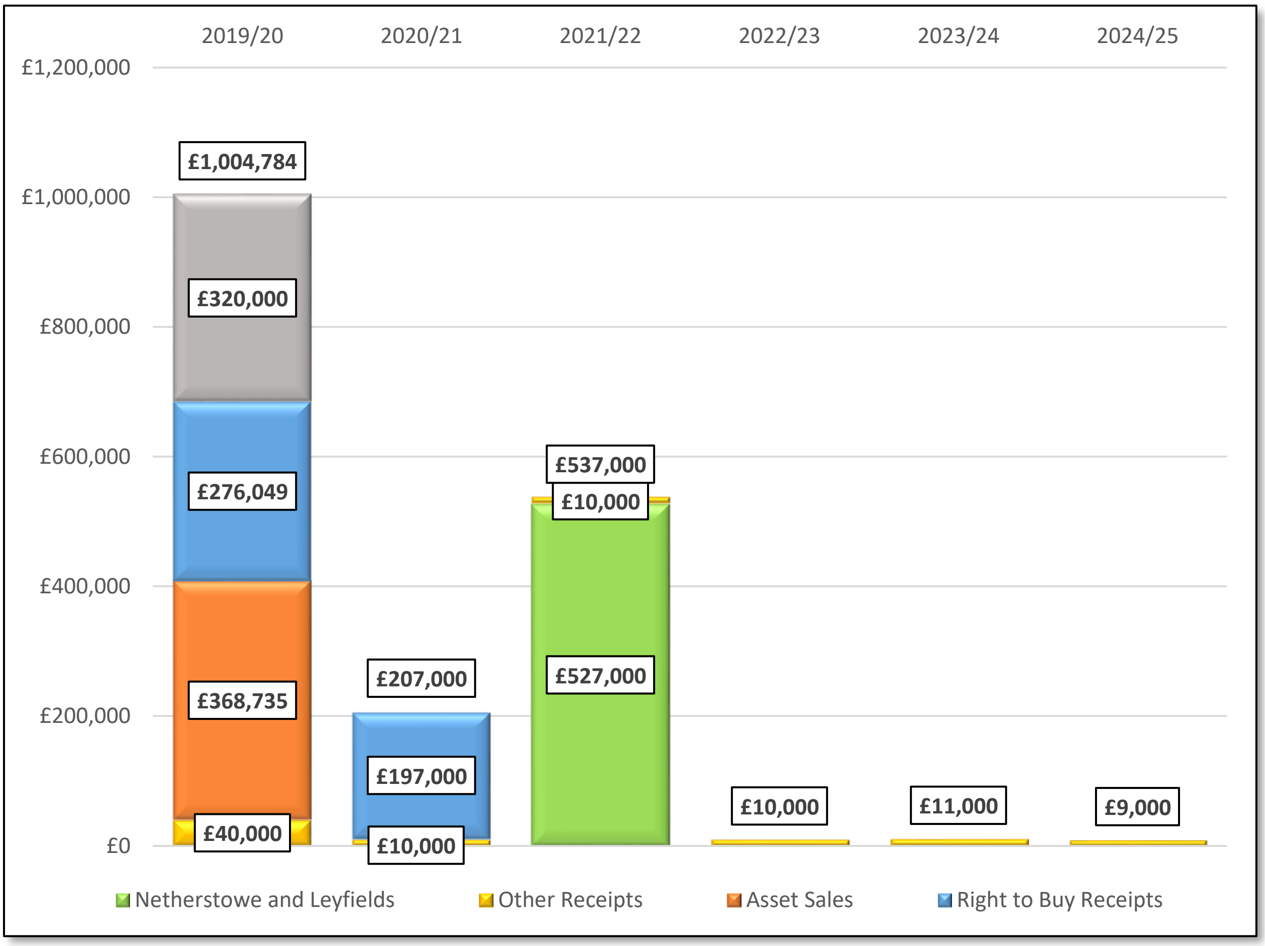
The Capital Programme

3.3 The Capital Programme (Revenue Expenditure Funded from Capital Under Statute relates to projects such as Disabled Facilities Grants) is shown in detail at **APPENDIX B** and below:



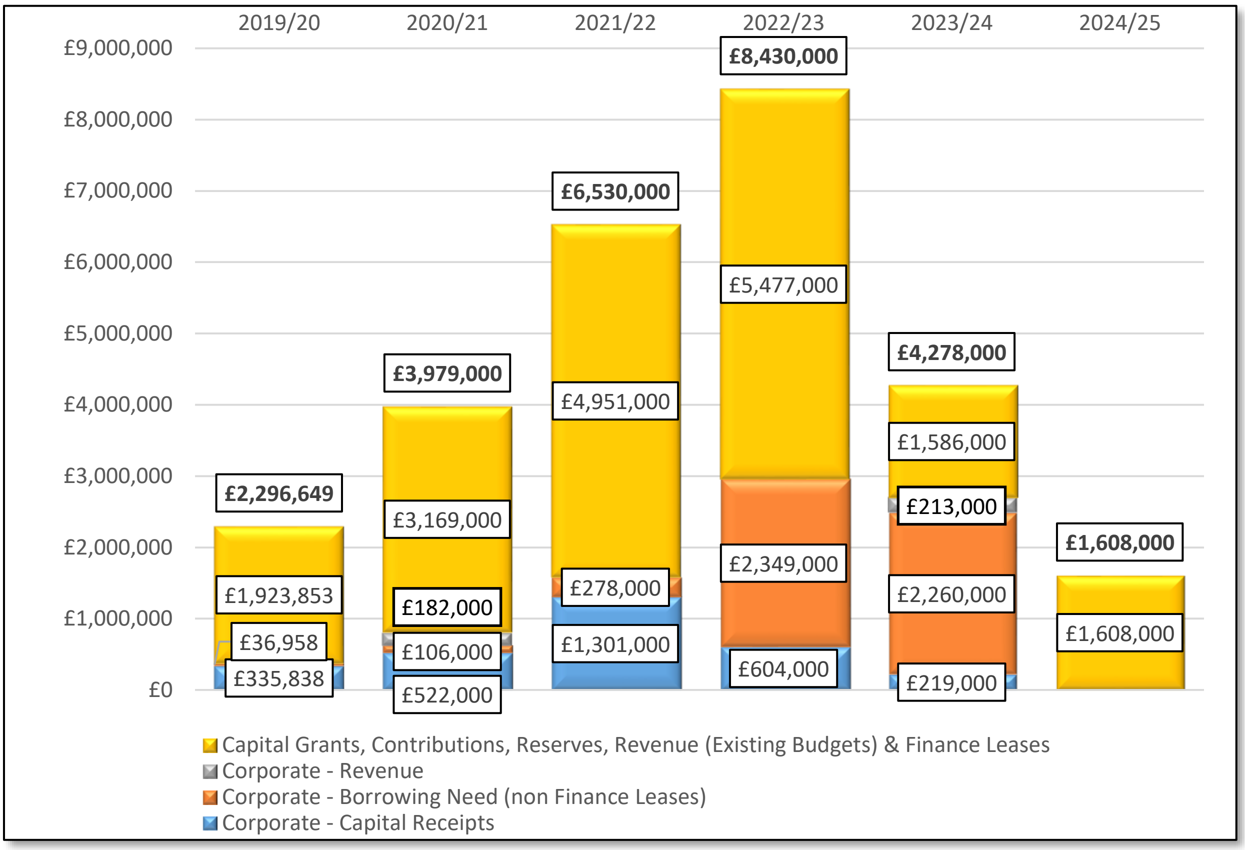
<u>Capital Receipts</u>

3.4 The projected Capital Receipts included in the Medium Term Financial Strategy are shown below:



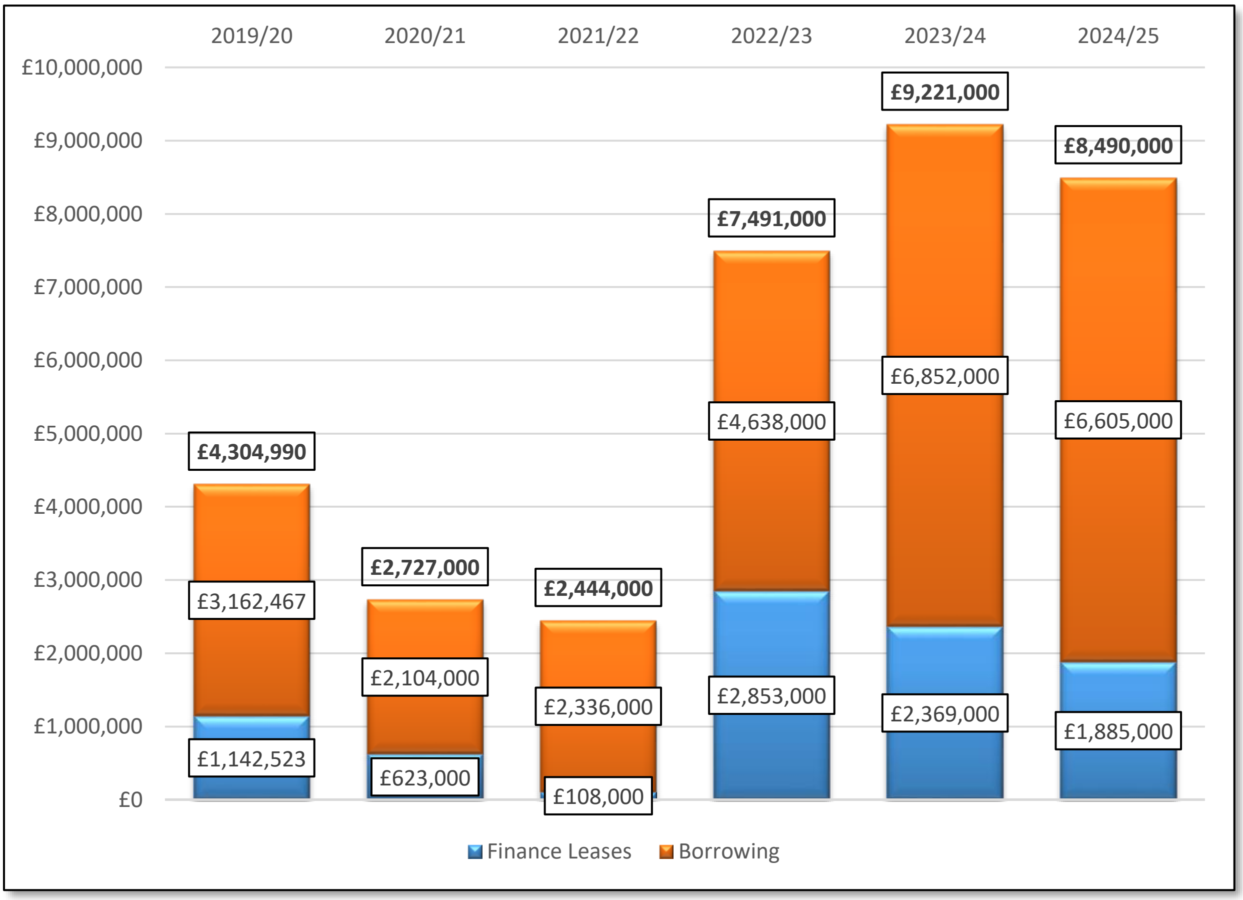
The Funding of the Capital Programme

3.5 The funding of the Capital Programme, including the element funded by the corporate sources of capital receipts, borrowing and revenue, is shown at **APPENDIX B** and below:

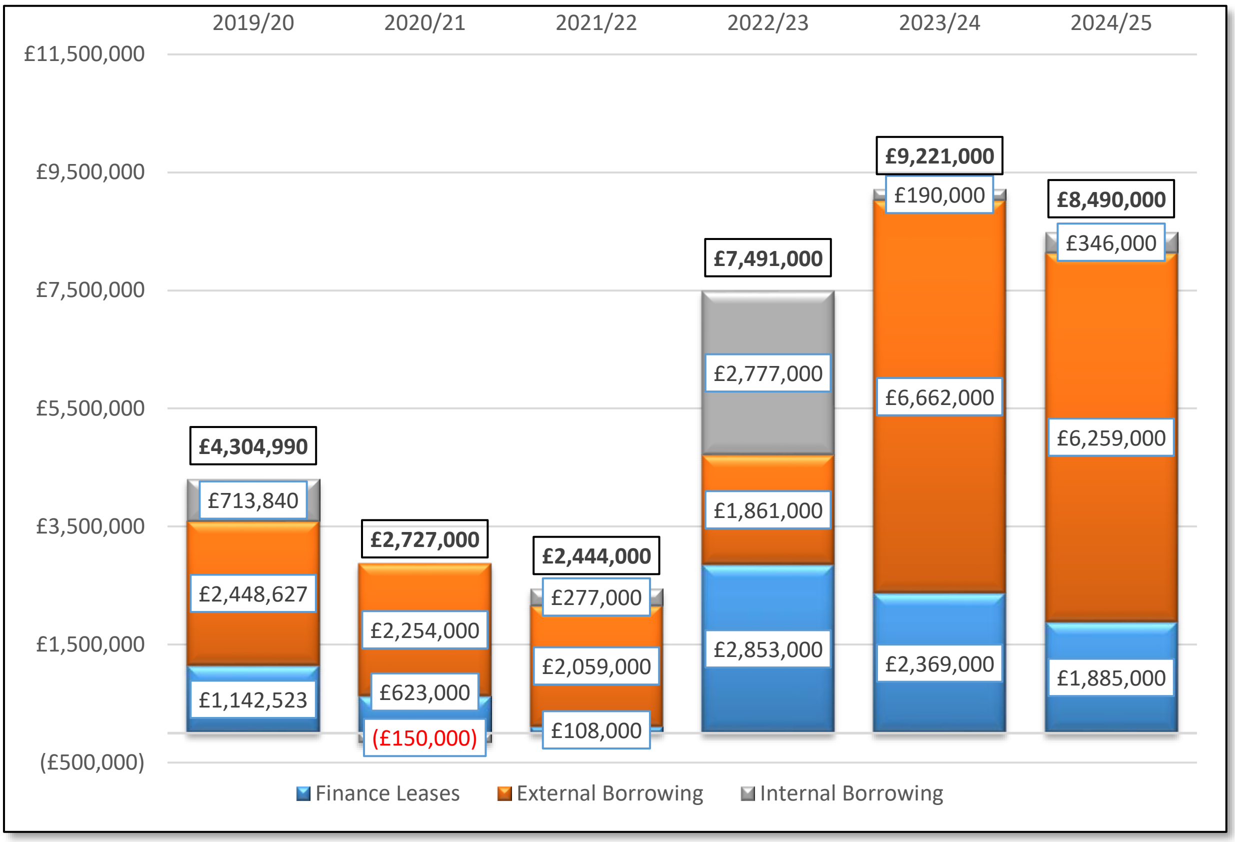


The Capital Financing Requirement (Borrowing Need) and its Financing

3.6 The projected Cumulative Borrowing Need related to the Capital Programme with increases from 2022/23 due to the new waste fleet and the planned new leisure centre is shown below:

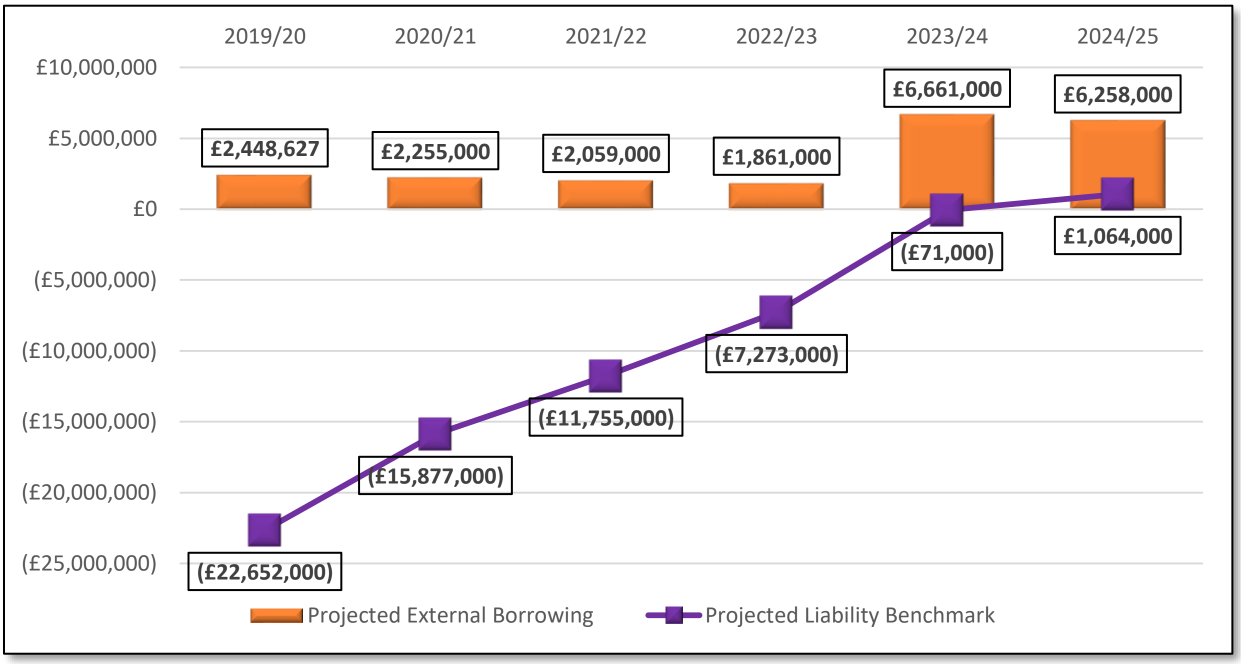


3.7 The projected financing of this Cumulative Borrowing Need is shown at **APPENDIX A** and below with debt exceeding Borrowing Need temporarily in 2020/21 due to the proposed early repayment of Burntwood Leisure Centre capital investment:



3.8 The **liability benchmark** is the lowest risk level of <u>external borrowing</u> by keeping cash and investment balances to a minimum level of **£10m,** at each year end, to maintain liquidity but minimise credit risk.

3.9 The projected level of external borrowing together with the projected liability benchmark in the Medium Term Financial Strategy is shown at **APPENDIX A** and below:

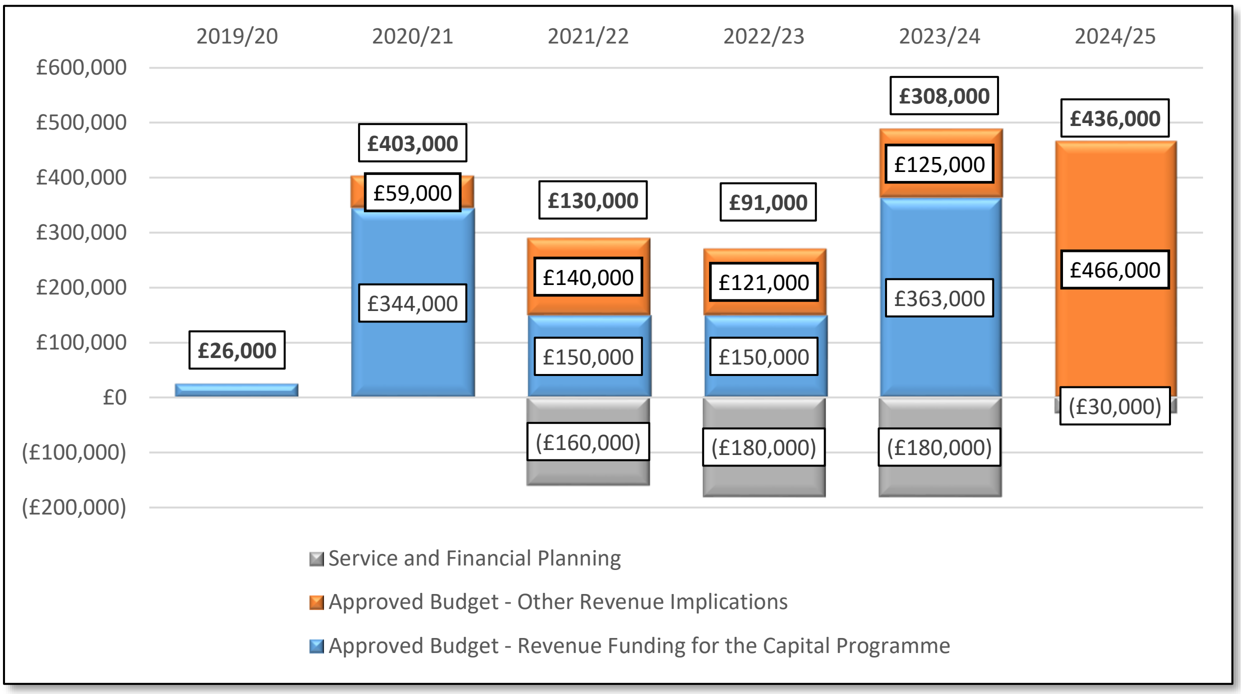


3.10 The Liability Benchmark is projected to move closer to external borrowing projections as the Capital Financing Requirement for borrowing increases with the planned new leisure centre and the level of usable reserves available for internal borrowing reduces.

3.11 The chart above therefore indicates that, based on current Balance Sheet projections, the Council could undertake internal borrowing of **£15m**.

Current Revenue Implications of the Capital Programme

3.12 The Revenue Implications related to the Capital Programme are shown at **APPENDIX A** and below:



Treasury Management

3.13 CIPFA has defined Treasury Management as :

> *"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

3.14 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

3.15 The Strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

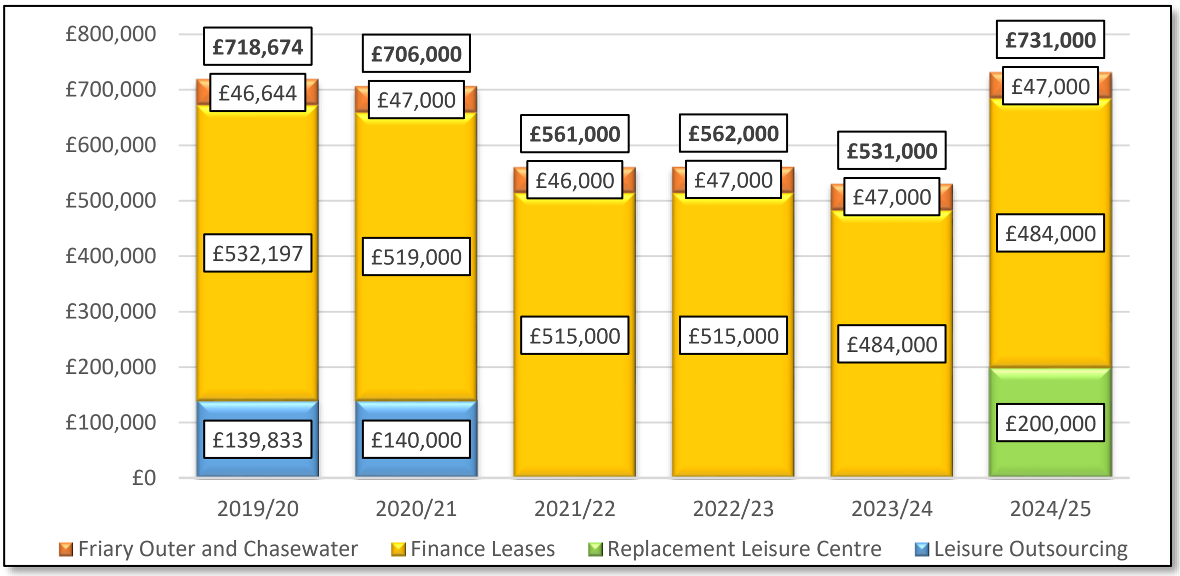
3.16 **International Financial Reporting Standard 16 (Leases)**

- The new Standard has been further delayed for implementation until **1 April 2022**. This Standard will require more arrangements, where there is a right to use an asset, to be included on the Council's Balance Sheet. The level of non-current assets is likely to increase and these will be matched by a liability to reflect the lease payments to be made.

3.17 **Minimum Revenue Provision Statement 2021/22**

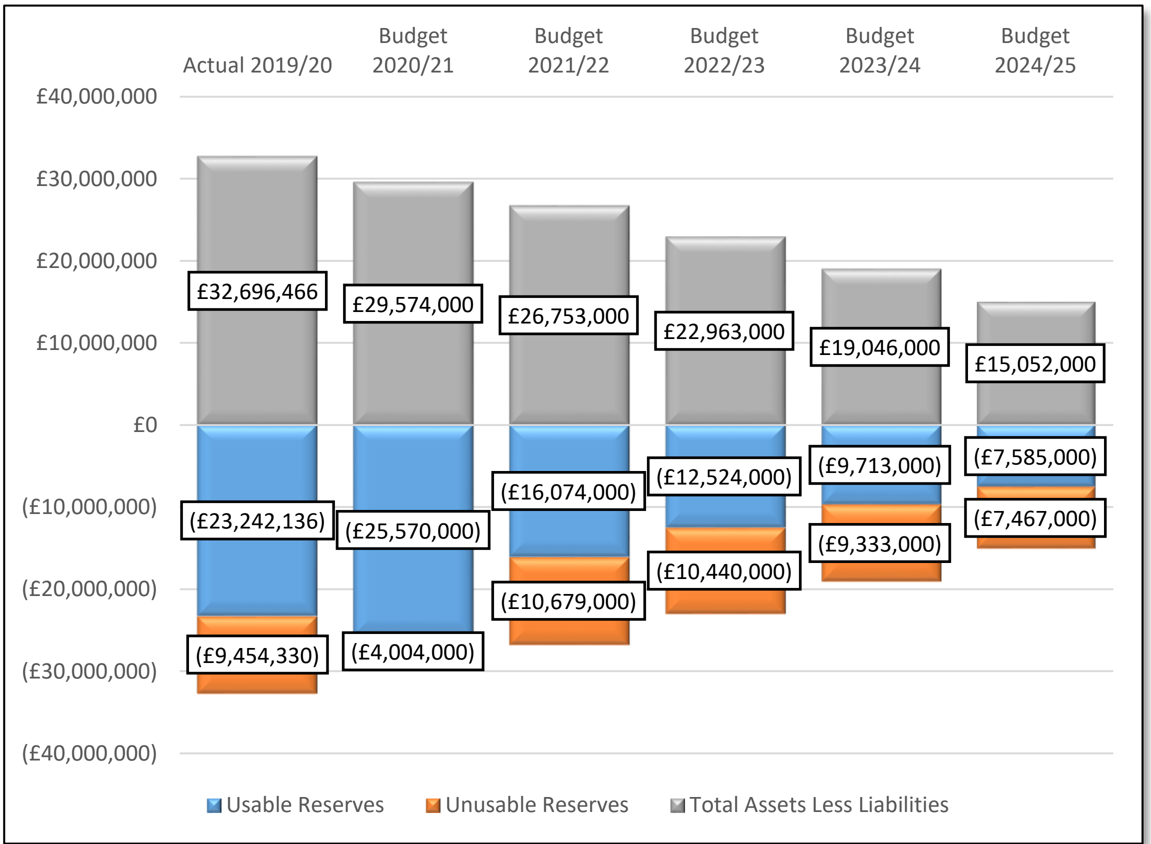
- The Council is required to make prudent provision for debt redemption (known as Minimum Revenue Provision (MRP)) and each year the Council must approve its MRP statement and this will include an allowance for finance leases that appear on the Council's Balance Sheet.

- The MTFS proposes the early repayment of the MRP in 2020/21 related to the capital investment at Burntwood Leisure Centre undertaken as part of the leisure outsourcing. This proposal would result in annual savings of **(£140,000)** from 2021/22.
- As in previous years, the Council proposes to base its MRP on the estimated life of the asset **(APPENDIX C)**. The estimated MRP chargeable during the MTFS is shown below:



3.18 **Balance Sheet Projections**

- Integrated Revenue Budgets and a Capital Programme budgets are prepared. These budgets together with the actual Balance Sheet from the previous financial year are used to prepare Balance Sheet projections.
- These Balance Sheet projections (**APPENDIX D**) are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement, investment levels and the Investment Strategy.
- The projected changes in the Balance Sheet over the Strategy period 2020/21 to 2024/25 are summarised below:



Total Assets less Liabilities (a reduction of £14,522,000):

1. **Non-Current Assets** – Non Current Assets will increase mainly due to the replacement waste fleet and the capital provision for a replacement Leisure Centre
2. **Borrowing and Leasing** – the capital investment in Non-Current Assets will partly be financed through an increase in external debt (borrowing and leases).
3. **Investments** – the levels are projected to reduce due to the financing of the Capital Programme from earmarked reserves, grants and contributions and the potential use of general reserves throughout the MTFS to ensure a balanced budget.
4. **Long term liability for pensions** – this value is projected to increase in line with previous trends.

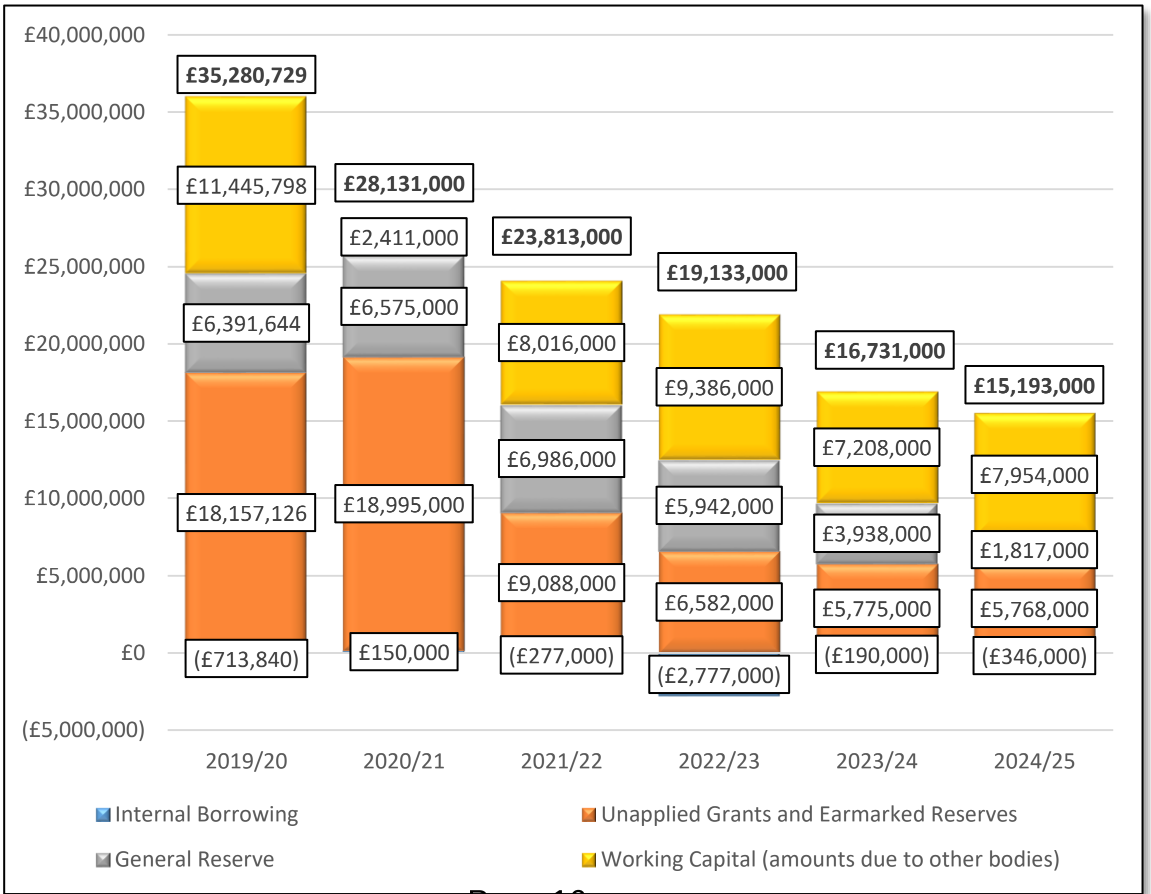
Unusable Reserves (an increase of £3,463,000):

5. **Pensions Reserve** – the negative value of this statutory reserve will increase to offset projected increases in the long term liability for pensions.
6. **Collection Fund** – the projected large deficit on Council Tax and Business Rate collection as a result of COVID-19 in 2020/21 will be transferred to the revenue budget over the subsequent three years in line with regulatory requirements.

Usable Reserves (a reduction of £17,985,000):

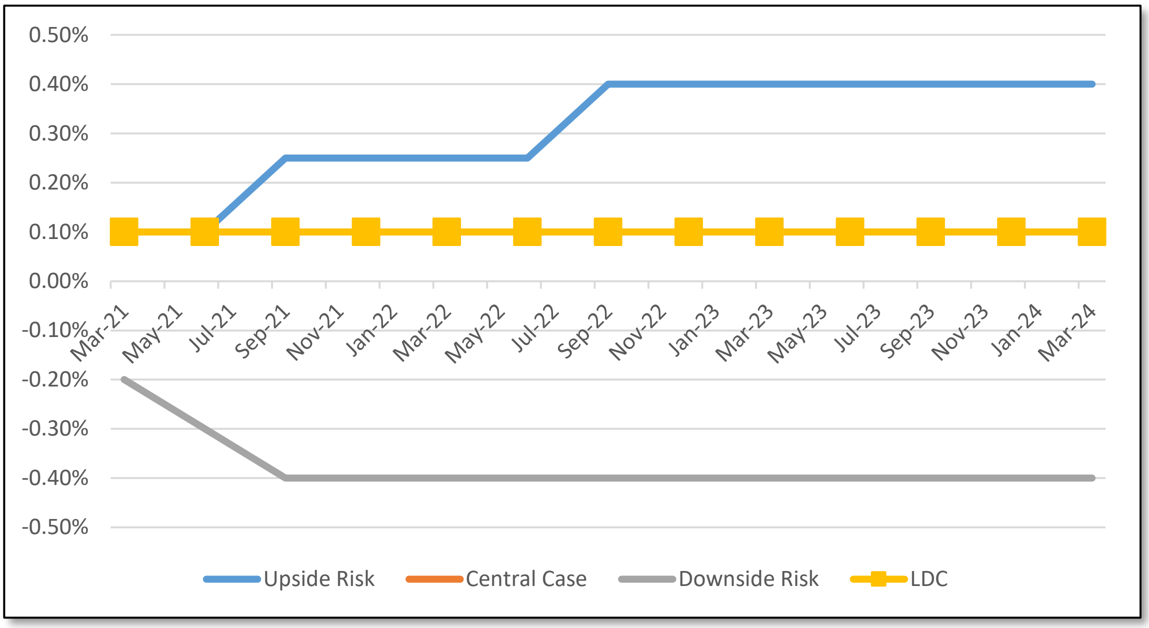
7. **Earmarked Reserves** – these will reduce as they are used to fund both revenue expenditure and the Capital Programme. Additionally, the Section 31 grants received in 2020/21 to offset the Collection Fund deficit will be transferred into the Business Rates Volatility Reserve. This reserve will reduce as it is transferred to the revenue budget to offset the deficit from 2021/22 to 2023/24.
8. **General Reserve** – there will be a projected reduction to reflect the potential use of general reserves throughout the MTFS to ensure a balanced budget.

- The Balance Sheet Projections **(APPENDIX D)** also show the projected year end investment levels and the sources of cash:



3.19 **Treasury Management Advice and the Expected Movement in Interest Rates**

- The Official Bank Rate outlook provided by the Council's Treasury Advisor, together with the Council's assumption (also the central case) where interest rates remain at the current level of **0.10%**, is shown below:

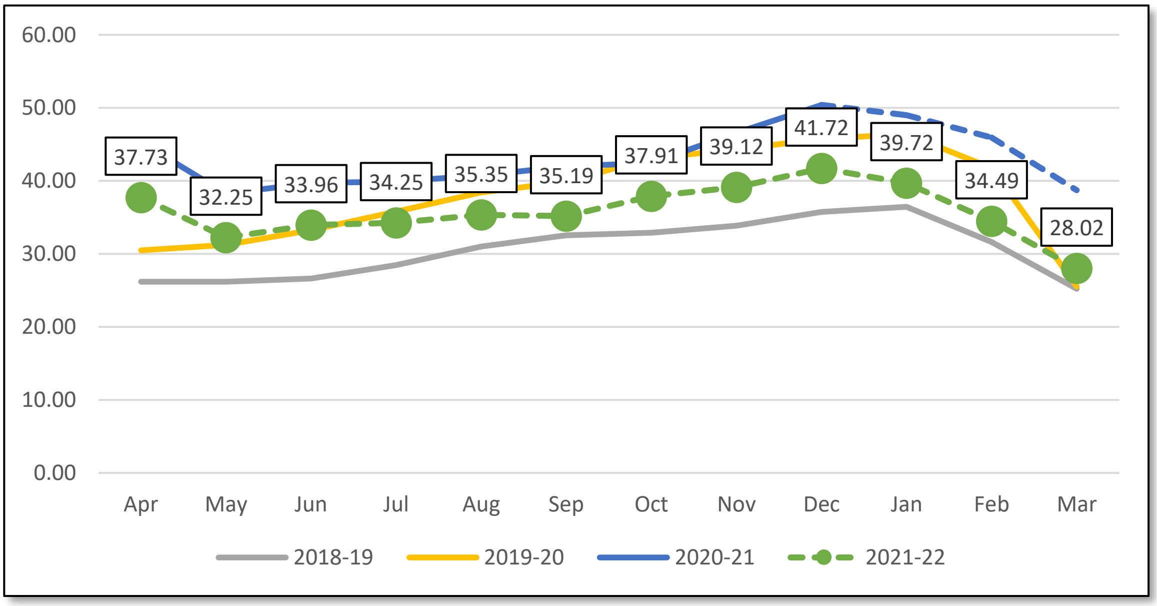


- The Council assumptions have been used as the basis for preparation of the investment income and borrowing budgets for 2021/22 and future years.

3.20 **Cash Flow Forecast**

- Treasury Management includes the management of the Council's cash flows as a key responsibility. The cash flow forecast takes account of the income the Council receives including Housing Benefits Grant, Council Tax and Business Rate income and expenditure such as payments to precepting bodies, employee costs and Housing Benefit Payments.

- The graph below shows average investment levels throughout the financial year with a significant reduction in February and March due to minimal Council Tax income being received.



- The planned monthly cash flow forecast for the 2021/22 financial year has been used to calculate the investment income budget. The key components of this calculation are the average level of investment balances and the rate or yield achieved.

- The Treasury Management estimates for 2021/22 for both investment income and borrowing are shown in the table below:

Treasury Management	2021/22	
	Original Budget	
	Investment Income	Borrowing
Average Balance	£35.81m	£2.13m
Average Rate	0.96%	2.18%

Gross Investment Income	(£350,000)	
Property Fund Transfer to Reserves	£30,000	
DIF Transfer to Reserves	£40,000	
External Interest		£48,000
Internal Interest		£4,000
Minimum Revenue Provision (less Finance Leases)		£46,000
Net Treasury Position	**(£280,000)**	**£98,000**
	(£182,000)	

- The gross investment income been estimated as **(£350,000)** and this equates to **3%** of The Council's total funding of **(£11,951,000)** in 2021/22**.**

3.21 **Treasury Management Strategy Statement (TMSS) and the Annual Investment Strategy**

- The Treasury Investments and their limits are shown in detail at **APPENDIX D**. The only change proposed for 2021/22 compared to those approved for 2020/21 is based on Arlingclose advice to no longer set an overall limit for Money Market Funds (currently the Approved level is 50% of projected investments being £21m). The use of MMFs is a key tool to manage credit and liquidity risks in the current economic climate whereas diversification into other sectors may increase risk.
- The approved TMSS includes a Prudential Indicator for investments for periods longer than a year of **£10m**. At present, the Council has **£8m** (cash value) invested in Strategic Funds. Therefore in line with the TMSS, the plan is to undertake a further investment of **£2m** following advice from Arlingclose.

3.22 **The Public Works Loans Board (PWLB) consultation**

3.23 The response on changes to lending terms was announced on 25 November 2020. The key points of the response were:

- A reduction of 1% in all standard and certainty rate loans from 26 November 2020.
- As a condition of accessing the PWLB, local authorities will be asked to confirm there is no intention to buy investment assets primarily for yield in the current or next two financial years.
- Local Authorities will be asked to confirm plans are current and the Section 151 officer is content plans are within acceptable use (service delivery, housing, regeneration, preventative action and refinancing/treasury management) of PWLB.
- For 2021/22 local authorities will be required to submit capital plans for the next three years and prohibited from accessing the PWLB if they plan debt for yield activity in any of these years.
- Her Majesty's Treasury (HMT) can restrict local authorities from borrowing in unusual or large amounts.
- Penalties for misusing PWLB could include a request that the Council unwinds problematic transactions, PWLB access is suspended, repayment of loans with penalties or a wider ranging review of the Prudential Framework.

3.24 **Investment Strategy Report for 2021/22**

- The investment strategy that is shown at **APPENDIX E** meets the requirements of statutory guidance issued by the government in January 2018. It focuses on how the Authority invests its money to support local public services and earns investment income from any commercial investments.

Alternative Options	There are no alternative options.
Consultation	This Committee and the Strategic (Overview and Scrutiny) Committee.

Financial Implications

Prudential and Local Indicators (PIs)

The Prudential and Local Indicators are shown below (rounding may result in slight differences):

Capital Strategy Indicators

Prudential Indicators

Indicators	2019/20 Actual	2020/21 Original	2020/21 Revised	2021/22 Original	2022/23 Original	2023/24 Original	2024/25 Original
Capital Investment							
Capital Expenditure (£m)	£2.297	£17.751	£3.979	£6.530	£8.430	£4.278	£1.608
Capital Financing Requirement (£m)	£4.305	£25.432	£2.727	£2.444	£7.491	£9.221	£8.490
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£3.592)	(£19.091)	(£2.878)	(£2.167)	(£4.714)	(£9.030)	(£8.143)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	Yes	No	No	No	No
Total Debt							
Authorised Limit (£m)	£4.315	£31.906	£15.404	£15.435	£15.887	£20.842	£20.158
Operational Boundary (£m)	£4.315	£23.088	£7.203	£7.007	£6.809	£11.609	£11.206
Proportion of Financing Costs to Net Revenue Stream (%)	4%	10%	5%	5%	4%	4%	7%

Local Indicators

Indicators	2019/20 Actual	2020/21 Original	2020/21 Revised	2021/22 Original	2022/23 Original	2023/24 Original	2024/25 Original
Replacement of Debt Finance or MRP (£m)	(£0.719)	(£1.041)	(£1.684)[1]	(£0.561)	(£0.562)	(£0.531)	(£0.731)
Capital Receipts (£m)	(£1.005)	(£0.537)	(£0.010)	(£0.537)	(£0.010)	(£0.011)	(£0.009)
Earmarked Housing Capital Receipts (£m)	£0	£0	(£0.197)	£0	£0	£0	£0
Liability Benchmark (£m)	£22.652	(£11.249)	£15.877	£11.755	£7.273	£0.071	(£1.064)
Treasury Management Investments (£m)	£34.550	£16.759	£28.131	£23.813	£19.133	£16.731	£15.193

Treasury Management Indicators

Prudential Indicators

	Lower Limit	Upper Limit	As at 31/03/20	As at 31/12/20
Refinancing Rate Risk Indicator	0%	100%	0%	0%
Under 12 months	0%	100%	7.89%	8.67%
12 months and within 24 months	0%	100%	7.99%	8.77%
24 months and within 5 years	0%	100%	24.53%	26.95%
5 years and within 10 years	0%	100%	33.48%	29.96%
10 years and within 20 years	0%	100%	24.86%	25.64%
20 years and within 30 years	0%	100%	1.24%	0%
30 years and within 40 years	0%	100%	0%	0%
40 years and within 50 years	0%	100%	0%	0%
50 years and above	0%	100%	0%	0%

Investment Income - Interest Rate Exposure

	2021/22	2022/23
Revenue budget - Investment Income	(£350,000)	(£347,000)
Budget subject to Interest Rate Exposure	**(£22,000)**	**(£27,000)**
Budget with a 1% fall in interest rates	(£328,000)	(£320,000)
Budget with a 1% rise in interest rates	(£608,000)	(£567,000)

[1] This figures includes the proposed early repayment of Burntwood Leisure Centre capital investment of £979,000, excluding the figure, Minimum Revenue Provision is £706,000.

External Borrowing - Interest Rate Exposure		
	2021/22	2022/23
Revenue budget - External Interest	£48,000	£44,000
Budget subject to Interest Rate Exposure	**£0**	**£0**
Budget with a 1% fall in interest rates	£48,000	£44,000
Budget with a 1% rise in interest rates	£48,000	£44,000

Indicators	2019/20 Actual	2020/21 Original	2020/21 Revised	2021/22 Original	2022/23 Original	2023/24 Original	2024/25 Original
Principal Sums invested for periods longer than a year (£m)	£6.000	£10.000	£10.000	£10.000	£10.000	£10.000	£10.000

Local Indicators							
Indicators	2019/20 Actual	2020/21 Original	2020/21 Revised	2021/22 Original	2022/23 Original	2023/24 Original	2024/25 Original
	£m	£m	£m	£m	£m	£m	£m
Balance Sheet Summary and Forecast							
Borrowing Capital Financing Requirement	£3.162	£24.871	£2.105	£2.336	£4.638	£6.852	£6.605
Internal (over) Borrowing	£0.714	£6.340	(£0.150)	£0.277	£2.777	£0.190	£0.346
Investments (or New Borrowing)	(£34.550)	(£16.093)	(£28.131)	(£23.813)	(£19.133)	(£16.731)	(£15.193)
Liability Benchmark	(£22.652)	£11.249	(£15.877)	(£11.755)	(£7.273)	(£0.071)	£1.064

	Target
Security	
Portfolio average credit rating	A-
Liquidity	
Temporary Borrowing undertaken	£0.000
Total Cash Available within 100 days (maximum)	90%

Contribution to the Delivery of Lichfield District Council's Strategic Plan	The report directly links to overall performance and especially the delivery of Lichfield District Council's Strategic Plan.
Equality, Diversity and Human Rights Implications	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan.
Crime & Safety Issues	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan.
Environmental Impact	None identified in this report.
GDPR/Privacy Impact Assessment	None identified in this report.

	Risk Description	How We Manage It	Severity of Risk
Strategic Risk SR1 - Non achievement of the Council's key priorities contained in the Strategic Plan due to the availability of finance.			
A	Council Tax is not set by the Statutory Date of **11 March 2021**.	Full Council set with reference to when major preceptors and Parishes have approved their Council Tax Requirements.	Likelihood : Green Impact : Red Severity of Risk : Yellow
B	Implementation of the Check, Challenge and Appeal Business Rates Appeals and more frequent revaluations	To closely monitor the level of appeals. An allowance for appeals has been included in the Business Rate Estimates.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
C	The review of the New Homes Bonus regime	Not all of the projected New Homes Bonus is included as core funding in the Base Budget. In 2021/22 £500,000 is included and in 2022/23 £400,000 is included. At this stage, no income is assumed from 2023/24 onwards.	Likelihood : Red Impact : Yellow Severity of Risk : Yellow
D	The increased Localisation of Business Rates and the Fair Funding Review in 2022/2023	To assess the implications of proposed changes and respond to consultations to attempt to influence the policy direction in the Council's favour.	Likelihood : Red Impact : Red Severity of Risk : Red
E	The affordability and risk associated with the Capital Strategy	An estates management team has been recruited to provide professional expertise and advice in relation to property and to continue to take a prudent approach to budgeting.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
Strategic Risk SR3: Capacity and capability to deliver / adapt the new strategic plan to emerging landscape.			
F	The financial impact of COVID-19 is not fully reimbursed by Government and exceeds the reserves available resulting in a Section 114 notice	The use of general and earmarked reserves to fund any shortfall	Likelihood : Green Impact : Red Severity of Risk : Yellow
G	The Council cannot achieve its approved Delivery Plan for 2021/22	There will need to be consideration of additional resourcing and/or reprioritisation to reflect the ongoing impact of the pandemic.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
H	The resources available in the medium to longer term to deliver the Strategic Plan are diminished	The MTFS will be updated through the normal review and approval process	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
I	Government and Regulatory Bodies introduce significant changes to the operating environment	To review all proposed policy changes and respond to all consultations to influence outcomes in the Council's favour	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow

Background documents:

- CIPFA Code of Practice for Treasury Management in the Public Services.
- The Prudential Code for Capital Finance in Local Authorities.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2019-24 – Cabinet 11 February 2020.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2019-24 – Council 18 February 2020.
- Money Matters: 2019/20 Review of Financial Performance against the Financial Strategy – Cabinet 2 June 2020.
- The Medium Term Financial Strategy and the projected financial impact of the COVID-19 Pandemic – Cabinet 7 July 2020.
- Money Matters: 2020/21 Review of Financial Performance against the Financial Strategy – Cabinet 8 September 2020.
- Medium Term Financial Strategy 2020-25 – Cabinet 6 October 2020.
- Money Matters: 2020/21 Review of Financial Performance against the Financial Strategy – Cabinet 1 December 2020.
- Money Matters: Calculation of Business Rates in 2021/22, Council Tax Base for 2021/22 and the Projected Collection Fund Surplus / Deficit for 2020/21 - Cabinet 1 December 2020.
- Service and Financial Planning Submissions.

Relevant web link:

Recommended Capital Strategy

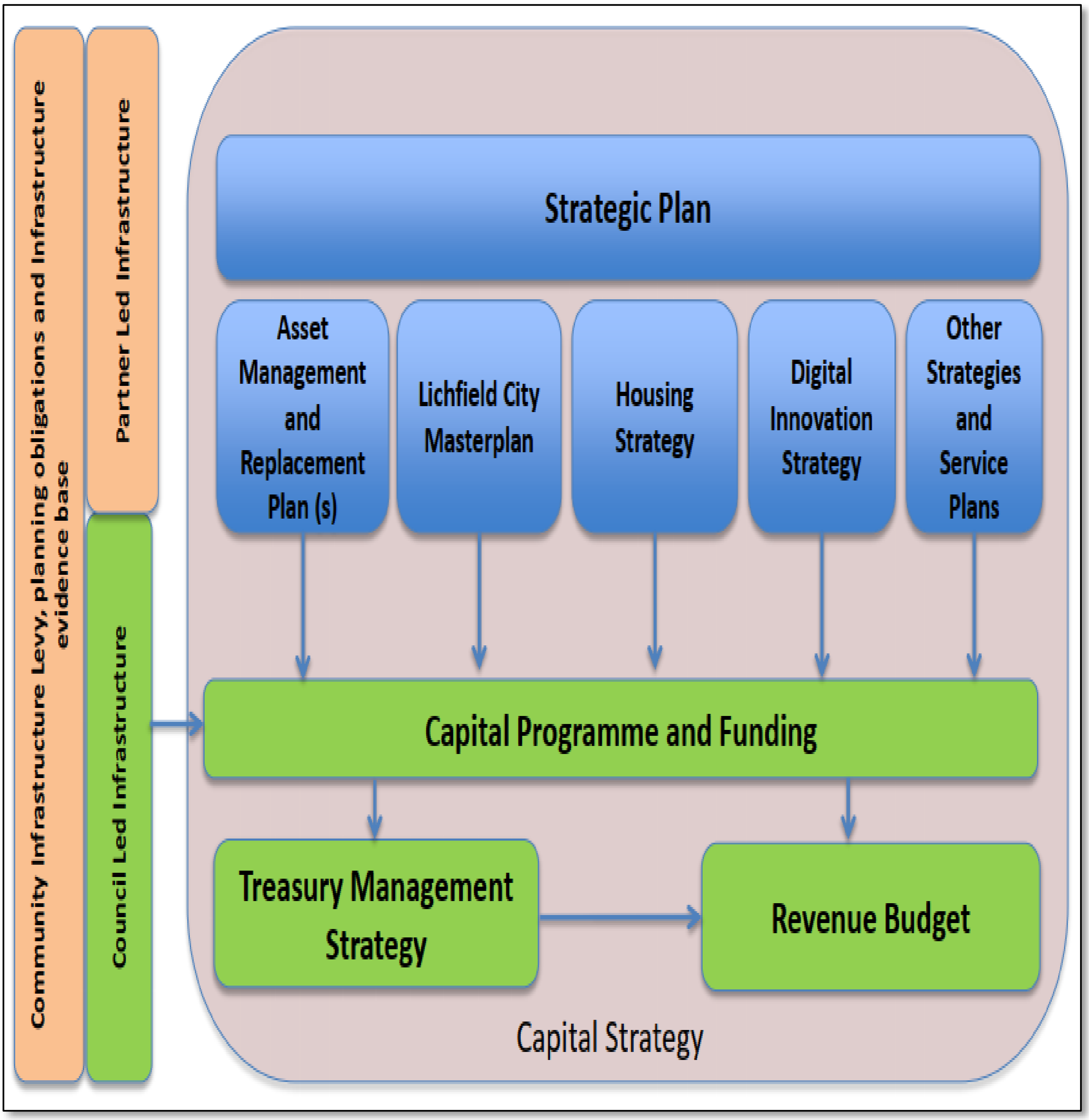
1. Introduction

1.1. The Prudential Code requires the completion of a Capital Strategy that is approved by Full Council.

1.2. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

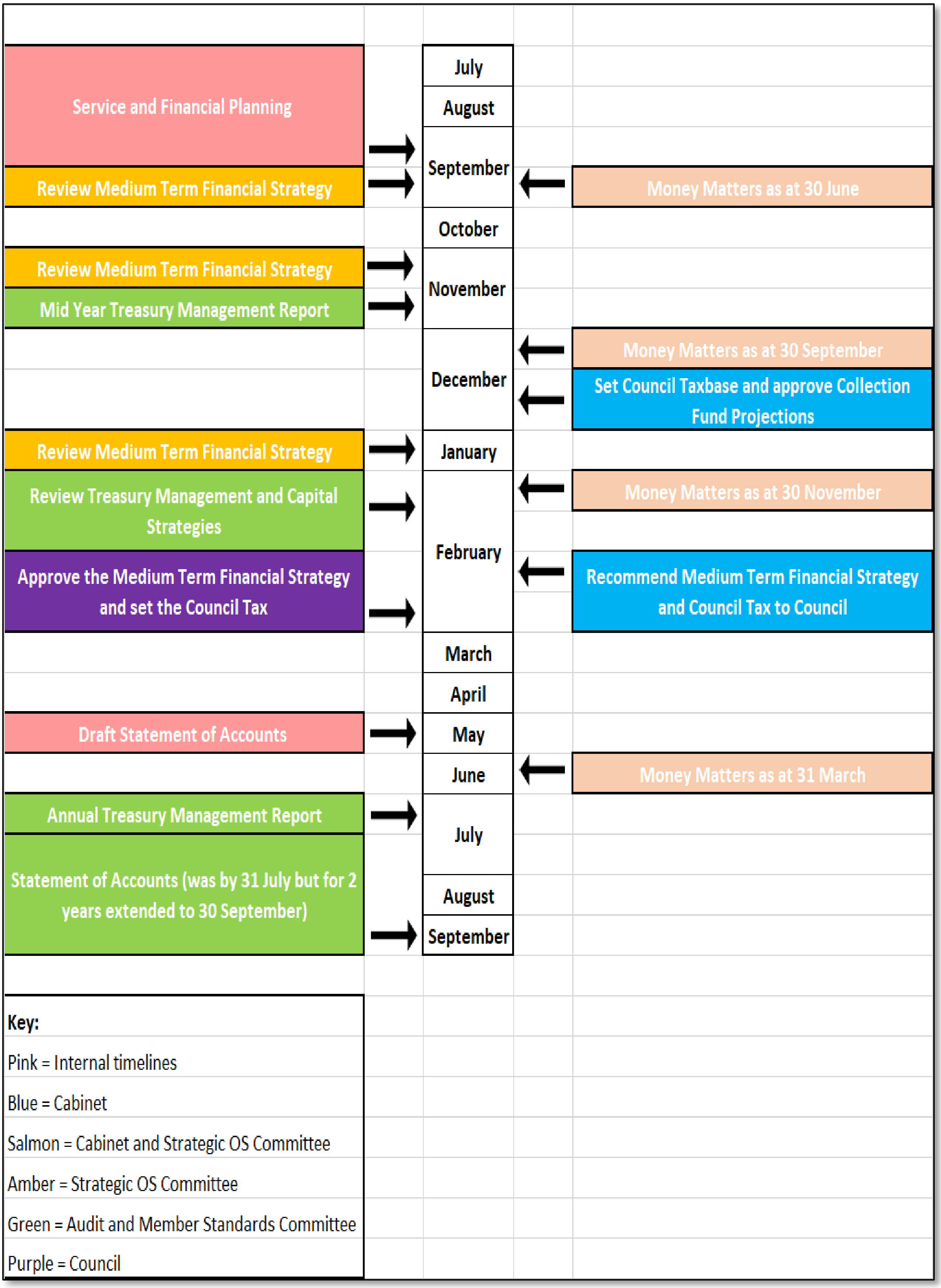
1.3. It forms part of the Councils integrated revenue, capital and balance sheet planning. The Council already undertakes elements of the requirements although some areas, such as Asset Management Planning, are subject to ongoing development.

1.4. The Prudential Code now requires all of this information to be brought together in a single place as shown below:



2. The Capital Programme

2.1. The financial planning process and its Governance is shown below:



The Capital Programme Process

2.2. Given our current financial position, our priorities and responsibilities and as Asset Management Plans are developed, it is probable that capital needs will be identified that exceed resources available thus necessitating a more transparent and robust process to inform Members during the development of the MTFS.

2.3. The capital bid process has been incorporated into the service and financial planning process to provide a holistic approach. The capital bid element of the process has been designed to ensure consistency, objectivity, equity and transparency to the prioritisation and allocation of capital funding, while ensuring maximum value for money.

2.4. A summary of the process is identified below:

- Service identifies a budget requirement and consults with the Finance and Procurement Team.
- Service requests funding by completing and submitting a funding bid form.
- Service completes a funding bid financial profile form and submits this with their bid.
- Service completes a funding bid assessment form and submits this with their bid.
- The Finance and Procurement Team reviews all bids and assessments and requests clarification where required.
- The Finance and Procurement Team reviews bids using the assessment criteria and ensure the bids are included in the relevant service and financial planning submission.
- Leadership Team review all service and financial planning submissions before recommending the allocation of funding either through a Cabinet Report or through the MTFS.
- Finance and Procurement monitor funding allocations and spend, reporting to Leadership Team as part of Money Matters Reports.
- Service completes work / project outlined within the bid and undertakes a review (i.e. post-project review) within 6 months of work being completed, providing this to Finance and Procurement to include in a report to Leadership Team.

Planning Obligations - Section 106 and Community Infrastructure Levy (CIL)

2.5. As part of the planning process, financial contributions from planning obligations, including the Community Infrastructure Levy, are received from new developments. The vast majority is spent directly on infrastructure works or will be spent in line with the Infrastructure Delivery Plan (IDP).

2.6. In some cases there is an element of discretion on how they are allocated. These contributions towards social and community facilities are linked to the development proposed.

2.7. The Council’s Capital Programme includes a number of projects that are to be funded by Section 106 and CIL; this is a significant source of funding and there is a significant level of interest from the community in relation to the allocation of sums to projects.

2.8. The **Capital Programme** and its **funding** by Strategic Priority is summarised below:

	Capital Programme						
Strategic Priority	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**Total £000**	**Corporate £000**
Enabling People	2,223	3,375	3,684	3,576	1,315	14,173	30
Shaping Place	670	1,102	3,674	270	293	6,009	193
Developing Prosperity	522	935	557	43	0	2,057	395
Good Council	564	1,118	515	389	0	2,586	2,423
Grand Total	**3,979**	**6,530**	**8,430**	**4,278**	**1,608**	**24,825**	**3,041**

	Capital Programme						
Funding Source	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**Total £000**	
Capital Receipts	522	1,296	604	219	0	2,641	
Capital Receipts - Statue	0	5	0	0	0	5	
Revenue - Corporate	182	0	0	213	0	395	
Corporate Council Funding	**704**	**1,301**	**604**	**432**	**0**	**3,041**	
Grant	1,052	2,207	1,815	1,316	1,315	7,705	
Section 106	601	785	0	0	0	1,386	
CIL	101	79	0	0	0	180	
Reserves	1,030	1,730	252	120	143	3,275	
Revenue - Existing Budgets	162	150	150	150	150	762	
Sinking Fund	223	0	0	0	0	223	
Leases	0	0	3,260	0	0	3,260	
Internal Borrowing	0	0	0	0	0	0	
Total	**3,873**	**6,252**	**6,081**	**2,018**	**1,608**	**19,832**	**24,825**
External Borrowing	**106**	**278**	**2,349**	**2,260**	**0**	**4,993**	
Grand Total	**3,979**	**6,530**	**8,430**	**4,278**	**1,608**	**24,825**	

2.9. The Revenue implications of the Capital Programme are shown below:

Revenue Implications	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**
Interest on Loan to the LA Company	0	(4)	(18)	(22)	(22)
Friary Grange - Refurbishment	50	135	135	135	135
Coach Park Operation Costs	0	0	0	50	50
IT Hardware	9	9	4	(38)	9
Replacement Leisure Centre Debt Costs	0	0	0	0	294
Revenue Budget - Bin Replacement	150	150	150	150	0
Revenue Budget - Other Projects	12	0	0	0	0
Revenue Budget - Corporate	182	0	0	213	0
Sub Total - Approved Budget	**403**	**290**	**271**	**488**	**466**
Burntwood LC early repayment of capital	979	(140)	(140)	(140)	(140)
Internal Funding (see below)	(979)	0	0	0	0
Financial Information System	0	(20)	(40)	(40)	(40)
Revenue Budget - Bin Replacement	0	0	0	0	150
Sub Total - Service and Financial Planning	**0**	**(160)**	**(180)**	**(180)**	**(30)**
Capital Programme Total	**403**	**130**	**91**	**308**	**436**

Leisure VAT repayment reserve	(470)
Uncommitted Capital Receipts	(509)
Total	**(979)**

2.10. Projected Capital Receipts are shown in the table below:

Capital Receipts	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000
Opening Balance	**(2,673)**	**(1,652)**	**(888)**	**(294)**	**(86)**	**(2,673)**
BLC early repayment of capital	509					509
Sale of land at Netherstowe and Leyfields[2]		(527)				(527)
Other Receipts	(10)	(10)	(10)	(11)	(9)	(50)
Utilised in Year	522	1,301	604	219	0	2,646
Closing Balance	**(1,652)**	**(888)**	**(294)**	**(86)**	**(95)**	**(95)**
Housing Receipts						
Opening Balance	**0**	**(197)**	**(197)**	**(197)**	**(197)**	**(197)**
Right to Buy Receipts	(197)					
Closing Balance	**(197)**	**(197)**	**(197)**	**(197)**	**(197)**	**(197)**

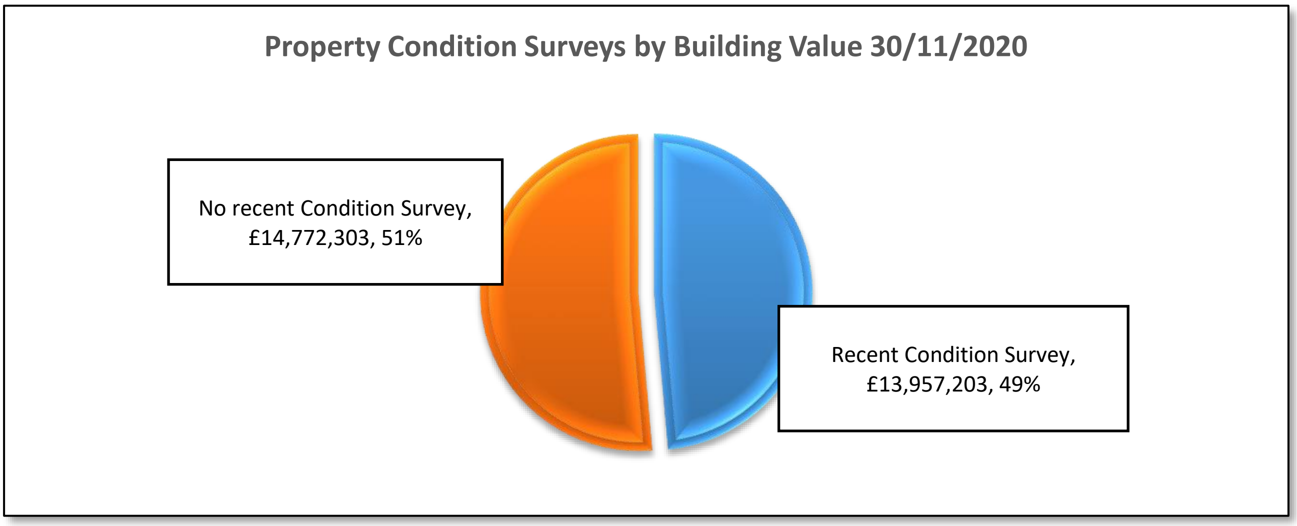
3. The Balance Sheet

3.1. The Capital Programme and its funding together with the wider MTFS will impact on the Council's Balance Sheet. This is due to lower usable reserves leading to lower investments and increased non-current assets with the leisure centre and waste fleet that will be funded by external debt:

[2] Subject to planning approval.

4. Asset Management Planning

4.1. The Estates Team is currently in the process of undertaking Property Condition Surveys for Property Assets owned by the Council. Progress to date is shown below:



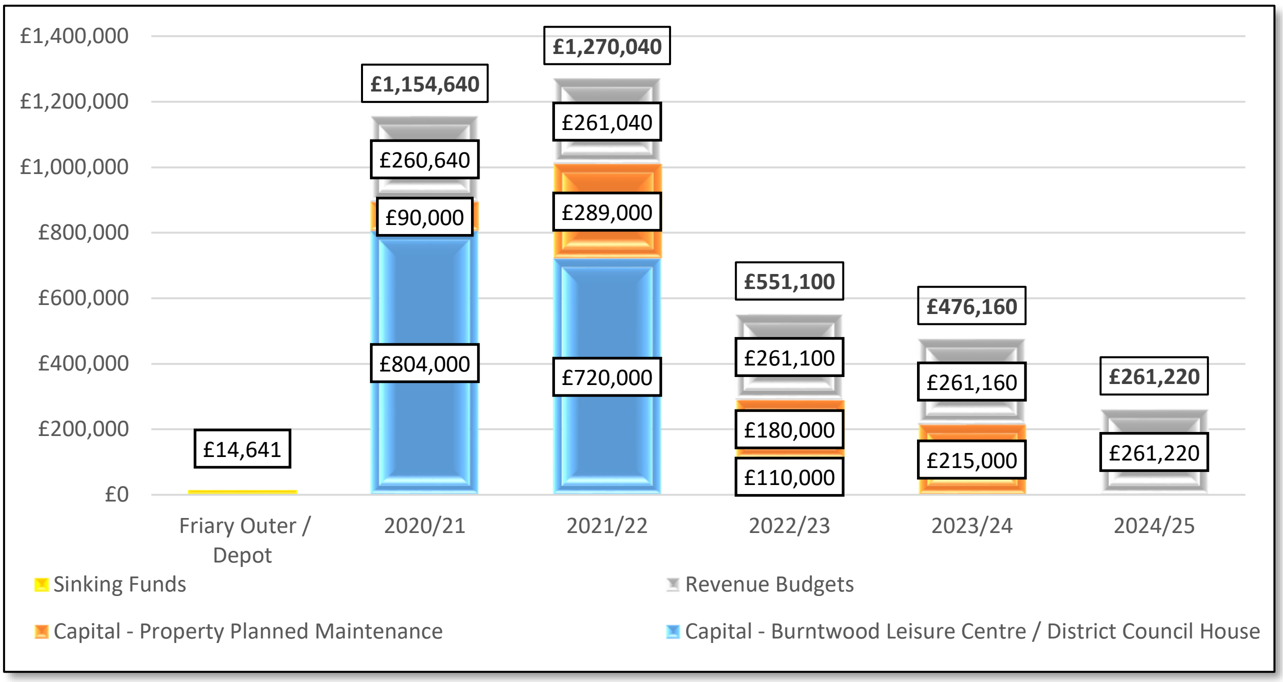
4.2. At this stage, Estates estimate that a Capital Programme annual budget of between **£100,000** and **£150,000** will be required to maintain and enhance property.

4.3. Therefore for financial planning purposes, an annual budget of **£140,000** (based on 0.3% of projected asset value) has been included in the Longer Term Capital Investment Plan.

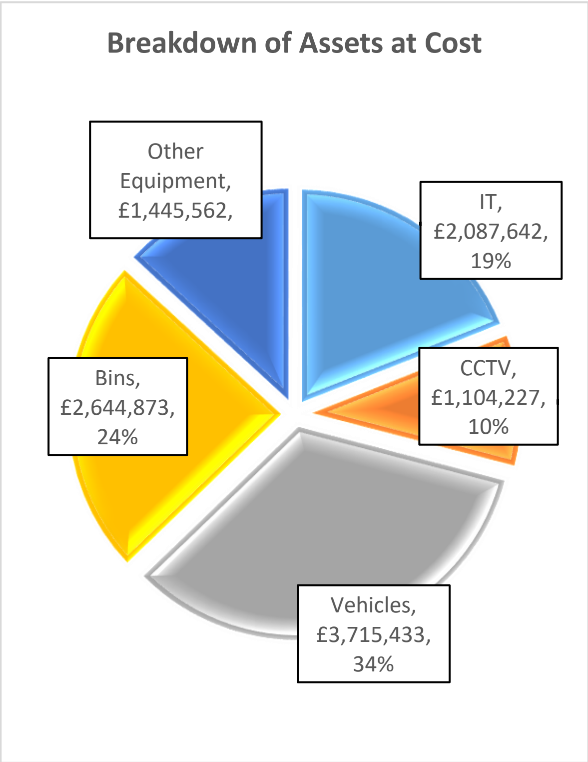
4.4. Cabinet on 6 October 2020 approved a deed of variation and deed of release in relation to the Three Spires Shopping Centre that included the release of the Birmingham Road Multi Storey Sinking Fund to deliver the outcomes contained in the Lichfield City Centre Masterplan.

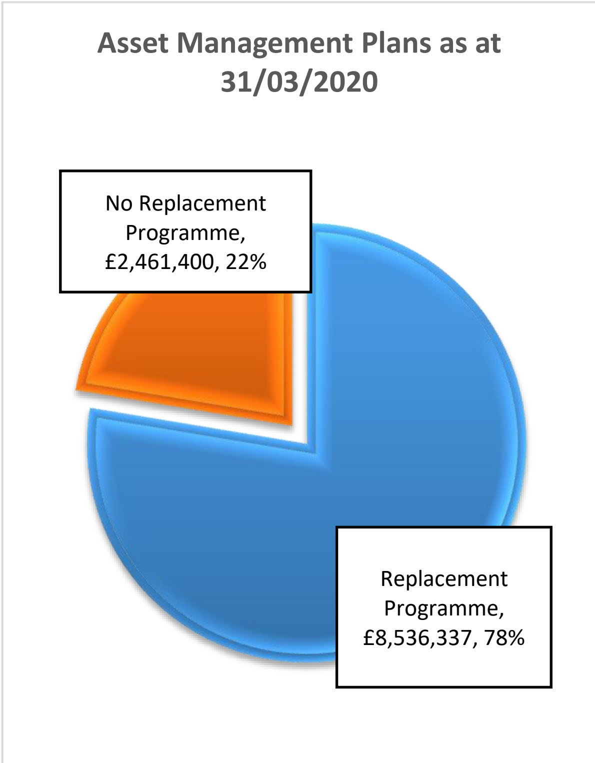
4.5. This means this reserve is no longer specifically earmarked for the replacement of the Multi Storey Car Park. However a budget of **£300,000** is included in the Capital Programme for essential repairs.

4.6. The resources identified for enhancement and maintenance of property assets are:

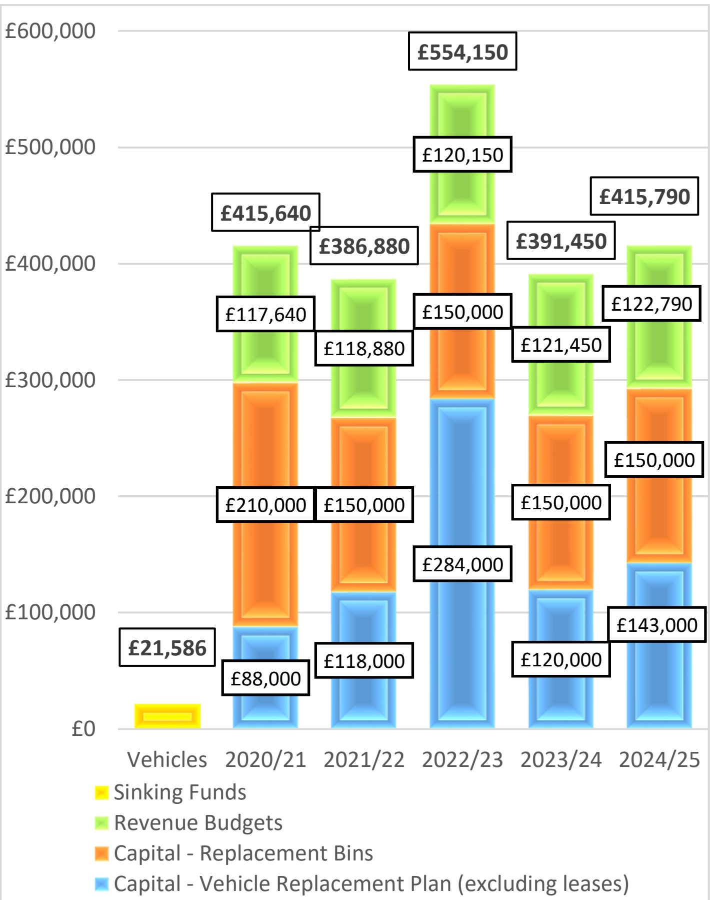


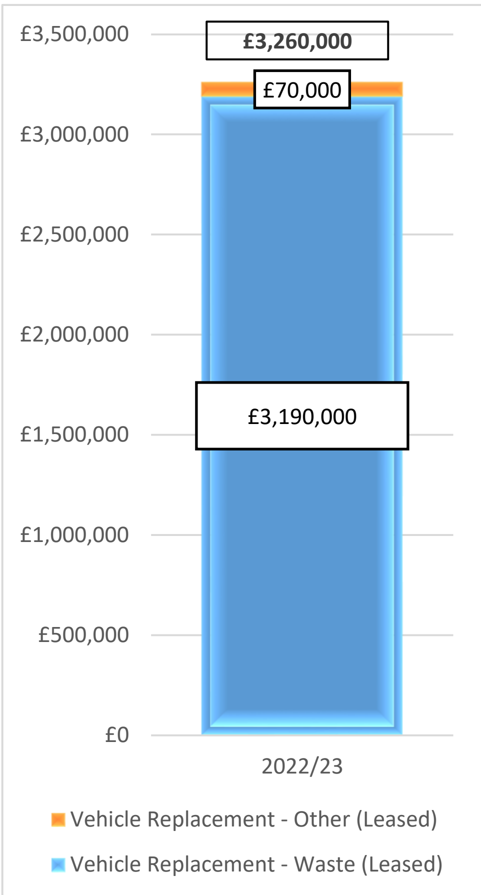
4.7. The Asset Management Plans in place for vehicles, plant and equipment assets are:





4.8. The resources identified for replacement and maintenance of vehicles, plant and equipment are:





5. Longer Term Capital Investment Planning

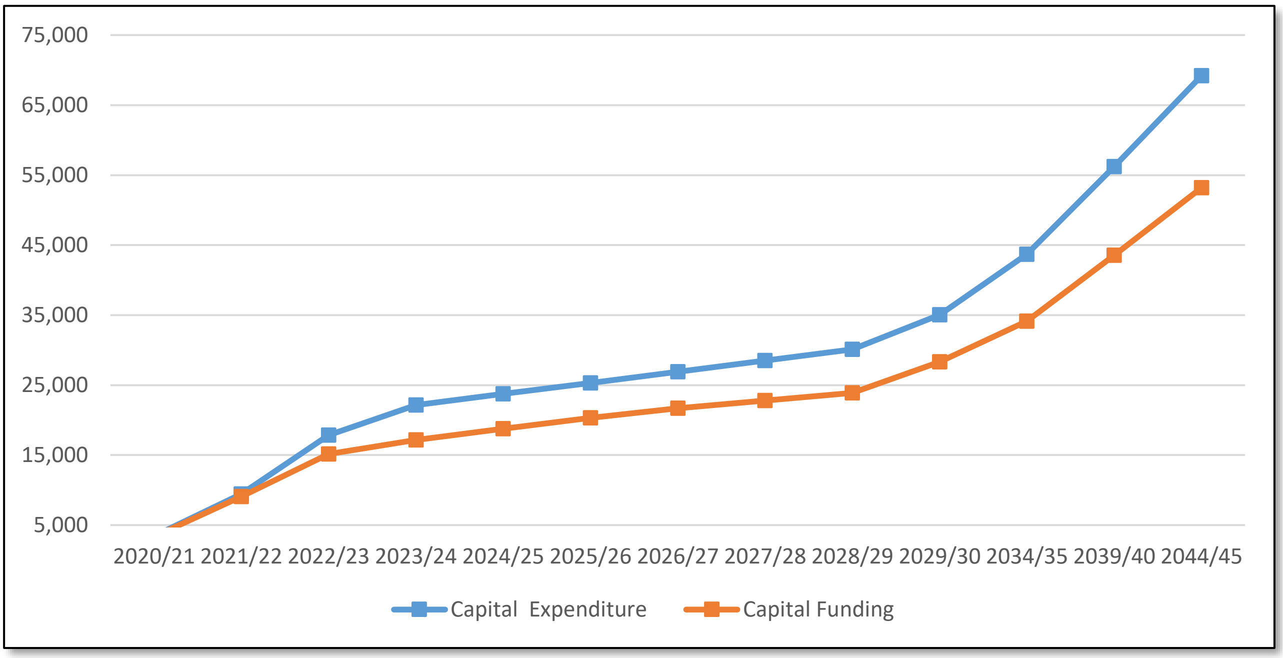
5.1. The Medium Term Financial Strategy covers a relatively short period of time (current financial year plus the next four years) and this short horizon is not reflective of the longer term investment needs associated with asset ownership.

5.2. Therefore it is prudent to also produce financial plans that cover a longer term financial planning horizon such as 25 years.

5.3. The following key assumptions have been utilised in producing the longer term financial plan:

- Annual core inflation of **2%**.
- Population in Lichfield District increases by an annual average of **0.33%**.
- The proportion of the population aged 65 and over increases from **24%** in 2020/21 to **28%** by 2044/45.
- The value of building assets increases from **£35m** in 2020/21 to **£46m** in 2024/25 with the building of a new Leisure Centre.
- An assessment of Property Planned Maintenance budgets at **0.3%** of building value or **£140,000** from 2025/26 has been utilised with annual inflationary increases.
- An assessment of ICT investment using the average level of investment in the last Capital Bid submitted of **£175,000** from 2025/26 has been utilised with annual inflationary increases.

5.4. The longer term capital investment plan is shown in detail at **ANNEX 1** and in the chart below:



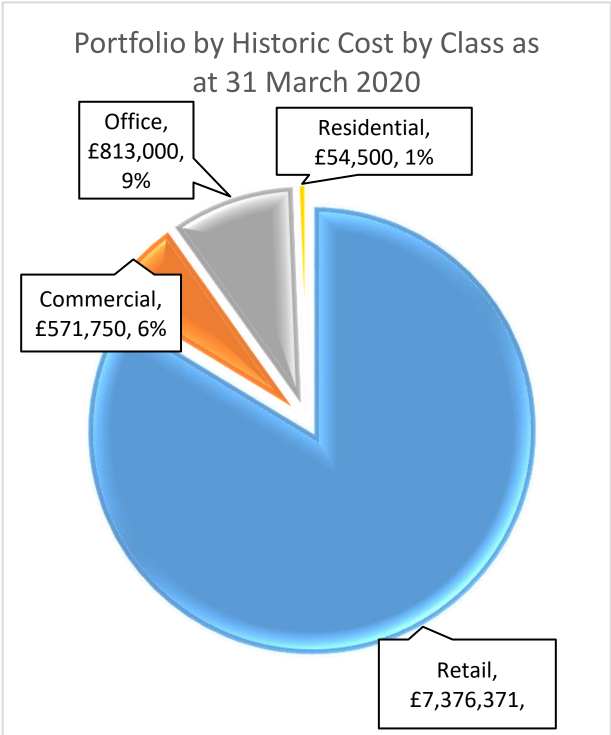
5.5. The difference between capital expenditure and funding would result in an increase in the cumulative level of borrowing need of **£16m** (including £5m approved for the new Leisure Centre).

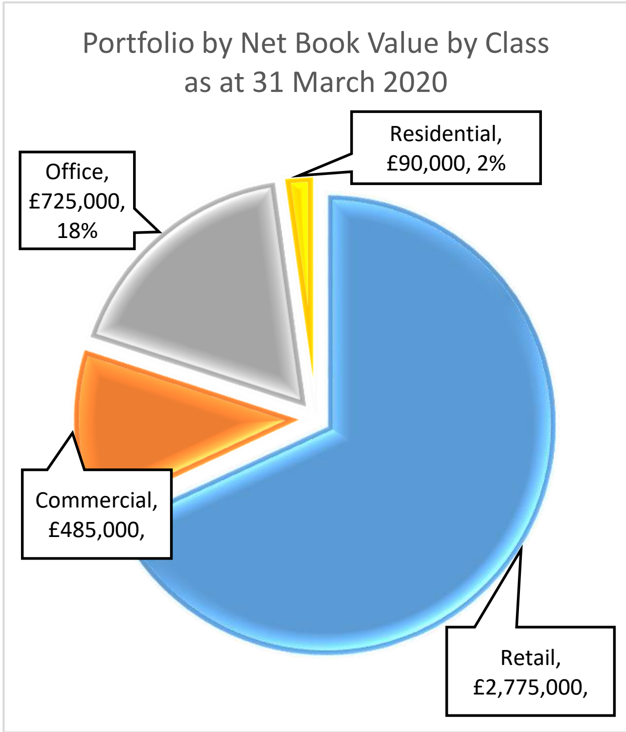
5.6. This additional borrowing need would result in additional and increasing debt repayment costs in the revenue budget thereby further increasing the Funding Gap.

5.7. However the borrowing need can be reduced through actions such as the receipt of external funding or sale of assets.

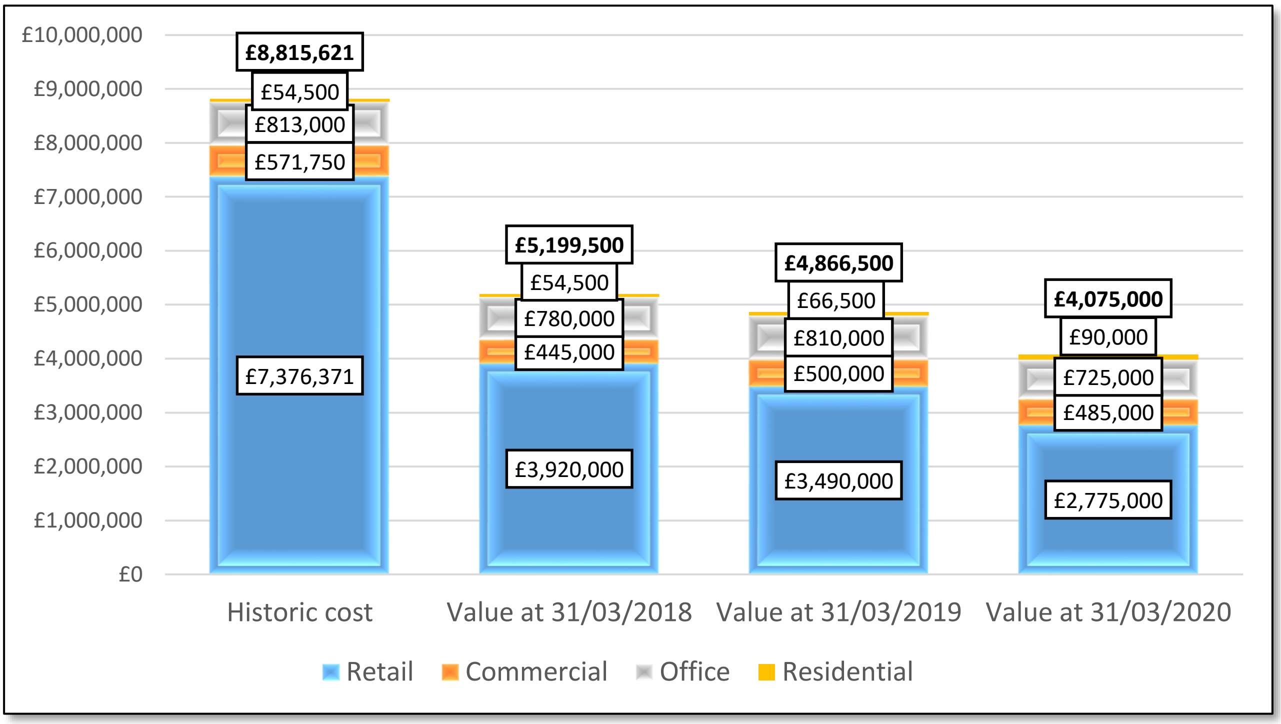
6. Current Investment in Property

6.1. The Council also owns a number of properties that provide an income return and the composition of the portfolio at 31 March 2020 is shown below:





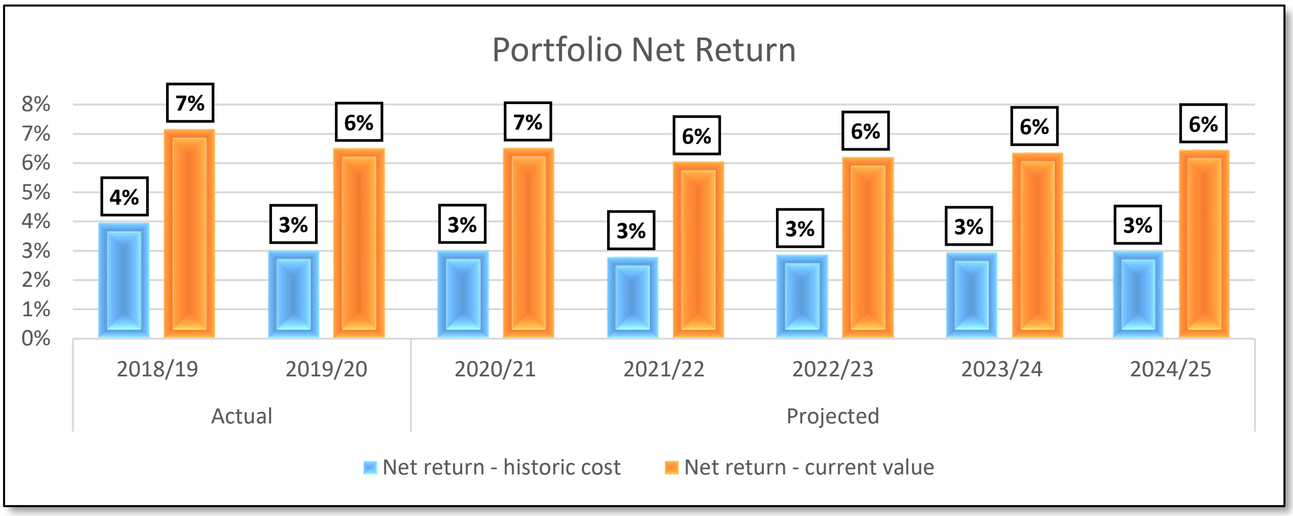
6.2. The value of these properties over the last three years is shown below:



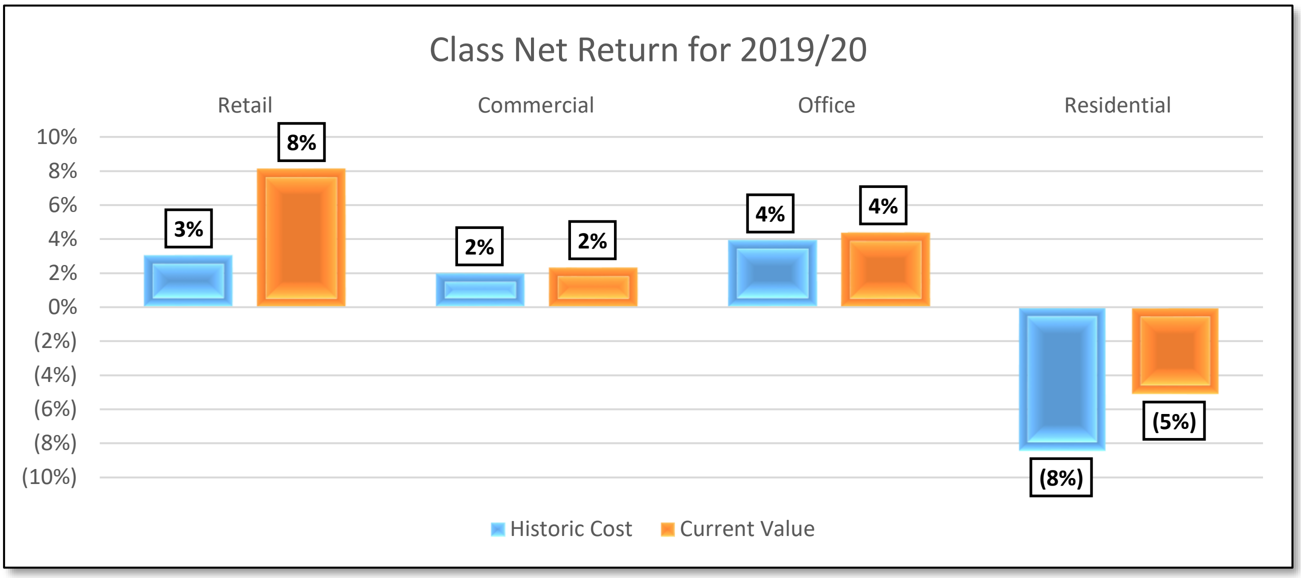
6.3. The value of these properties (mainly those classed as retail) have reduced because the value assessed by the external valuer is based on prevailing rental levels.

6.4. These properties were acquired without the need for borrowing and therefore the loan to value ratio for the portfolio is **0%**.

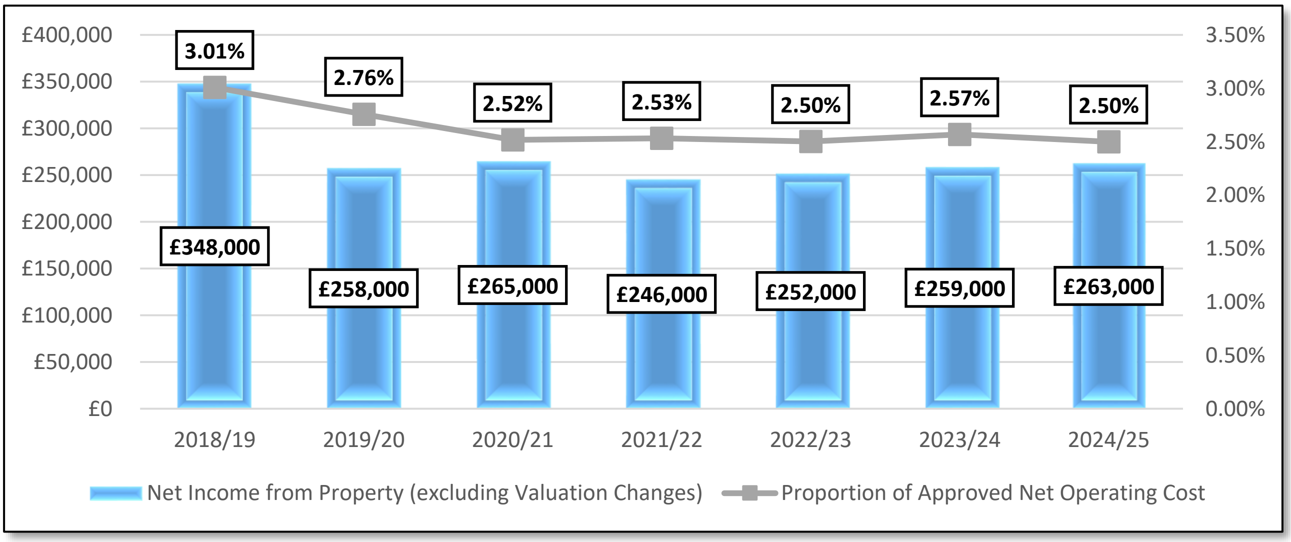
6.5. The portfolio net return based after taking account of management costs using historic asset cost and current value is shown in the chart below:



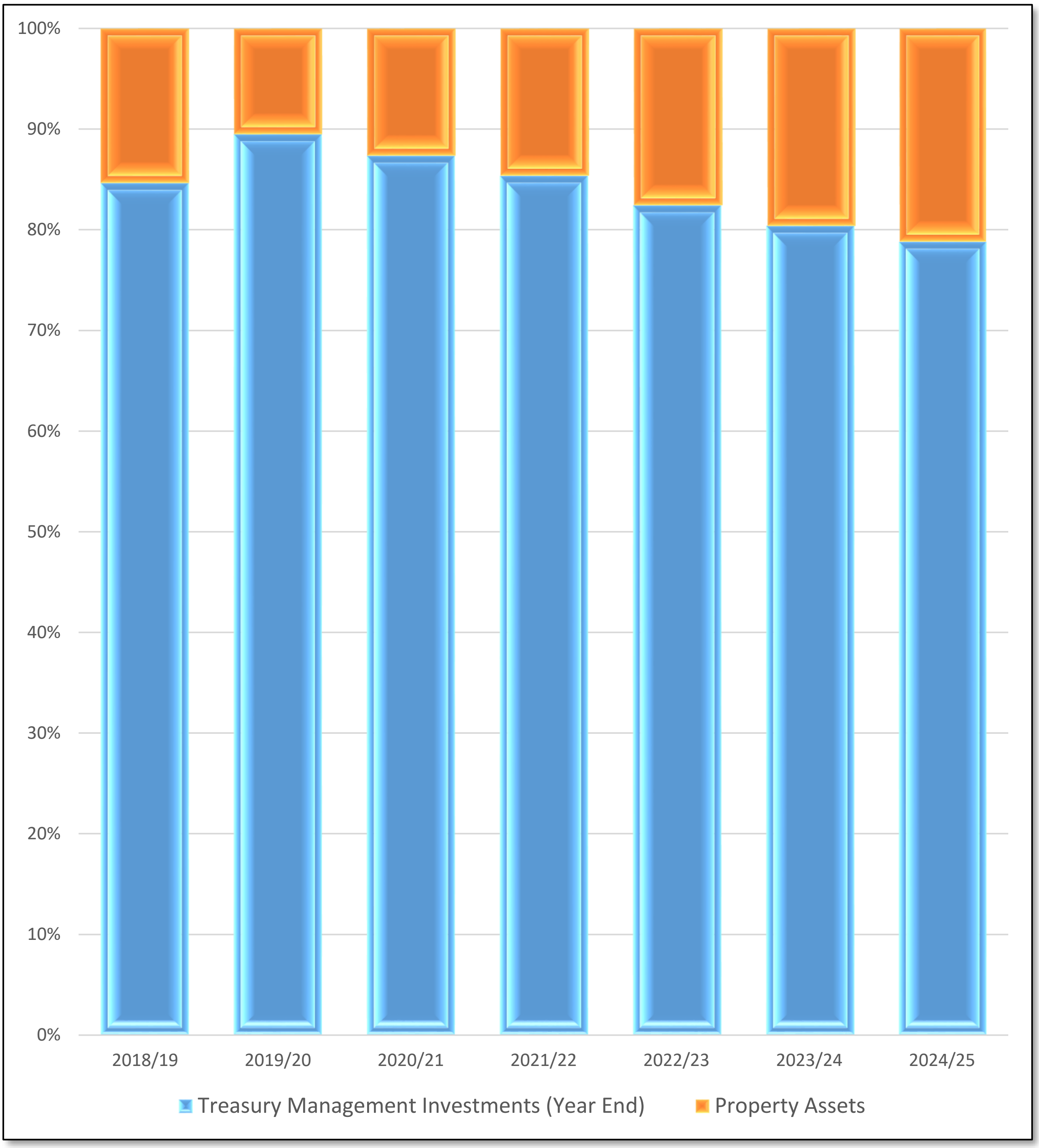
6.6. The net return is further analysed for 2019/20 by class of investment within the portfolio:



6.7. The proportion of the Revenue Budget supported by income from these properties is shown below:



6.8. The ratio of Treasury Management investments to property asset investments is shown below:



6.9. The Council has a Local Authority Trading Company Lichfield Housing Limited that was incorporated in September 2019 with an aim to deliver housing development.

6.10. The Council undertook an equity investment of **£225,000** in 2020/21 and plans to advance a loan of up to **£675,000** to Lichfield Housing Limited in 2021/22 for a period of up to **5 years** to facilitate housing development, subject to appropriate schemes being identified.

6.11. The loan to the Company will produce an income stream at **4%** from the company and the loan repayment will be treated as a capital receipt in 2025/26 in the Medium Term Financial Strategy. At present, no dividend income is assumed to be received from the Company.

7. Debt Management

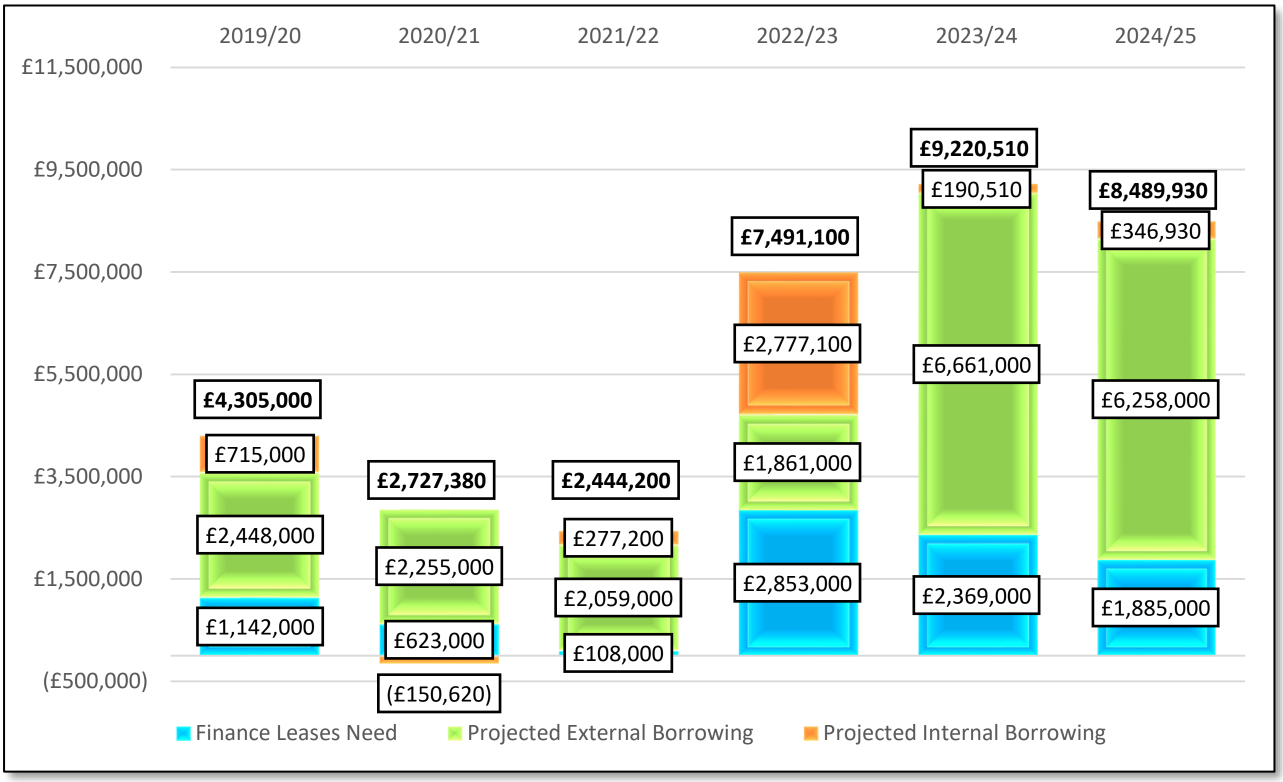
7.1. The Capital Programme is funded from a variety of sources. A number of these sources such as capital receipts, the revenue budget, grants, contributions and reserves utilise resources that are immediately available or are receivable. However when capital expenditure is approved, and these resources are not available, then a **Capital Financing Requirement** (CFR) or borrowing need results.

7.2. The CFR is managed through the approval by Council of the Medium Term Financial Strategy including the Capital Programme and Prudential Indicators.

7.3. The CFR must be financed through borrowing or finance leases (external debt) or by temporarily utilising internal resources (internal borrowing).

7.4. At 31 March 2020 the Council had a relatively low level of external debt outstanding of **£3.590m**. The new leisure centre and the renewal of the waste fleet will mean external debt is projected to increase to **£8.143m** by 31 March 2025.

7.5. The projected CFR (the total for each column), **external debt** (finance leases and external borrowing) and **internal borrowing** (external borrowing is temporarily higher than the CFR by £150,620 at the end of 2020/21 following the proposed early repayment of the BLC capital funding) is shown below:



7.6. The CFR is related to:

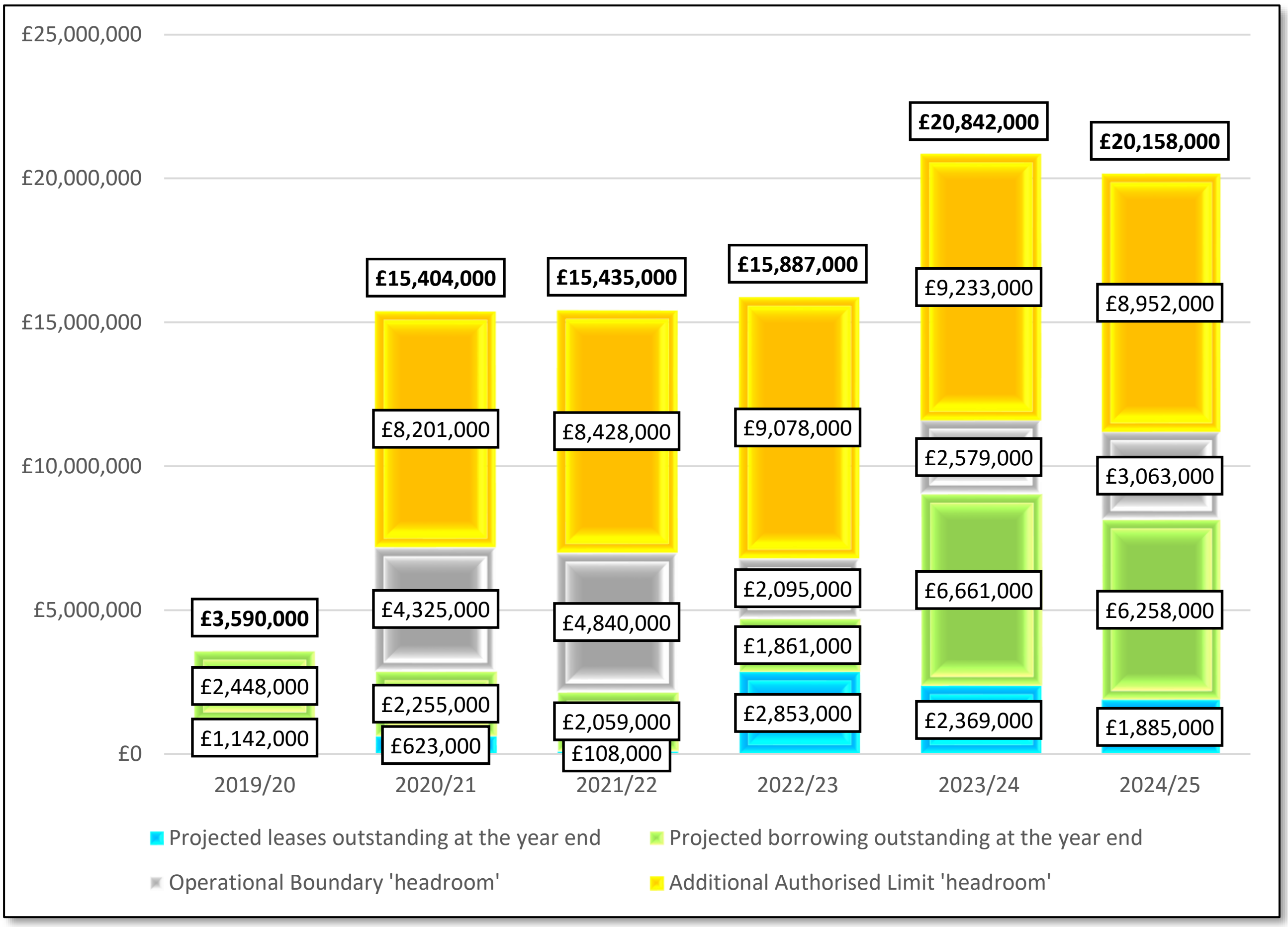
- Historic capital expenditure for the Chasewater Dam, Friary Outer Car Park and vehicles funded by finance leases.
- Planned capital expenditure for the new Leisure Centre and the renewal of the waste fleet funded by a lease type arrangement.

7.7. The Council manages its external debt through setting Prudential Indicators, related to the statutory maximum, known as the **Authorised Limit** and a lower warning level known as the **Operational Boundary.**

7.8. The external debt projections are based on the approved Capital Programme however to manage unforeseen events, an element of flexibility or 'headroom' is included in the Prudential Indicators:

- **Operational Boundary** – flexibility is included to enable internal borrowing to be converted to external debt or for example, to ensure accounting changes such as those proposed for all leases to be classed as finance leases to be incorporated without breaching the limit.
- **Authorised Limit** – this provides additional flexibility to manage unusual cash flows that necessitate temporary borrowing such as Government Grants not being paid.

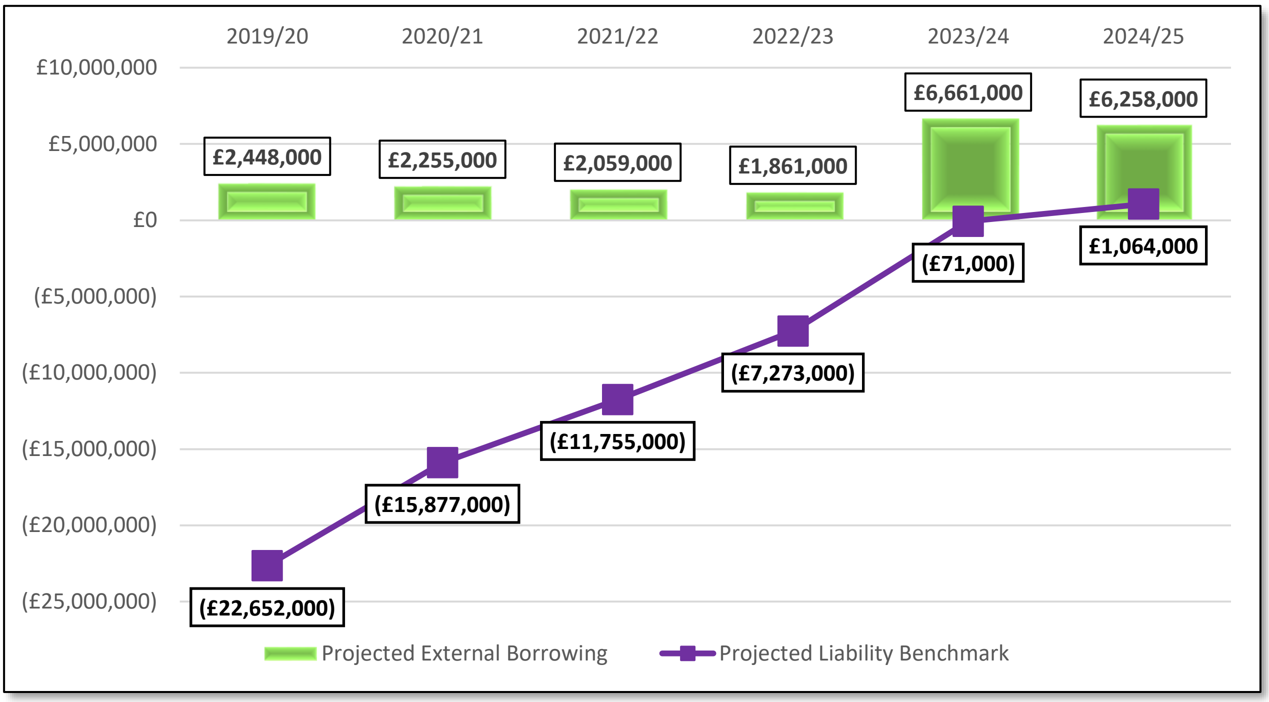
7.9. The external debt and Prudential Indicators projections based on the Capital Programme are:



	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Borrowing		£10,956,000	£10,987,000	£11,439,000	£16,394,000	£15,710,000
Leases		£4,448,000	£4,448,000	£4,448,000	£4,448,000	£4,448,000
Authorised limit	**£4,315,000**	**£15,404,000**	**£15,435,000**	**£15,887,000**	**£20,842,000**	**£20,158,000**
Borrowing		£2,755,000	£2,559,000	£2,361,000	£7,161,000	£6,758,000
Leases		£4,448,000	£4,448,000	£4,448,000	£4,448,000	£4,448,000
Operational boundary	**£4,315,000**	**£7,203,000**	**£7,007,000**	**£6,809,000**	**£11,609,000**	**£11,206,000**
Projected year end borrowing	£2,448,000	£2,255,000	£2,059,000	£1,861,000	£6,661,000	£6,258,000
Projected year end leases	£1,142,000	£623,000	£108,000	£2,853,000	£2,369,000	£1,885,000
Projected year-end total external debt	**£3,590,000**	**£2,878,000**	**£2,167,000**	**£4,714,000**	**£9,030,000**	**£8,143,000**

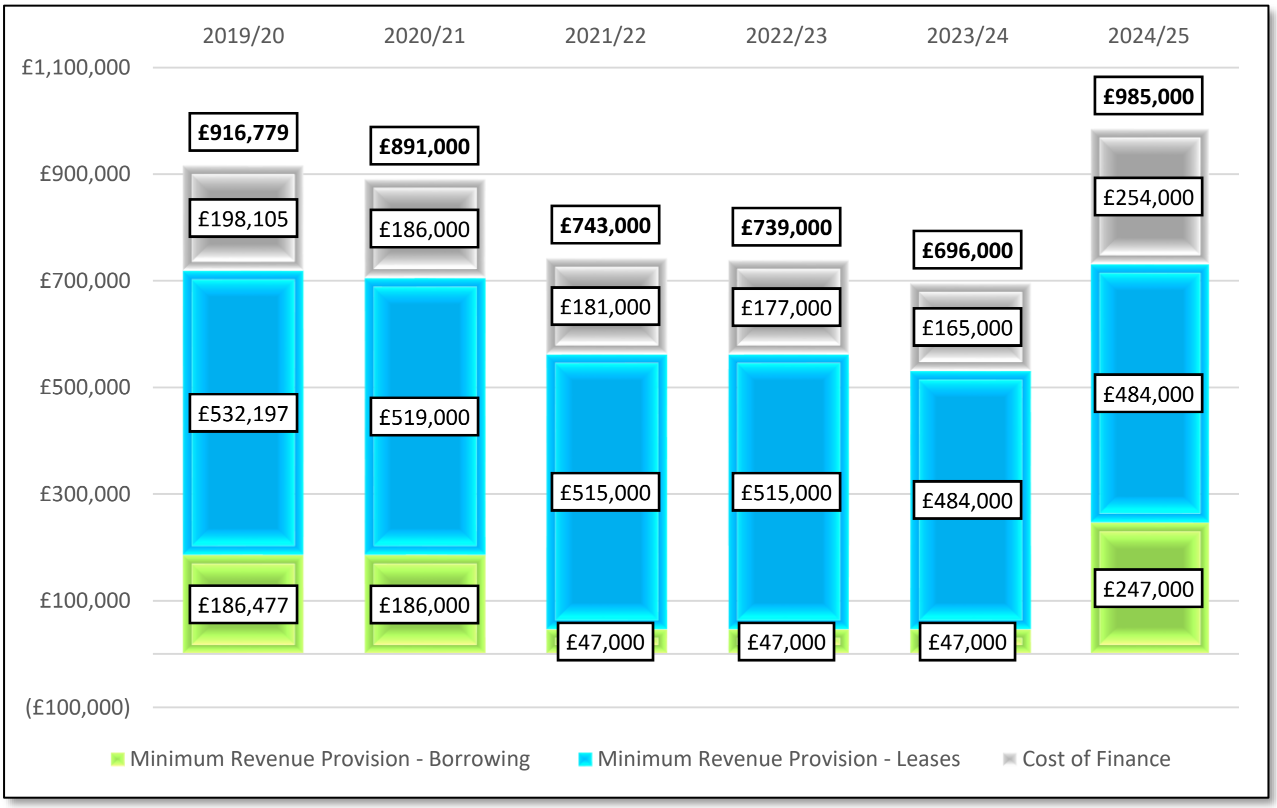
7.10. The **liability benchmark** is the lowest risk level of external borrowing by keeping cash and investments to a minimum of **£10m** at each year end to maintain liquidity but minimise credit risk.

7.11. The projected level of external borrowing, and the projected liability benchmark in £000s is:

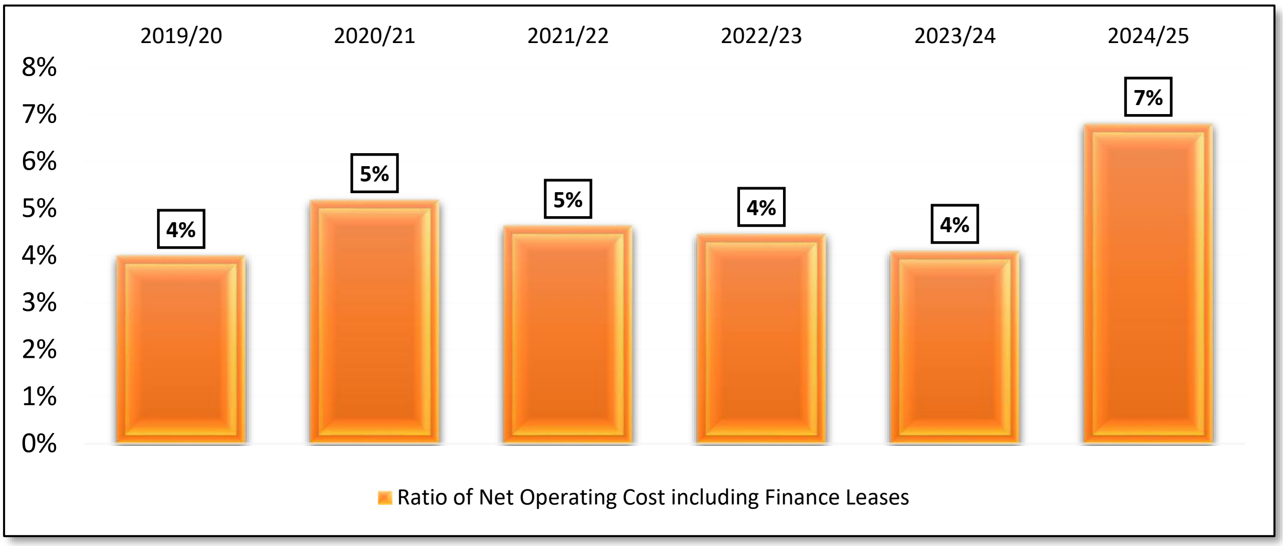


7.12. The chart above indicates that based on current Balance Sheet projections where usable reserves are reducing, the Council has sufficient resources to fund **c£5m** of additional internal borrowing.

7.13. The cost of debt servicing includes the cost of finance and Minimum Revenue Provision (MRP). Debt is only a temporary source of finance since loans and leases must be rapid, and this is therefore replaced over time by other financing, usually from revenue which is known as MRP:



7.14. The proportion of the net budget allocated to financing costs (net of investment income) is shown below:



7.15. The Minimum Revenue Provision and therefore the financing costs ratio increases in 2024/25 because of the inclusion of the annual revenue debt costs, commencing at **£294,000**, for the new leisure centre.

8. Financial Guarantees

8.1. In addition to the debt projections shown above, in relation to external borrowing and finance leases, the Council also acts as a guarantor for an admitted body that delivers services on behalf of the Council.

8.2. In the event that it is probable that these guarantees will be required a financial provision is created to mitigate the risk. The guarantees identified in the Statement of Accounts under the Contingent Liabilities note are:

- **The Lichfield Garrick** – the guarantee relates to the pensions of transferred employees and at 31 March 2020 the risk of default was assessed as less than **1%** and therefore the financial risk to the Council is **£3,927.**
- **Freedom Leisure -** the guarantee relates to the pensions of transferred employees and at 31 March 2020 the risk of default was assessed as less than **1%** and therefore the financial risk to the Council is **£79,212.** Freedom Leisure have been admitted to the Pension Fund using a 'pass through' agreement where the Council bears all market related risks such as investment returns. The Pension Fund actuary assessed a market related bond to manage these risks to be **£677,000**. The Council agreed to the creation of an earmarked reserve, projected to total **£267,080** (£60,100 at 31 March 2020) at the end of the ten year contract period, from the leisure outsourcing savings with any additional sum to be provided by General Reserves.

8.3. These guarantees are assessed throughout the year, in terms of the financial viability of the organisations for which the guarantee is provided, to determine whether a financial provision will need to be created. The COVID-19 pandemic has increased the level of financial risk in relation to these two guarantees, however additional funding has been provided by the Council and other funders as mitigation. However the situation will need to be kept under constant review.

9. The Authority's Risk Appetite, Knowledge and Skills

9.1. The Council's risk appetite, along with the majority of Local Government, is increasing due to the need to offset funding reductions from Central Government with income from alternative sources.

9.2. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance and Procurement is a qualified accountant with 30 years' experience, the Council has recruited a new Estates Team to optimise the management of existing property. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and the Association of Accounting Technicians.

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

9.4. The Council does not plan to utilise the flexible use of capital receipts for transformation projects.

10. Prudential and Local Indicators

10.1. The Prudential and Local Indicators in relation to the Capital Strategy are shown below (rounding may result in slight differences in figures):

Prudential Indicators

Indicators	2019/20 Actual	2020/21 Original	2020/21 Revised	2021/22 Original	2022/23 Original	2023/24 Original	2024/25 Original
Capital Investment							
Capital Expenditure (£m)	£2.297	£17.751	£3.979	£6.530	£8.430	£4.278	£1.608
Capital Financing Requirement (£m)	£4.305	£25.432	£2.727	£2.444	£7.491	£9.221	£8.490
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£3.590)	(£19.091)	(£2.878)	(£2.167)	(£4.714)	(£9.030)	(£8.143)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	Yes	No	No	No	No
Total Debt							
Authorised Limit (£m)	£4.315	£31.906	£15.404	£15.435	£15.887	£20.842	£20.158
Operational Boundary (£m)	£4.315	£23.088	£7.203	£7.007	£6.809	£11.609	£11.206
Proportion of Financing Costs to Net Revenue Stream (%)	4%	10%	5%	5%	4%	4%	7%

Local Indicators

Indicators	2019/20 Actual	2020/21 Original	2020/21 Revised	2021/22 Original	2022/23 Original	2023/24 Original	2024/25 Original
Replacement of Debt Finance or MRP (£m)	(£0.719)	(£1.041)	(£1.684)	(£0.561)	(£0.562)	(£0.531)	(£0.731)
Capital Receipts (£m)	(£1.005)	(£0.537)	(£0.010)	(£0.537)	(£0.010)	(£0.011)	(£0.009)
Earmarked Housing Capital Receipts (£m)	£0	£0	(£0.197)	£0	£0	£0	£0
Liability Benchmark (£m)	£22.652	(£11.249)	£15.877	£11.755	£7.273	£0.071	(£1.064)
Treasury Management Investments (£m)	£34.554	£16.759	£28.131	£23.813	£19.133	£16.731	£15.193

11. Chief Finance Officer Assessment of the Capital Strategy

11.1. The removal of the Property Investment Strategy by Council means the level of risk associated with the Capital Strategy has significantly reduced from an assessed maximum level of **144** to **48**.

11.2. I have assessed the current overall risk as **24** out of **48** based on the following factors:

	Likelihood	Impact	2021/22	2020/21
Minimum			**0**	**0**
Capital Strategy				
Slippage Occurs in the Capital Spend	4	2	8	8
Planned Capital Receipts are not received	3	4	12	12
Actual Cash flows differ from planned Cash flows	2	2	4	4
Investment in Property				
Slippage Occurs in the Capital Spend	4	2	0	8
Change of Government policy including regulatory change	3	4	0	12
The form of exit from the EU adversely impacts on the UK economy including the Property Market and Borrowing Costs	3	4	0	12
There is a cyclical 'downturn' in the wider markets	3	3	0	9
Insufficient expertise to Invest in Property	1	4	0	4
Inability to acquire or dispose of assets due to good opportunities not being identified	3	4	0	12
Assessed Level of Risk			**24**	**85**
Maximum			**48**	**144**

Capital Programme – 25 Year Model (1 to 10 years, 15 years, 20 years and 25 years)

Key Assumptions	Medium Term Financial Strategy					Additional Projections							
Year	2020/21 1	2021/22 2	2022/23 3	2023/24 4	2024/25 5	2025/26 6	2026/27 7	2027/28 8	2028/29 9	2029/30 10	2034/35 15	2039/40 20	2044/45 25
Population Projections	104,858	105,293	105,709	106,073	106,432	106,749	107,070	107,398	107,724	108,040	109,651	111,546	113,588
% Increase in Population		0.41%	0.40%	0.34%	0.34%	0.30%	0.30%	0.31%	0.30%	0.29%	0.32%	0.37%	0.33%
% of population 65 and over	24.13%	24.33%	24.48%	24.70%	24.88%	25.03%	25.31%	25.57%	25.80%	26.09%	27.33%	27.92%	27.63%
Projected Council Tax Base							42,176	42,497	42,818	43,139	44,744	46,349	47,954
Asset Values (£000)													
Buildings	34,633	35,665	38,571	40,874	47,774	47,774	47,774	47,774	47,774	47,774	47,774	47,774	47,774
Leisure Centre Cost above £5m				6,900									
Land	9,016												
Vehicles, Plant and Equipment	2,285												
Other Assumptions													
Core Budget Inflation Allowance						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Asset Management Condition Allowance						0.30%							

Key Assumptions	Medium Term Financial Strategy					Additional Projections							
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2034/35 £000	2039/40 £000	2044/45 £000
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**25**
New Assets													
Loan in Council Company		675											
Replacement Leisure Centre	106	278	2,349	2,260									
Housing Investment	255	429											
New Coach Park	250	325	557	43									
New Coach Park - Land		300											
Equity in Council Company	225												
Sub Total	**836**	**2,007**	**2,906**	**2,303**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Existing Property													
Property Planned Maintenance	90	289	180	215		140	143	146	149	152	167	185	204
BRS - Short Term Redevelopment	222												
Burntwood Leisure Centre	754	532											
Depot Sinking Fund		11											
Equipment Storage in Beacon Park	100												
District Council House	50	188	110										
Dam Street Toilets	40												
Sub Total	**1,256**	**1,020**	**290**	**215**	**0**	**140**	**143**	**146**	**149**	**152**	**167**	**185**	**204**

Vehicles, Plant and Equipment													
Bin Purchases	210	150	150	150	150	150	151	152	153	155	160	166	172
Vehicles - Waste	22		3,243							3,308			
Vehicles - Other	66	118	301	120	143	150	153	156	159	162	179	197	218
ICT Investment	249	405	225	174		175	179	182	186	190	209	231	255
New Financial Information System	75	225											
Sub Total	**622**	**898**	**3,919**	**444**	**293**	**475**	**482**	**490**	**498**	**3,814**	**549**	**595**	**645**
Other Capital Investment													
Disabled Facilities Grants	511	1,272	1,272	1,272	1,272	914	927	940	951	964	1,025	1,066	1,074
Home Repair Assistance / Energy Insulation	10	44	43	43	43	25	25	25	25	25	25	25	25
Other Projects	744	1,289											
Sub Total	**1,265**	**2,605**	**1,315**	**1,316**	**1,315**	**939**	**952**	**965**	**976**	**989**	**1,050**	**1,091**	**1,099**
Total Modelled Expenditure	**3,979**	**6,530**	**8,430**	**4,278**	**1,608**	**1,554**	**1,578**	**1,601**	**1,623**	**4,955**	**1,766**	**1,870**	**1,948**

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	2020/21 £000	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**	**2029/30 £000**	**2034/35 £000**	**2039/40 £000**	**2044/45 £000**
Corporate Funding													
Capital Receipts	(522)	(1,296)	(604)	(219)		(490)	(291)						
Capital Receipts – Statue		(5)											
Revenue – Corporate	(182)			(213)									
Other Funding													
Disabled Facilities Grant – New	(1,110)	(1,096)	(906)	(906)	(906)	(914)	(927)	(940)	(951)	(964)	(1,025)	(1,066)	(1,074)
Disabled Facilities Grant – Existing	599	(176)	(366)	(366)	(366)								
Home Repair Assistance / Energy Insulation	(10)	(44)	(43)	(43)	(43)								
Other Grants	(531)	(891)	(500)										
Section 106	(601)	(785)											
CIL	(101)	(79)											
Reserves	(1,030)	(1,730)	(252)	(120)	(143)								
Revenue - Existing Budgets	(162)	(150)	(150)	(150)	(150)	(150)	(151)	(152)	(153)	(155)	(160)	(166)	(172)
Burntwood Leisure Centre Sinking Fund	(223)												
Finance Leases	0	0	(3,260)	0	0	0	0	0	0	(3,308)	0	0	0
Total Modelled Funding	**(3,873)**	**(6,252)**	**(6,081)**	**(2,017)**	**(1,608)**	**(1,554)**	**(1,369)**	**(1,092)**	**(1,105)**	**(4,427)**	**(1,186)**	**(1,232)**	**(1,246)**

Annual Borrowing Need	**106**	**278**	**2,349**	**2,260**	**0**	**0**	**209**	**509**	**518**	**528**	**581**	**638**	**702**
Cumulative Borrowing Need	**106**	**384**	**2,733**	**4,993**	**4,993**	**4,994**	**5,202**	**5,711**	**6,229**	**6,757**	**9,553**	**12,627**	**16,008**

APPENDIX B

Capital Programme

Project	Capital Programme (R=>500k, A=250k to 500k and G=<250k)	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000	Corporate
Gym Equipment at Burntwood Parks	A	34	0	0	0	0	34	0
New Parish Office/Community Hub	R	0	92	0	0	0	92	0
Village Hall storage container	R	0	6	0	0	0	6	0
Armitage War Memorial	R	0	120	0	0	0	120	0
Canopy and artificial grass at Armitage	R	0	3	0	0	0	3	0
Burntwood LC CHP Unit	A	223	0	0	0	0	223	0
Burntwood LC – Decarbonisation	A	531	532	0	0	0	1,063	0
King Edwards VI School (CIL)	R	101	0	0	0	0	101	0
Friary Grange - Short Term Refurb	R	400	240	0	0	0	640	0
Replacement Leisure Centre	A	106	278	2,349	2,260	0	4,993	0
St. Stephen's School, Fradley	R	22	0	0	0	0	22	0
Beacon Park Pathway	A	30	0	0	0	0	30	30
Disabled Facilities Grants	R	511	1,272	1,272	1,272	1,272	5,599	0
Home Repair Assistance Grants	R	10	22	21	22	21	96	0
Decent Homes Standard	R	0	147	0	0	0	147	0
Energy Insulation Programme	R	0	22	22	22	22	88	0
DCLG Monies	R	0	212	0	0	0	212	0
Vehicle Replacement (Env Health)	A	0	0	20	0	0	20	0
S106 Affordable Housing Monies	A	255	429	0	0	0	684	0
Enabling People Total		**2,223**	**3,375**	**3,684**	**3,576**	**1,315**	**14,173**	**30**
Darnford Park	A	18	0	0	0	0	18	0
Canal Towpath Improvements	R	0	36	0	0	0	36	0
Loan to Council Dev Co.	A	0	675	0	0	0	675	116
Lichfield St Johns Community Link	R	0	35	0	0	0	35	0
Staffordshire Countryside Explorer	R	0	44	0	0	0	44	0
Equity in Council Dev Co.	A	225	0	0	0	0	225	0
Vehicle Replacement (Waste)	A	22	0	3,243	0	0	3,265	32
Vehicle Replacement (Other)	A	66	108	281	120	143	718	0
Bin Purchase	A	210	150	150	150	150	810	0
Dam Street Toilets	A	40	0	0	0	0	40	40
Env. Improvements - St John St	R	0	7	0	0	0	7	0
Stowe Pool Improvements	A	57	0	0	0	0	57	5
Leomansley Area Improvement Project	R	0	3	0	0	0	3	0
Cannock Chase SAC	R	32	44	0	0	0	76	0
Shaping Place Total		**670**	**1,102**	**3,674**	**270**	**293**	**6,009**	**193**
Multi Storey Car Park Refurbishment	A	50	250	0	0	0	300	0
Coach Park	A	250	625	557	43	0	1,475	390
Birmingham Road - Short Term Works	A	222	0	0	0	0	222	0
Car Parks Variable Message Signing	A	0	32	0	0	0	32	0
Vehicle Replacement (Car Parks)	A	0	10	0	0	0	10	0
Old Mining College - Access and signs	R	0	13	0	0	0	13	0
St. Chads Sculpture	R	0	5	0	0	0	5	5
Developing Prosperity Total		**522**	**935**	**557**	**43**	**0**	**2,057**	**395**
Property Planned Maintenance	A	90	289	180	215	0	774	774
Depot Sinking Fund	A	0	11	0	0	0	11	11
Equipment Storage	A	100	0	0	0	0	100	100
New Financial Information System	A	75	225	0	0	0	300	250
IT Infrastructure	A	154	35	15	0	0	204	204
IT Innovation	A	95	205	50	0	0	350	275
ICT Hardware	A	0	165	160	174	0	499	499
District Council House Repairs	A	50	188	110	0	0	348	310
Good Council Total		**564**	**1,118**	**515**	**389**	**0**	**2,586**	**2,423**
Recommended Capital Programme		**3,979**	**6,530**	**8,430**	**4,278**	**1,608**	**24,825**	**3,041**

APPENDIX B

Non-Current Assets	**A**	**2,903**	**4,207**	**7,115**	**2,962**	**293**	**17,480**	**3,036**
Revenue Expenditure Funded by Capital Under Statute	**R**	**1,076**	**2,323**	**1,315**	**1,316**	**1,315**	**7,345**	**5**

	Capital Programme					
Funding Source	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**Total £000**
Capital Receipts	522	1,296	604	219	0	2,641
Capital Receipts - Statue	0	5	0	0	0	5
Revenue - Corporate	182	0	0	213	0	395
Corporate Council Funding	**704**	**1,301**	**604**	**432**	**0**	**3,041**
Grant	1,052	2,207	1,815	1,316	1,315	7,705
Section 106	601	785	0	0	0	1,386
CIL	101	79	0	0	0	180
Reserves	1,030	1,730	252	120	143	3,275
Revenue - Existing Budgets	162	150	150	150	150	762
Sinking Fund	223	0	0	0	0	223
Leases	0	0	3,260	0	0	3,260
Internal Borrowing	0	0	0	0	0	0
Total	**3,873**	**6,252**	**6,081**	**2,018**	**1,608**	**19,832**
Borrowing Need	**106**	**278**	**2,349**	**2,260**	**0**	**4,993**
Recommended Funding Total	**3,979**	**6,530**	**8,430**	**4,278**	**1,608**	**24,825**

Reconciliation of Original Capital Programme to this Recommended Capital Programme

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000	Cabinet or Decision Date
Original Budget Council 18/02/2020	**17,751**	**13,636**	**18,821**	**4,051**	**0**	**54,259**	
Approved Changes							
Outdoor Gyms at Burntwood parks	34					34	26/02/2020
Slippage from 2019/20	13,454					13,454	02/06/2020
Money Matters 3 Months	(23,203)	23,232				29	08/09/2020
Medium Term Financial Strategy (Revenue and Capital) 2020-25	(91)	(33,500)	(11,500)			(45,091)	06/10/2020
Money Matters 6 Months	11	(209)	212	(157)	143	0	01/12/2020
Money Matters 8 Months	(4,653)	3,097	941	428	384	197	09/02/2021
Burntwood Leisure Centre	531	532				1,063	14/01/2021
Service and Financial Planning Capital Bids							Medium Term Financial Strategy
Bin Replacement					150	150	
Beacon Park Equipment Storage	100					100	
Beacon Park Jogging Track	30					30	
Dam Street Public Conveniences Refurbishment	40					40	
Financial Information System		50				50	
Disabled Facilities Grants		(308)	(44)	(44)	906	510	
Energy Insulation Programme					10	10	
Home Repair Assistance Grants					15	15	
Other Funding Changes							
Decent Homes Standard grant funding							
Energy Insulation and Home Repair Assistance Grants	(25)					(25)	
Recommended Capital Programme	**3,979**	**6,530**	**8,430**	**4,278**	**1,608**	**24,825**	

APPENDIX C

Minimum Revenue Provision Statement 2021/22

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008. The Local Government Act 2003 requires this Council to have regard to the Ministry of Housing, Communities and Local Government's (MGCLG) guidance on MRP most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over the period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the Council to approve an annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

- For capital expenditure incurred after 1 April 2008 where no financial support is provided by the Government through the Finance Settlement, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments. MRP on purchases of **freehold land** will be charged over a maximum of **50 years**. MRP on expenditure not related to assets but that has been **capitalised by regulation or direction** (Revenue Expenditure Funded by Capital under Statute or REFCUS) will be charged over a maximum of **20 years**.
- For assets acquired by **finance leases**, MRP will be determined as being equal to the **element of the charge that is used to reduce the Balance Sheet liability**.
- For **capital expenditure loans to third parties that are repaid** in annual or more frequent instalments of principal, the Council will make **nil MRP**, but instead apply the capital receipts arising to reduce the Capital Financing Requirement or Borrowing Need. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate delaying the MRP until the year after the assets become operational.

Treasury Management

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has 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 Council's prudent financial management.

Treasury risk management at the Council 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 Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

As part of the MTFS, we prepare integrated Revenue Budgets and a Capital Programme. These budgets, together with the actual Balance Sheet from the previous financial year, are used to also prepare Balance Sheet projections. These Balance Sheet Projections are shown on the next page.

These Balance Sheet projections are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement (including comparison to a **Liability Benchmark** explained below), investment levels and our Investment Policy and Strategy.

A Liability benchmark compares the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as used in the Balance Sheet projections, but that cash and investment balances are kept to a minimum level (**£10m**) to maintain sufficient liquidity but minimise credit risk through the use of Internal Borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast Capital Financing Requirement (CFR) or Borrowing Need over the next three years. The table shows that the Council expects to comply with this recommendation (in 2020/21 debt is temporarily higher than the Capital Finance Requirement by £150k following the proposed early repayment of the Burntwood Leisure Centre Capital Investment).

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Capital Financing Requirement (Borrowing)	£3,162	£2,104	£2,336	£4,638	£6,852	£6,605
Capital Financing Requirement (Finance Leases)	£1,143	£623	£108	£2,853	£2,369	£1,885
Total	**£4,305**	**£2,727**	**£2,444**	**£7,491**	**£9,221**	**£8,490**

External Borrowing	(£2,449)	(£2,254)	(£2,059)	(£1,861)	(£6,662)	(£6,259)
Finance Leases	(£1,143)	(£623)	(£108)	(£2,853)	(£2,369)	(£1,885)
Total	**(£3,591)**	**(£2,877)**	**(£2,167)**	**(£4,714)**	**(£9,031)**	**(£8,144)**

Liability Benchmark	£22,652	£15,877	£11,755	£7,273	£71	(£1,064)

APPENDIX D

Balance Sheet Projections 2020-25

(Rounding may result in slight differences in figures in the wider Report)

	Type	2019/20 Actual £000s	2020/21 Budget £000s	2021/22 Budget £000s	2022/23 Budget £000s	2023/24 Budget £000s	2024/25 Budget £000s	2020/25 Change £000s
Non-Current Assets	ASSET	46,000	46,893	48,640	53,970	55,147	53,655	6,762
Equity Investment in Local Authority Company	ASSET	0	225	225	225	225	225	0
Long Term Debtors	CRED	141	141	141	141	141	141	0
Long Term Investment (Company Loan)	LOAN	0	0	675	675	675	675	675
Investments	INV	34,737[3]	28,131	23,813	19,133	16,731	15,193	(12,938)
Borrowing	BOLE	(2,449)	(2,255)	(2,059)	(1,861)	(6,661)	(6,258)	(4,004)
Finance Leases	BOLE	(1,143)	(623)	(108)	(2,853)	(2,369)	(1,885)	(1,262)
Working Capital	CRED	(11,872)	(11,569)	(11,081)	(10,715)	(10,349)	(9,983)	1,586
Pensions	CRED	(32,718)	(31,370)	(33,493)	(35,752)	(34,494)	(36,711)	(5,342)
TOTAL ASSETS LESS LIABILITIES		**32,696**	**29,574**	**26,753**	**22,963**	**19,046**	**15,052**	**(14,522)**

Unusable Reserves								
Revaluation Reserve	REV	(9,425)	(9,425)	(9,425)	(9,425)	(9,425)	(9,425)	0
Capital Adjustment Account	CAP	(32,269)	(34,966)	(37,671)	(37,954)	(37,401)	(36,640)	(1,674)
Deferred Credits	CRED	(47)	(47)	(47)	(47)	(47)	(47)	0
Pension Scheme	CRED	32,718	33,700	34,711	35,752	36,824	37,929	4,230
Benefits Payable During Employment Adjustment Account	CRED	332	332	332	332	332	332	0
Collection Fund	CRED	(1,307)	6,018	1,037	518	0	0	(6,018)
Financial Instruments Reserve	CRED	544	384	384	384	384	384	0
Usable Reserves								
Unapplied Grants and Contributions	UGER	(2,938)	(2,563)	(1,633)	(1,590)	(1,546)	(1,503)	1,060
Usable Capital Receipts	UGER	(2,698)	(1,874)	(1,110)	(516)	(308)	(317)	1,557
Burntwood Leisure Centre Sinking Fund	UGER	(223)	0	0	0	0	0	0
Earmarked Reserves - Unrestricted	UGER	(6,794)	(10,508)	(3,760)	(3,061)	(2,591)	(2,676)	7,832
Earmarked Reserves - Restricted	UGER	(4,197)	(4,050)	(2,584)	(1,414)	(1,330)	(1,272)	2,778
General Fund Balance	GEN	(6,392)	(6,575)	(6,986)	(5,942)	(3,938)	(1,817)	4,758
TOTAL EQUITY		**(32,696)**	**(29,574)**	**(26,753)**	**(22,963)**	**(19,046)**	**(15,052)**	**14,522**

Reserves Available to cover Investment Losses	**(13,186)**	**(17,083)**	**(10,746)**	**(9,003)**	**(6,529)**	**(4,493)**	**12,590**

Summary								
Capital Funding	CAP	(32,269)	(34,966)	(37,671)	(37,954)	(37,401)	(36,640)	(1,674)
Revaluation Reserve	REV	(9,425)	(9,425)	(9,425)	(9,425)	(9,425)	(9,425)	0
Borrowing and Leasing	BOLE	(3,591)	(2,878)	(2,167)	(4,714)	(9,030)	(8,143)	(5,266)
Non-Current Assets	ASSET	46,000	47,118	48,865	54,195	55,372	53,880	6,762
Investments	INV	34,737	28,131	23,813	19,133	16,731	15,193	(12,938)
Unapplied Grants & Earmarked Reserves	UGER	(16,850)	(18,995)	(9,088)	(6,582)	(5,775)	(5,768)	13,227
General Reserve	GEN	(6,392)	(6,575)	(6,986)	(5,942)	(3,938)	(1,817)	4,758
Long Term Debtors	DEBT	141	141	141	141	141	141	0
Long Term Investment (Company Loan)	LOAN	0	0	675	675	675	675	675
Working Capital & Pensions	CRED	(11,625)	(2,552)	(8,157)	(9,528)	(7,350)	(8,096)	(5,544)
Total		**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**0**
Internal Borrowing		**715**	**(150)**	**277**	**2,777**	**190**	**346**	**1,172**

Liability Benchmark								
Capital Financing Requirement (Borrowing)		3,163	2,104	2,335	4,637	6,851	6,604	4,500
Working Capital, Pensions & Long Term Debtors		(12,572)	(2,411)	(8,016)	(9,387)	(7,209)	(7,955)	(5,544)
Usable Reserves		(23,242)	(25,570)	(16,074)	(12,524)	(9,713)	(7,585)	17,985
Minimum Level of Investments		10,000	10,000	10,000	10,000	10,000	10,000	0
Total		**(22,652)**	**(15,877)**	**(11,755)**	**(7,273)**	**(71)**	**1,064**	**16,942**

[3] This figure includes accounting adjustments related to investments, without these adjustments the figure is £34.55m. The total cash invested at 31 March 2020 of £35.281m in the chart at para 3.18, is £34.737m plus the Financial Instruments Reserve of £0.544m.

Borrowing Strategy

The Council currently projects **£2.255 million** of loans outstanding at the 31 March 2021, a decrease of **£0.193 million** on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast on the previous page shows that the Council does not expect to need to borrow in 2021/22. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of **£10.987 million**.

Objectives: The Council'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 Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council'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 Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised all 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 Council intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Council 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 Council may borrow short-term loans to cover unplanned cash flow shortages.

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 Staffordshire County 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

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 of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Council 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).

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 Council 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.

Treasury Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between **£38.3 million** and **£50.4 million** due to the receipt of Business Grants that are invested short term pending payment, lower levels are expected to be maintained in the forthcoming year however this will be influenced by the COVID-19 pandemic.

Objectives: The CIPFA Code requires the Council 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 Council'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 Council 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.

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.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £10m that is available for longer-term investment. A reducing proportion of the Council's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy adopted in 2019.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council 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.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown (recommended changes are in red).

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£2m	Unlimited
Secured investments *	25 years	£2m	Unlimited
Banks (unsecured) *	13 months	£1m	Unlimited
Building societies (unsecured) *	13 months	£1m	£2m
Registered providers (unsecured) *	5 years	£1m	£5m
Money market funds *	n/a	£4m	**Unlimited (Approved £21m)**
Strategic pooled funds	n/a	£4m	£10m
Real estate investment trusts	n/a	£1m	£5m
Other investments *	5 years	£0.5m	£2m

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than **A-**. 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 either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of **£500,000 per counterparty** as part of a diversified pool e.g. via a peer-to-peer platform.

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.

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.

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.

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.

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 Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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 Council 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 Council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

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 Council's investment at risk.

Operational bank accounts: The Council may incur operational exposures, for example though 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, and balances will therefore be kept below **£500,000 per bank**. 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 Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council'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.

Other information on the security of investments: The Council 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 Council'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 Council 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 Council'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.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be **£17 million** on 31st March 2021. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be **£2 million**. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than **£500,000** in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. 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.

<u>Investment limits</u>

	Cash limit
Any group of pooled funds under the same management	£11m per manager
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£2m per country

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

The Council will spread its liquid cash over a number of 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.

The CIPFA Code requires the Council to include the following in its treasury management strategy.

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 Council 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 Council 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. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

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

Financial derivatives: In the absence of any explicit legal power to do so, the Council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Markets in Financial Instruments Directive: The Council 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 Council's treasury management activities, the Head of Finance and Procurement believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2021/22 is **£0.350 million**, based on an average investment portfolio of **£35.81 million** at an interest rate of **0.96%**. The budget for external debt interest paid in 2021/22 is **£0.048 million**, based on an average external debt portfolio of **£2.13 million** at an average interest rate of **2.18%**. 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 exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then yield in excess of **2.5%** of the revenue savings will be transferred to treasury management volatility reserves to cover the risk of capital losses or lower interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance and Procurement, having consulted the Cabinet Member for Finance, Procurement, Customer Services, Revenues and Benefits, 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.

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

Investment Strategy Report 2021/22

Introduction

The Council invests its money for three broad purposes:

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

This investment strategy is a new report, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between **£28.02 million** and **£41.72 million** during the 2021/22 financial year.

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

Further details: Full details of the Council's policies and its plan for 2021/22 for treasury management investments are covered in a separate document in this report, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its employees for car loans, inherited housing loans from Birmingham City Council, makes loans to individuals to reduce the risk of homelessness and will lend to its subsidiary to support the development of local housing.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Category of borrower	31.3.2020 actual			2020/21	2021/22
	Balance owing	Loss allowance	Net figure in accounts	Projection	Proposed Limit
Subsidiaries	£0	£0	£0	£0	£675,000
Employees – car loans	£1,309	£0	£1,309	£0	£100,000
Housing Loans - secured	£44,320	£0	£44,320	£44,320	£45,000
Housing Loans - unsecured	£2,771	£0	£2,771	£2,771	£3,000
Homelessness Loans	£16,903	(£16,903)	£0	£0	£50,000
TOTAL	**£65,303**	**(£16,903)**	**£48,400**	**£47,091**	**£873,000**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2019/20 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent including placing charges on properties for housing loans (secured) and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The most significant loan for a service purpose is the **£675,000** loan for **5 years** to the Council Development Company for the provision of housing. The Board of Directors of the Company will initially consist of Council employees and therefore the Council will be able to manage the repayment risk through project due diligence and the monitoring of selected projects.

Commercial Investments: Property

See the Capital Strategy at **APPENDIX A**.

Loan Commitments and Financial Guarantees

See the Capital Strategy at **APPENDIX A**.

Proportionality

See the Capital Strategy at **APPENDIX A**.

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council does not currently plan to undertake this type of activity.

Capacity, Skills and Culture

See the Capital Strategy at **APPENDIX A**.

Investment Indicators

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

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

Total Investment Exposure	31/03/20 Actual £000	31/03/21 Forecast £000	31/03/22 Forecast £000	31/03/23 Forecast £000	31/03/24 Forecast £000	31/03/25 Forecast £000
Treasury Management Investments	£34,737	£28,131	£23,813	£19,133	£16,731	£15,193
Commercial Investments: Property	£4,075	£4,075	£4,075	£4,075	£4,075	£4,075
TOTAL INVESTMENTS	**£38,812**	**£32,206**	**£27,888**	**£23,208**	**£20,806**	**£19,268**
Commitments to Lend	£0	£0	£675	£675	£675	£675
TOTAL EXPOSURE	**£38,812**	**£32,206**	**£28,563**	**£23,883**	**£21,481**	**£19,943**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the Council does not currently intend purchasing any commercial type investments. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure

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

Investment rate of return (net of all costs)

Investments Net Rate of Return	31/03/20 Actual %	31/03/21 Forecast %	31/03/22 Forecast %	31/03/23 Forecast %	31/03/24 Forecast %	31/03/25 Forecast %
Treasury Management Investments	1.18%	0.77%	0.96%	1.08%	1.29%	1.66%
Property Investments						
Property (excluding valuation changes)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
ALL INVESTMENTS	**4.18%**	**3.77%**	**3.96%**	**4.08%**	**4.29%**	**4.66%**

Other Investment Indicators	31/03/20 Actual %	31/03/21 Forecast %	31/03/22 Forecast %	31/03/23 Forecast %	31/03/24 Forecast %	31/03/25 Forecast %
Investment Property Income as a proportion on Net Operating Cost	2.76%	2.52%	2.53%	2.50%	2.57%	2.50%

See the Capital Strategy at **APPENDIX A**.

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Redmond Review

Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

Date:	3 February 2021
Agenda Item:	5
Contact Officer:	Anthony Thomas
Tel Number:	01543 308012
Email:	Anthony.thomas@lichfielddc.gov.uk
Key Decision?	**No**
Local Ward Members	**Full Council**

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Audit and Member Standards Committee

1. Executive Summary

1.1 The 'Redmond Review' (an Independent Review of Local Authority Financial Reporting and External Audit) has now been published.

1.2 This Review "*examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.*"

2. Recommendations

2.1 The Committee:

- Notes the contents of this report.

3. Background

3.1. The Council's s151 Officer responded to the review's call for evidence through the Staffordshire Chief Finance Officer Group (SCFOG). The main points of this collective response can be summarised as follows:

- Audit standards have generally reduced due to:
  - reduced audit fees and poorly resourced audit teams
  - earlier deadlines and shorter audit timetable (which are squeezing limited auditor resources)
  - a disconnect between what audit are currently focusing on and what the sector needs.
- There is an expectation gap between what the public/council wants from audit and what the FRC/audit firms want. Auditing resource should be prioritised on areas that impact on reserves and the financial standing of the council rather than technical balance sheet issues (driven by the FRC and private sector inspired audit and accounting standards).
- Accounting standards for local government should be simplified and streamlined.
- Auditors need to better plan their audit work and more could be done to use data analytics within the audit process.
- The earlier timetable in many ways works for the sector as it enables accounting teams to shift their attention to other important areas of work earlier than was previously the case.

However, the arrangements to deliver a successful audit to these earlier milestones need to be robust – and currently they are not. The current direction of travel of audit (because of the issues raised above re inflexibility of approach, materiality and skills and resource gaps) is leading the sector away from using estimates in the accounts – which is critical to becoming more efficient and closing down earlier.

REDMOND REVIEW FINDINGS

3.2. The findings can be summarized as follows:

- Unsustainable audit arrangements: "*As I conducted my work, it became clear that the local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. In addition, the ambition of attracting new audit firms to the local authority market has not been realised. Without prompt action to implement my recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market."*
- **Ineffective arrangements:** *"Serious concerns have been expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms….there remains a question of whether such audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit."*
- **(In) balance of price and quality:** *"A particular feature of the evidence submitted relates to concern about the balance of price and quality in the structure of audit contracts….To address this concern an increase in fees must be a consideration."*
- **Revisit Deadlines:** *"With 40% of audits failing to meet the required deadline for report in 2018/19….The current deadline should be reviewed."*
- **Strategic sector coordination:** *"The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process…(and a) coherent local audit function which offers assurance to stakeholders and the public in terms of performance and accountability of the local authority and the auditor."*
- **Audit Committee make up:** *"there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present"*
- **Overly complex accounts:** *"current statutory accounts prepared by local authorities are considered to be "impenetrable to the public….it is recommended that a simplified statement of service information and costs is prepared by each local authority in such a way as to enable comparison with the annual budget and council tax set for the year."*

REDMOND REVIEW RECOMMMMENDATIONS

3.3. The recommendations are as follows:

External Audit Regulation

- A new office (OLAR) which will:
  - regulate the local audit sector
  - draft the code of audit practice
  - take over the responsibilities of the PSAA for procuring and managing audit contracts
  - monitor and review audit performance

- produce an annual report on the state of local audit
- (A key role that OLAR will not have is to actually carry out audits – the Review does not appear to have addressed the question whether there is a role for public audit and assumes work will be contracted out in its entirety to private firms.)

- The involvement of PSAA, ICAEW) FRC and the NAO in the framework will end.
- Local authority governance arrangements to be reviewed with the purpose of:
  - full council receiving an annual report from the external auditor – to the first meeting after 30 September, even if the audit is not certified closed
  - appointment of a suitably qualified independent member to the Audit Committee
  - formalising meetings of the Chief Exec, Monitoring Officer and the CFO with the audit partner at least annually.
- All auditors to be provided with the requisite skills and training to audit a local authority.
- Audit quality to be consistent with the highest standards of audit within the revised fee structure – OLAR to have scope to apply proportionate sanctions in the event of serious or persistent breaches.
- No firm with the requisite capacity, skills and experience to be excluded from bidding for contracts.
- Internal audit to be recognised as a key support for external audit.
- Consideration to be given to moving the date for publication of audited accounts back to 30 September.
- Changes to the arrangements for VFM auditing made in the 2020 Code of Audit Practice to be endorsed (reporting on and making recommendations in relation to financial sustainability, governance and improving VFM).

Financial Resilience

- MHCLG to review its framework for seeking assurance about the sustainability of individual authorities.
- Auditors to share key concerns with Ofsted, Care Quality Commission, etc., before completing their annual report.

Transparency of Financial Reporting

- An audited statement of service information and costs (with budget comparisons) to be presented alongside the statement of accounts (illustrations included in supporting documents).
- CIPFA/LASAAC to be required to review the requirements for the statutory accounts in the light of the information to be covered in the statement of service information.

REDMOND REVIEW – THE GOVERNMENT'S RESPONSE

3.4. The response by MHCLG was published on 17 December 2020. The main points are set out below:

- The date for publication of audited accounts is to be 30 September for 2020/21 and 2021/22 but could then return to 31 July if MHCLG decides that other improvements following the Review have made this a viable and sustainable option. There is no mention of the deadline for publication of unaudited accounts moving from 31 May.
- MHCLG will engage with local government to better understand the **barriers to timely completion of accounts** attributable to capacity and capability of finance teams and consider how they might be addressed.
- MHCLG will explore how **standardised statements of service information** should be

communicated to all tax payers and service users, and will explain how this can be done, for example, alongside or with Council Tax bills from 2022. The wish is that statements should be short and accessible (two pages) and subject to audit.

- MHCLG is to work with CIPFA/LASAAC to **remove accounts disclosures** that may no longer be necessary, with a target of making a start in the 2022/23 Accounting Code.
- There will be **£15 million** additional funding for authorities in 2021/22 to meet **higher audit fees and costs of preparing for the standardised statement of service costs**.
- There will be **no Office of Local Audit** until the Government understands in more detail how a system leader could resolve the weaknesses in the local audit system, and can ensure that any consequences of its establishment, such as potential conflicts of interest within the organisation, are identified and can be mitigated. A boost to OLAR's prospects would be if the regular production of **analysis highlighting trends in local audit findings** could inform and strengthen MHCLG's framework for seeking assurance that financial sustainability in each local authority is maintained.
- A decision is to be made by spring 2021 as to whether PSAA will be the **future appointing body for local authority audit**, and (whoever it may be) how the appointing body can most effectively carry out its functions.
- MHCLG will work with CIPFA, ICAEW and the FRC to help improve the update of **local audit training**.
- MHCLG to work with the FRC and ICAEW to review whether **entry requirements for Key Audit Partners** are too high, with the objective of making it easier for new firms to enter the market.
- The Government will consider whether and how **a new corporate auditing profession** (recommended for the commercial sector by the Brydon Report) could continue to generate auditors with skills that are transferable to public sector audit.
- MHCLG will look for an opportunity to legislate for the Redmond Review's recommendation that the external auditor be required to present an **annual audit report to a Full Council meeting**.

REDMOND REVIEW – IMPLICATIONS FOR LICHFIELD DISTRICT COUNCIL

3.5. A number of these proposals will need further development in consultation with CIPFA and the relevant bodies. It is therefore difficult to identify the impact on the Council at this stage.

Alternative Options	There are no alternative options.
Consultation	Leadership Team were consulted on the Redmond Review.
Financial Implications	A budget growth item is included in the draft MTFS from 2021/22 for £8k per annum to reflect a projected cost increase in External Audit fees. However, further increases may be necessary when the further information is provided on the Government's response to the recommendations included in the Redmond Review.
Contribution to the Delivery of the Strategic Plan	The Redmond Review findings will form part of the Medium Term Financial Strategy enabling Members to monitor progress against the plan in a timely manner to ensure resources are allocated in line with priorities and ambitions of the Council.

Equality, Diversity and Human Rights Implications	There are no Equality, Diversity or Human Rights issues.
Crime & Safety Issues	There are no Crime and Community Safety Issues.
Environmental Impact	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan. In addition, remote working has reduced the need for External Audit to travel to the Council's offices.

GDPR/Privacy Impact Assessment	There are no specific implications.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	If it is implemented: The extension of the deadline to 30 September means the audit process overlaps with the MTFS process causing capacity issues in the Finance Team. The cost of the External Audit increases.	The Finance Team contains experienced qualified Accountants, Part Qualified Accountants and Accounting Technicians who undertake regular Continuing Professional Development in line with the requirements of their qualifications. The Team is experienced in regularly meeting conflicting deadlines. 2021 will see the implementation of a new IT Finance System and it is hoped that this will create additional staffing capacity. We have a detailed project plan for year end and tasks are accelerated each year and alternative approaches are adopted to ensure the unaudited Statement of Accounts are certified and available for inspection by the statutory deadline. Working papers are of a high standard. There is also an additional budget growth item for External Audit fees proposed within the draft MTFS in line with the current fee increase consultation being undertaken by the PSAA.	Likelihood : Amber Impact : Amber Severity of Risk : Amber
B	If it is not implemented: External Audit becomes unviable and private firms withdraw from the market. The lack of strategic co-ordination means the External Audit process continues to lose credibility and relevance, and the assurance to stakeholders and the public in terms of performance and accountability reduces. Internal and External Audit resources are not used effectively.	External Audit is a statutory requirement and as such Government would have to intervene. There are a number of options that would be available, for example, direct delivery as with the old District Audit. Government could also look at not following the International Financial Reporting Standards (IFRS), increasing the number of providers and further increasing External Audit fees. Implementing the options above would help to mitigate the loss of credibility, assurance and the use of Audit resources.	Likelihood : Green Impact : Amber Severity of Risk : Amber

Background documents

Relevant web links

GLOSSARY OF TERMS

CFO
Chief Finance Officer

CIPFA
Chartered Institute of Public Finance and Accountancy

FRC
Financial Reporting Council

ICAEW
Institute of Chartered Accountants in England and Wales

LASAAC
Local Accounts (Scotland) Accounts Advisory Committee

MHCLG
Ministry of Housing, Communities and Local Government

NAO
National Audit Office

OLAR
Office of Local Audit and Regulation

PSAA
Public Sector Audit Appointments

VFM
Value for Money

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INTERNAL AUDIT PROGRESS REPORT

Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

Date:	3 February 2021
Agenda Item:	6
Contact Officer:	Rebecca Neill
Tel Number:	01543 308030
Email:	rebecca.neill@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	If any Wards are particularly affected insert the name of the Ward Members and their Ward. Ensure that the Ward Members have been consulted.

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 This report comprises Internal Audit's progress report for the period to 31 December 2020 (Quarter 3) (**Appendix 1**).

2. Recommendations

2.1 To note the attached report.

3. Background

3.1 The Accounts and Audit Regulations require councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Audit Standards.

3.2 Internal Audit's progress report for the period to Quarter 3 is detailed at **Appendix 1** for members to consider.

Alternative Options	N/A
Consultation	N/A
Financial Implications	The audit service has been delivered within budget during the year.
Contribution to the Delivery of the Strategic Plan	Delivery of the audit plan contributes to all aspects of the Strategic Plan, but notably 'a good Council'.
Equality, Diversity and Human Rights Implications	No equality, diversity or human rights implications arising from this report.

Crime & Safety Issues	None arising.
Environmental Impact	None arising.

GDPR/Privacy Impact Assessment	None required.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Significant / high risk systems of internal control fail and go un-addressed.	The audit planning process ensures that audit resources are directed to areas of most significance / highest risk.	Likelihood – Green Impact - Yellow Severity of risk - Green (tolerable)
B			
C			
D			
E			

Background documents

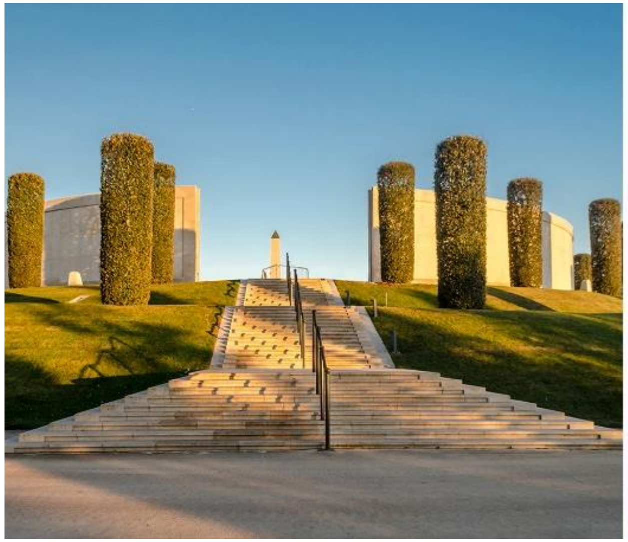
Audit & Member Standards Committee routine reports, internal audit reports

Relevant web links

Appendix 1

Lichfield district council
www.lichfielddc.gov.uk

Internal Audit Progress Report (Quarter 3) February 2021



Contents

If you have any questions about this report, please contact Rebecca Neill, Head of Audit rebecca.neill@lichfielddc.gov.uk

01 INTRODUCTION

BACKGROUND

This report summarises internal audit activity and performance for the period to 31 December 2020.

SCOPE AND PURPOSE OF INTERNAL AUDIT

The Accounts and Audit Regulations require councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

This progress report and opinion forms part of the framework of assurances that is received by the council and should be used to help inform the annual governance statement. Internal audit also has an independent and objective consultancy role to help managers improve risk management, governance and control.

Internal audit's professional responsibilities as internal auditors are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

ACKNOWLEDGEMENTS

Internal audit is grateful to the heads of service, service managers and other staff throughout the council for their help during the period.

02 INTERNAL AUDIT WORK UNDERTAKEN

The internal audit plan for 2020/21 was approved by the Audit & Member Standards Committee in July 2020. The plan was for a total of 18 audits. Initially, some planned audit work was temporarily suspended at the start of the period, to allow functions to concentrate on business critical service delivery responding to Covid-19. One of the auditors was deployed during quarter one, to support the Council's emergency response. The plan was recommenced and work re-profiled, to continue towards the target of 90% plan achievement at year end. However, as we enter subsequent waves and national lockdowns, this will of course have an impact in terms of some service areas' ability to respond to audits, due to their changing priorities as a result of the pandemic. Performance against internal audits new KPI's is at section 05 but clearly the above has had an effect.

The audit findings of each review, together with recommendations for action and the management response are set out in our detailed reports. A summary of the reports we have issued during the period is included at **Appendix 01**.

03 OPINION

SCOPE OF THE OPINION

In giving an opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.
In arriving at an opinion, following matters have been taken into account:

- The outcomes of all audit activity undertaken during the period.
- The effects of any material changes in the organisation's objectives or activities.
- Whether or not any limitations have been placed on the scope of internal audit.
- Whether there have been any resource constraints imposed upon us which may have impinged our ability to meet the full internal audit needs of the organisation.
- What proportion of the organisation's internal audit needs have been covered to date.

INTERNAL AUDIT OPINION

On the basis of audit work competed, our opinion on the council's framework of governance, risk management and internal control is reasonable in its overall design and effectiveness. Certain weaknesses and exceptions were highlighted by our audit work. These matters have been discussed with management, to whom we have made recommendations. All of these have been, or are in the process of being addressed.

SPECIFIC ISSUES

No specific issues have been highlighted during the period.

FRAUD & IRREGULARITY

Work was undertaken regarding an irregularity identified during the quarter - a loss of takings (£99.65) at Beacon Park. Recommendations have been agreed to strengthen arrangements.

CONSULTANCY & ADVICE

The audit team may be requested by managers to undertake consultancy and advice on governance, risk management and internal control matters. In the quarter to 31 December 2020, the following was undertaken:

- Advice on payment of overtime/ casual claims during Covid-19.
- Attending demo/ consultancy on new finance system.
- Review of process for reclaiming VAT for election expenses.
- Financial Procedure rules review.
- Fraud and Corruption checklist (procurement).

04 FOLLOW UP

The Committee approved a new approach to audit follow up earlier this year (all high priority actions and those arising from no and limited overall assurance reports will be followed up by audit, managers confirmation applies to the rest). Implementation of the new system was initially delayed to allow functions to concentrate on business critical service delivery due to Covid-19. The Leadership Team agreed to concentrate on closing high priority actions during this period and the current status is as below.

Action Priority Rating	Total Open Actions at Jan 2020	Actions Raised Since Jan 2020	Total Overall	Total Closed out at 31 Dec 2020	Total Open at 31 Dec 2020	% Implemented Dec 2020 *(Sept 2020 comparison)*
High	24	16	40	21	19	53% *(45%)*
Medium	206	96	302	231	71	76% *(41%)*
Low	-*	43	43	26	17	60% *(5%)*

*low actions were not previously tracked.

This is a positive direction of travel since our last progress report. Under the current system, @10% of medium and low priority actions are sample tested to confirm the accuracy of managers' confirmation. 14 actions were sample tested in the quarter, confirming 12 of the 14 sampled has been implemented. The remaining 2 were notified to the action owner and their head of service and added back to the outstanding actions list for tracking.

Of those audits receiving a no or limited assurance opinion which require follow up, a summary of progress to date on these audits is given at Appendix 01. There is one report which remains limited assurance on follow up – GDPR. A progress update report has been completed (late January 2021) and circulated to the Committee and a further follow up is planned for February /March 2021.

05 PERFORMANCE OF INTERNAL AUDIT

Performance of internal audit

Compliance with professional standards

We employ a risk-based approach in planning and conducting our audit assignments. Our work has been performed in accordance with PSIAS.

Conflicts of interest

There have been no instances during the year which have impacted on our independence that have led us to declare aninterest.

Internal audit quality assurance

To make sure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work.
- Review of files of working papers and reports by managers.
- Regular meetings of our networking groups, which issue technical and sector updates.

Performance Measures

- Complete 90% of the audit plan **- 67%**
- 100% Draft reports issued within 6 weeks of start date – **25%**
- 100% Closure meetings conducted within 5 days of completion of audit work **– 83%**
- 100% draft reports to be issued within 10 working days of closure meeting – **67%**
- 100% of all high priority actions are implemented at follow up – **53%**
- All no and limited assurance reports have a revised assurance rating of substantial or reasonable on follow up – **86%**
- Achieve an average customer satisfaction score of 4 or more **- 4.3**
- Added value – **Annual measure**

APPENDIX 01: SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Core Financial Systems	Creditors	Risk based review covering the adequacy and effectiveness of controls around creditor payments, including supplier set up / amendment, requisitioning / ordering, receipting and approvals.	Q1-Q2	The procure to pay process from end to end is designed with controls in place to mitigate against the major risks. The Council's Financial Procedure Rules provide a strong framework for procurement activity and the Accounts Payable section have internal policies and procedures in place, as an example, The Government Procurement Card (GPC) Credit Card Policy and Procedures. There is clear segregation of duties through the ordering, payment and reconciliation processes to mitigate against the risk of fraud / error. Controls were found to be operating effectively. Payments were found to be made in an accurate and timely manner and monitored through Performance Indicators (PI's). Statistics from these PI's are published to Leadership Team and also within the 'Money Matters Report' reported to Cabinet, so there is the necessary oversight. Some minor weaknesses in the operation of controls were identified which need to be addressed, in ensuring orders are raised prior to good / services / invoices having been received, lack of timely submission of evidence (receipts etc.) in credit card transactions and ensuring supplier information on the website is up to date.	 Substantial Assurance Number of Actions H-0 M-1 L-2

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
	Capital Accounting	Risk based review of the capital accounting systems focusing on completeness, accuracy and compliance with appropriate accounting standards.	Q1-Q2	The capital accounting system is designed well with controls in place to mitigate against the risks. Assurance can be given that the design of controls is adequate and the controls were found to be operating effectively. The treatment of capital assets in relation to depreciation, revaluations and impairments is clearly defined. The asset register is maintained securely, updated accurately for additions, disposals and the remaining life of assets. Assets are valued in line with the required schedule and adjustments made accurately to the revaluations reserve and asset register. Depreciation is calculated and processed accurately in line with policy. There are clear controls over capturing and coordinating data on behalf of service areas and reporting performance. A weakness was noted in the effectiveness of controls, in relation to ensuring the asset register is complete and accurate. Verification of assets was not received from all managers at year end (it is acknowledged that the start of Covid-19 lockdown restrictions had an impact on this) and a check or reconciliation has not been completed between the asset register used for the statement of accounts and the register compiled by the estates team.	 Substantial Assurance Number of actions H-0 M-0 L-1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
	Payroll	Risk based review of payroll, including adequacy and effectiveness of controls around the systems for starters, leavers, amendments, deductions, overtime and expenses.	Q1-Q2	The Payroll system is designed with controls in place to mitigate the key risks. There is a clear and documented SLA that outlines the expectations of the payroll function / service between both LDC and SBC. A clear segregation of duties exist for both Councils such as LDC inputting personal data (start/leave dates, position, band etc.) while SBC input bank details, calculate pay and process amendments/deductions where required. Controls were found to be operating effectively with bona fide personnel being paid the correct amounts including variations to pay. Leavers are removed from the payroll promptly. Amendments and deductions are not processed without appropriate source documentation. A monthly exception report is received and reviewed by Finance, including high and low earners and trend analysis with prior months. An establishment list is also sent to budget holders annually. A secure file transfer method using 'ZIP7' or 'Dropbox' is used to transfer information between SBC and LDC. Additionally, all personnel documents are stored in individual named folders on the HR S Drive with access restricted to those within the department.	 Reasonable Assurance Number of actions H-0 M-1 L-4

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				Some minor weaknesses were identified in terms of ensuring casual contracts, namely that contracts are signed prior to the staff members' start date and that payments to casuals are appropriately authorised. Some delay was also noted in the completion of the payroll reconciliation process, but these were largely due to other priorities arising from the pandemic response. Finally, the most pressing issue to resolve is the replacement of the current payroll provider, SBC, when they exit the contact in July 2021. Implementation of the recommendations in the action plan will enhance arrangements and address these risks.	
	Procurement	Risk based review of procurement, including strategy, targets and testing a sample of recent material procurements to ensure compliance with contract procedure rules / OJEU etc.	Q1-2	Procurement is generally being undertaken in accordance with Contract Procedure Rules (CPRs) and external legislation and this is supported by the findings within the high level expenditure follow up audit. A series of training courses have been held for officers and guidance is available on Brian. In addition, progress has been made since the shared service arrangement with Wolverhampton City Council ended in the appointment an interim procurement resource and more recently a new permanent team. Some weaknesses in control were, however, found in the formal procurement strategy action plan and forward plan requiring finalisation. In addition,	 Limited Assurance Number of actions H-2 M-6 L-1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				procurement performance not currently being monitored, the contracts register not being complete, waivers to CPRs not fully reported and data not always being published in accordance with the Transparency Code. The commencement of the new procurement team, approval of the procurement strategy and implementation of the recommendations in the action plan will enhance arrangements and address these risks. *Post audit update from the Head of Finance & Procurement: The Procurement Strategy was reviewed by Strategic (Overview and Scrutiny) Committee on 19 November 2020 and following some enhancements suggested by the Committee, it was approved by Cabinet on 1 December 2020. The Procurement Team will focus on delivering the Strategy alongside supporting procurement activities across the Council. Recent papers published by central government as well as the impact of leaving the European Union (EU) will bring forward the action in the Procurement Strategy of updating of the Contract Procedure Rules as well as meeting the requirements of the recent internal audit. The Procurement Team have been providing support, guidance and leadership on a wide range of projects ranging from consultancy services to new software, fuel provision to temporary staff, and annual valuations to occupational health. Working with other stakeholders the contracts register is being*	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				updated and from this a forward plan will be drafted; allowing for procurement activities to start moving to a planned model.	
	NNDR	Risk based review of NNDR controls, including review of taxable properties; billing; discounts, exemptions, disregards and reliefs; income is correctly accounted for and recorded; arrears are promptly and efficiently pursued; refunds and write-offs are controlled.	Q3		
	Housing & Council Tax Benefits	Standard risk based review of housing and council tax benefit systems using CIPFA control matrices. To include a review of the adequacy and effectiveness of the application of the Citizens Access System at management's request.	Q4	The benefits system is designed with controls in place to mitigate the major risks. Claims are verified and processed promptly and accurately. There are business continuity plans in place and IT systems are supported and up to date. Checks are in place to identify errors prior to transmitting payment runs, regular reconciliations of the systems are carried out, and management checks are completed on a sample of claims to confirm accuracy of assessment. A suite of performance indicators is in place to monitor the speed of processing, management check results, and the volume of claims on a monthly basis. Proactive work to check claims is completed to minimise fraud and error within the system. Some changes to working procedures were required as a result of Covid-19, however, adequate controls were found to be in operation within the new practices. All of	 Substantial Assurance Number of actions H-0 M-1 L-1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				these controls were found to be operating effectively to mitigate against key risks. Two weaknesses were found in relation to a lack of backup for the Civica server and the absence of a performance indicator to monitor overpayments within the current suite of KPI's. Implementation of the recommendations will enhance arrangements.	
	Capital Strategy	Risk based review of delivery of the Council's capital strategy and associated programme management delivery controls.	Q1-2	There is a Capital Strategy in place, which has been made available to all officers and is supported by a series of additional guidance notes. There is an asset management plan for the replacement of vehicles and LOPS equipment. There is a clear and documented capital programme that supports the strategy. There is a process in place to ensure applications for capital funding are considered, reviewed and approved prior to inclusion in the capital programme. The progress of projects included in the capital programme is regularly monitored and reports are issued to the allocated responsible officer of spend against budget. Capital is included in the Money Matter Reports which are taken to Strategic Overview and Scrutiny Committee and Cabinet for review 4 times a year. These controls are operating effectively to mitigate against key risks. Weaknesses were found in relation to there not being formal asset management plans for all asset types, detailed project plans not being in place to	 Reasonable Assurance Number of actions H-0 M-3 L-0

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				support all projects within the capital programme and post project reviews not being completed.	
	Income Management	Risk based review of the Council's income streams and systems of internal control governing completeness and accuracy of accounting.	Q1-2	The income management system is designed with controls in place to mitigate the major risks. There is clear segregation of duties through the billing, collection and reconciliation processes to mitigate against the risk of fraud/ error. Controls were found to be operating effectively and payments received were processed promptly and accurately. IT file transfers are routinely scheduled and error notifications provided where an upload failure occurs. Reconciliations are performed by system owners for payments for Council Tax/ NNDR and Sundry debtors systems to confirm interface success. Performance on income received and sundry debt is monitored and reported within the Money Matters Report. An additional report which highlights the impact of Covid-19 on income streams is now reported monthly to Leadership Team, Cabinet and Chair/ Vice Chair of O&S Strategic Committee. Some areas for improvement were identified, namely, in considering compiling an over-arching income management strategy, ensuring evidence of approval of fees and charges is retained, that reconciliations are completed promptly (acknowledging this being due to the impact of Covid-19 on operations) and that revised banking processes are risk assessed for safety.	 Reasonable Assurance Number of actions H-0 M-4 L-0

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Strategic & Operational Risks	Strategic Risk Register *Under Review TBC*	Risk based review of the adequacy and effectiveness of the controls in place to mitigate the Council's strategic risks. This is to be confirmed following the production of the new strategic risk register based on the new corporate plan.	Q1-Q4		
	Risk Management	Review of the adequacy of the Council's risk management systems.	Q3		
	Covid-19 Risks	'Flash' audits of dynamic risks arising from the Council's Covid-19 response. To include continuity and recovery arrangements, business grants, new funding, staff wellbeing, governance, financial, productivity. This audit will compliment other strategic and operational risk and ICT audits on the plan which will be looked at with a 'Covid-19 risk lens'.	Q1-Q4	**Staff Wellbeing** Control measures to mitigate against the risk of staff wellbeing being adversely impacted by the Covid-19 crisis were found to be adequate and effective. A number of good practice areas were noted: • Amendments to home working, sickness / absences and caring responsibilities associated with the Covid-19 outbreak was quickly established (approved by LT), including counselling services available to provide staff with support and advice. • Regular weekly all staff communications have been maintained throughout the pandemic setting out organisational updates as well as providing clarity on wider (frequently changing) government guidance. Wellbeing has been regularly cited, including a number of links for mental health. Communications have been factual, delivered with the right balance of humour (e.g. 'Reg the dog'), to	 Substantial Assurance No actions

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				raise staff morale and have been generally very well received. • Staff wellbeing engagement has been undertaken via a Home Working survey in May 2020 (results shared in June 2020). Of the 102 staff members participating, 80% of those felt their managers were understanding about their health and wellbeing. The HR & Wellbeing Action Group are working on the response to the survey in a 'you said, we did' format. • Wellbeing services and activities are available on the intranet providing staff with a range of tools at their disposal e.g. 'Instructor Live' online workouts, FAQ's and downloadable material. Mental Health First Aiders are also contactable with their details provided. • Finally, despite the ongoing situation with COVID-19, sickness levels have not suffered a significant impact, but remained constant. As the pandemic enters a 'second wave', coupled with additional pressures on staff wellbeing arising from the winter months and prolonged remote working, the following areas are suggested as forward focus to maintain staff wellbeing: • Ensuring that the work streams to address the results of the staff survey are completed and additional snap surveys are undertaken to measure the success of this work and to continue to 'listen' to staff.	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				• More informal staff engagement should be considered coupled with seasonal / staff awareness raising themes e.g. the use of ‘Zoom or Teams’ as a tool for virtual coffee / lunch breaks e.g. the recent Macmillan Coffee Morning for charity. • Continue to promote a culture that values individuals and teams (e.g. the ‘saying thank you to ... ’ in weekly comms, promote informal virtual team engagement over the forthcoming holiday period). • Encouraging staff to focus on their physical health (i.e. via reinforcing government safety measures and other measures e.g. promoting nutrition, fitness and educational content etc.) • Continually keep abreast of, and implement suitable innovative developments to promote staff wellbeing. **Business Continuity/ Emergency Planning and Recovery** Control measures to mitigate against the risk of business continuity and emergency planning arrangements being adversely impacted by the Covid-19 crisis were found to be adequate and effective during the first wave, indicating a good level or preparedness for second / subsequent waves and ‘lockdowns’. A number of good practice areas were noted:	 Substantial Assurance No actions

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				• Weekly Strategic Co-ordinating Group (SCG) meetings as part of the wider Staffordshire Local Resilience Forum response via the Civil Contingencies Unit (CCU) were held during the height of the first wave of the pandemic. Staff played a strong role in tactical subgroups which sit under the SCG, which although were stood down for a period over the summer, are now back in place responding to the second wave / national lockdown. • An internal Tactical Co-ordinating Group (TCG) was set up to meet on a weekly basis and respond to the COVID-19 pandemic. Loggists were present at each of the above meetings, with actions and decision logs written up. • An audit was undertaken of critical staff within each directorate area to ensure in the early stages there was capacity to work from home, so that critical service delivery could be maintained. • Regularity and effective communications channels was evident via Multi-Agency Intelligence and Communications meetings and regular media releases to update the public on the Council's activity. A number of examples include - a monthly business newsletter from the Economic Development Team featuring COVID	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				related information on national and local support. • Effective recovery and reset arrangements were put in place following the first wave e.g. with the Local Resilience Forum Recovery Co-ordinating Group (RCG) which meets monthly and is facilitated by the CCU and an internal recovery group meeting bi-weekly, to focus on the Council's recovery work streams (re-opening of council buildings, ongoing support for residents etc.). This work-stream also captured learning and innovation from new ways of working / service delivery arising from the initial lockdown with a view to initiating longer-term changes e.g. the approach to face-to-face customer services. • Significant plans were re-reviewed against a COVID-19 lens e.g. mass transportation plan, rest centre venues plan - to ensure learning was 'locked in' and for preparedness. • The Council participated in the CCU's debrief survey, together with other partners including a 'lessons register' for partners to adopt following the first wave. As the pandemic enters the second wave / national lockdown, capitalising on the learning from the first wave experience should put the Council at a good level of preparedness to manage second /	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				subsequent waves / lockdowns as well as any potential additional pressures (seasonal flu, adverse weather).	
	Management of Property (LA Trading Company)	Risk based review of the Council's controls in place for managing property and the Council's assurance regarding the operation and risks surrounding the LA Trading Company.	Q1-Q2	While the Company was not fully operational and had not undertaken any development at the time of the audit, assurance can be given that the design of controls is adequate for when the company commences operations. There is a governance agreement is in place between the Council and the Company which is designed to manage the risks to the Council from the operations of the trading company, Lichfield Housing Limited. The governance agreement includes matters delegated for approval to the shareholder committee, board or director. Additionally, there is an assigned officer of the Council whose role will be to consult, request information and manage the relationship with the Company. The agreement has been signed by the Council (Director and Leader) and the Company (Managing Director and Finance Director) and has been agreed by the Portfolio Holder for Investment, Economic Growth and Tourism (Chairman of the SAMC). The company has a business plan which was developed through Leadership Team and has been formally presented and agreed by the Chairman of the SAMC (*SAMC has since been disbanded*) with figures presented to the full Committee through update reports. The	 Substantial Assurance Number of actions H-0 M-1 L-1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				issue of shares and agreement of a loan has been agreed through the shareholder committee. Stages of development of the company are overseen through a delivery plan. Delivery actions being a standing agenda item for the Board. The provision of the support services supplied by the Council is included in a letter of agreement signed by the Head of Finance and Procurement. It is envisaged that individual service agreements will be formalised as the needs of the Company require. The Company has appointed a legal company for support and advice. Some minor weaknesses were noted in the effectiveness of controls, for example in ensuring that the recent review of Portfolio Responsibilities are reflected in the Governance Agreement and also within the Portfolio Holder's service responsibilities in the next review of the constitution. Ensuring training is in place for the new Portfolio Holder is also recommended	
	Planning	Risk based review of systems of internal control for planning (using CIPFA control matrices), to include applications, appeals, fee management.	Q2		
ICT	ICT Backup and Recovery	A review of how data and applications are backed up. This areas has not been previously audited in any detail.	Q2		

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
	Remote Working	A risk based review giving assurance over the adequacy of the Council's ICT operations with the shift towards remote working arising from Covid-19 crisis.	Q3	There are a robust set of corporate IT policies governing home working and remote access, with key messages being re-enforced in the weekly Chief Executive communication. There is an inventory of all computer hardware which has details of the computer equipment issued to users; it was tested and generally found to be up-to-date. Staff home working requirements were assessed at the time of the national lockdown and they were given the required computer equipment and remote access facilitates. Staff have been able to work from home during the Covid-19 pandemic and there has been no security breaches. The biggest area of risk identified is that not all laptop computers are encrypted and that users are not prevented from copying data onto untrusted removable storage devices. Both these weaknesses remain, despite being previously reported as part of our audit on Mobile Computing in 2017 and could lead to a potential data breach as well as financial penalties under the GDPR/Data Protection Act 2018. Users have remote access to the corporate network via Citrix or a Virtual Private Network (VPN) and we have identified security weaknesses in these solutions which should be addressed to protect against cyber-attacks. Historically, Skype for Business has been the main tool for internal collaboration, although it is now being replaced by	 Reasonable Assurance Number of actions H-2 M-2 L-8

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				Zoom and Microsoft Teams. As the security and control functionality within Skype for Business is limited, it should be decommissioned as soon as possible.	
Governance, Fraud & Other Assurance	Pensions	Assurance statements to Staffordshire County Council	Q3	Complete	
	Disabled Facilities Grant		Q2	Complete	
	Housing Benefit Memorandum of Understanding	Assurance statement to enable the Chief Finance Officer sign off to DWP.	Q3	Complete	
	Counter Fraud	Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.	Q1-Q4	Ongoing – See also Counter Fraud Update.	
	Annual Audit Opinion	Production of the Annual Audit Opinion.	Q2	Complete	
	Management and Planning	Management, planning and assurance reporting to Leadership Team and Audit & Member Standards Committee.	Q1-Q4	Ongoing	
	Ad hoc / Consultancy / Contingency	Contingency allocation to be utilised upon agreement of the Chief Finance Officer.	Q1-Q4	Ongoing	
	Risk Management	Supporting the Council's risk management systems.	Q1-Q4	Ongoing	
Follow up all no and limited assurance reports	Time Management System	Limited Assurance Follow up	Q1	Originally 14 recommendations were made and from these 6 have been implemented and 8 recommendations superseded due to a system change. TMS now sits within ICT who are the developers of the system and influence the process	 Substantial Assurance

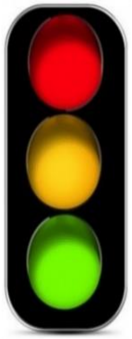
Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				and policy whilst working with HR. The introduction of the TMS.net system, now allows Heads of Service access to view and monitor their team's working hours. A Flexible Working Framework provides an overall guidance to staff whilst the Local Service Area Agreements (LSAA) provide the specific detail to the working hours and flexi balances agreed for their service area.	
	GIS	Limited Assurance Follow up	Q1	Originally 12 medium risk recommendations were made and from these 5 have been implemented, 3 have been partially implemented and 4 are still outstanding. All outstanding recommendations have been rescheduled for implementation by October 2020.	 Reasonable Assurance
	GDPR	Limited Assurance Follow up	Q1	May 2020 Follow Up Outcome: Originally 14 high and medium risk recommendations were made and from these 4 had been implemented and 10 partially implemented. Of the outstanding recommendations 6 are classed as high priority and 4 as medium. All outstanding recommendations were initially rescheduled for implementation by 31 October 2020. January 2021 Progress Update: Implementation date on remaining actions was amended to the end of January 2021 at the request of management. An audit progress update report has been completed (late January 2021) and circulated to the Committee. The current status is, a further 2 high	 Limited Assurance

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				and 2 medium actions have now been implemented, 4 high and 2 medium actions remain outstanding. A further follow up is planned for February /March 2021.	
	Transparency Code	Limited Assurance Follow up	Q1	Originally 15 recommendations were made and from these 10 have been implemented, 1 has been partially implemented and 4 are still outstanding. Of the outstanding recommendations none are classed as high priority, all 4 are medium. All outstanding recommendations have been rescheduled for implementation by October 2020.	 Reasonable Assurance
	Mobile Computing	Limited Assurance Follow up	Q1	Originally 8 recommendations were made and from these 7 have been implemented, 1 has been partially implemented. The outstanding recommendation is classed as medium priority and has a revised implementation date of 31 October 2020.	 Reasonable Assurance
	IT Application Controls	Limited Assurance Follow up	Q2	Originally 14 recommendations were made and from these 6 have been implemented, 1 has been partially implemented and 7 are still outstanding. Of the outstanding recommendations none are classed as high priority, all 8 are medium. All outstanding recommendations have been rescheduled for implementation by March 2021.	 Reasonable Assurance
	High Expenditure	Limited Assurance Follow up	Q2	Two recommendations were made in the original audit report (1 high and 1 medium risk). The medium recommendation was found to be	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				implemented at the previous follow up audit with one high recommendation outstanding. The findings of this follow up review confirm that the outstanding recommendation is now implemented.	 Substantial Assurance
	PR and Communications	Limited Assurance Follow up	Q3	Seven recommendations were made. The findings of this implementation review show that three recommendations have been fully implemented, two have been partially implemented and two remain outstanding.	 Reasonable Assurance
	Property Leases and Charges	Limited Assurance Follow up	Q3	Follow up in progress	
	GDPR	Limited Assurance Follow up	Q3	Follow up in progress	

Appendix 02: ASSURANCE AND RECOMMENDATION CLASSIFICATIONS

Overall Audit Assurance Opinion	Definition
Substantial	There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are some weaknesses which may put the organisation's objectives in this area at risk. There is a low level of non-compliance with some of the control processes applied.
Limited	Weaknesses in the system of internal controls are such as to put the organisation's objectives in this area at risk. There is a moderate level of non-compliance with some of the control processes applied.
No	Significant weakness in the design and application of controls mean that no assurance can be given that the organisation will meet its objectives in this area.

Priority	Definition
	High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk.
	Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk.
	Low priority (housekeeping) recommendation highlighted opportunities to implement a good or better practice, to add value, improve efficiency or further reduce the organisation's exposure to risk.

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RISK MANAGEMENT UPDATE

Cabinet Member for Finance & Procurement, Customer Services and Revenues and Benefits

Date:	3 February 2021
Agenda Item:	7
Contact Officer:	Rebecca Neill
Tel Number:	01543 308030
Email:	Rebecca.Neill@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To provide the Committee with their routine risk management update.

2. Recommendations

2.1 That Members note the risk management update and receive assurance on actions taking place to manage the Council's most significant risks.

3. Background

3.1 The purpose of risk management is to effectively manage potential opportunities and threats to the Council achieving its objectives. Part of the Audit & Member Standards Committee's terms of reference is 'to monitor the effectiveness of the Council's risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management'. This report supports the Committee in achieving this objective.

3.2 The strategic risk register is produced by assessing the risk factors that could potentially impact on the Council's ability to deliver its strategic plan. This assessment ensures that there are the right measures in place to control the potential risks to our business objectives. Risks are assessed based on their likelihood of occurrence and their potential impact. Each of these are rated on a scale of 1 (Low), 2 (Medium), 3 (Significant) and 4 (High). By multiplying the two scores together, each risk receives a score.

3.3 The Council's approach to risk is detailed within the risk policy.

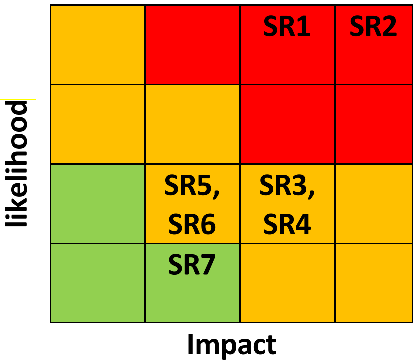
3.4 The Strategic Risk Register as at February 2021 (agreed with Leadership Team) is detailed at **Appendix 1**. The key changes since the Committee's last risk update (November 2020) are:

- SR2 has been updated following the request at November's Committee for flooding within the Lichfield district and the link this has to climate change / green agenda be considered within this risk.
- The narrative in SR2 has also been updated to account for the prevalence of Covid variants (risk involved in the increase in transmission) and 3rd national lockdown.

- Updates to mitigating controls, actions and lines of assurance have been updated on the Register where applicable.
- ‘Other Horizon Scanning Risks Arising at February 2021’ have also been updated at the end of the Register. These are risks which are not strategic risks currently, but that need a ‘watching brief’.

All changes have been highlighted on the Register at Appendix 1.

3.5 The Council’s 7 strategic risks are as below, together with their position on the matrix. All scores remain the same from the last review:



SR2: Resilience of teams to effectively respond to a further serious disruption to services.
SR1: Pressures on the availability of finance may mean the Council is not able to deliver the key priorities of the strategic plan.
SR3: Capacity and capability to deliver / adapt the new strategic plan to emerging landscape.
SR4: Failure to meet governance and / or statutory obligations e.g. breach of the law.
SR5: Failure to adequately respond to the wider socio-economic environment over which the Council may have little control, but which may impact on the growth and prosperity of the local area.
SR6: Failure to innovate and build on positives / opportunities / learning arising (including from the Covid-19 situation) to maximise outcomes for the Council, e.g. technological solutions.
SR7: Threat to the Council’s ICT systems of a cyber-attack.

3.6 SR1 and SR2 remain outside of appetite (within the red zone) and are therefore being actively managed with the aim to bring them back within tolerance. However, there are many external factors associated with both of these risks, which are beyond the Council’s control.

3.7 Work to review of the effectiveness of our sub strategic (service / operational) and project risk has now been completed. In summary:

- The 3 lines of assurance approach (as used in the Strategic Risk Register) has now been adopted for sub-strategic risks (i.e. service level risks).
- Heads of Service have compiled their first draft quarterly service risk registers (to December 2020) using the new approach. The next update will be March 2021.
- There is no longer a requirement to record and manage risks below service level (services or teams are, however, at liberty to do so if it meets their business requirement).
- Project risks continue to be managed in accordance with accepted project methodology (i.e. PRINCE2).

Alternative Options	None.
Consultation	Leadership Team have been consulted on this Strategic Risk Update.

Financial Implications	Risk management processes consider value for money at all times of the process. Failure to manage risks could lead to the Council being faced with costs that could impact on its ability to achieve its objectives

Contribution to the Delivery of the Strategic Plan	Sound risk management ensures that risks affecting the delivery of the strategic plan are identified and managed.

Equality, Diversity and Human Rights Implications	None.

Crime & Safety Issues	None.

Environmental Impact	Risks arising from climate change and the green agenda are currently a 'watching brief' item for the strategic risk register.

GDPR / Privacy Impact Assessment	Risks associated with non-compliance with GDPR are included within SR4: Failure to meet governance and / or statutory obligations e.g. breach of the law (e.g. Health & Safety, GDPR, procurement, Safeguarding.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Failure to manage known risks and opportunities proactively	Strategic risks are closely monitored by the Audit & Member Standards Committee, Cabinet Member and Leadership Team. Reports to Audit & Member Standards Committee provide assurance that active steps are being taken to control risks.	Likelihood – Green Impact - Yellow Severity of risk - Green (tolerable)

Background documents: Audit & Member Standards Committee's November 2020 update.

Relevant web links

Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
A good council, developing prosperity, shaping place, enabling people	**SR2 Resilience of teams to effectively respond to a further serious disruption to services** (e.g. multiple layer disruption arising from flooding, coupled with a local outbreak / subsequent waves of Covid-19 (including the increased risk of transmission of new variants), other pressures - such as seasonal flu). **Owner:** Leadership Team	8 (L2xI4)	• Mutual aid assistance • Local Resilience Forum (LRF). • Tested business continuity arrangements in place. • Strong links with the Staffordshire CCU and wider LRF. • Actively engaged in ongoing Local Resilience Forum response and recovery work streams. • Experienced (from previous waves / national lockdowns re Covid-19) Leadership Team and supporting teams in place to respond. • Clear structure and plan in place for Covid-19 waves. • Ongoing dialogue with CCU re D20 'BREXIT' risks. • Strategic and tactical flood planning work across LRF, to assist in our response and the multi-agency response to such events. This includes identifying	16 (L4xI4) ↔	6 (L2xI3)	• Links to actions arising from recovery strategy e.g. Encourage digital contact, harness and encourage the spirit and commitment shown by the Council and the Community in response to response **Leadership Team / ~~Dec~~ March 2021** • Monitor and build on learning from subsequent pandemic waves and D20 Brexit risks (no significant impacts have arisen since the end of the transition period, however this is being monitored) and ongoing involvement in LRF structures such as SCG and TCG is continuing.	**1st Line:** • Day to day business continuity plans in place. • Training programme. **2nd Line:** • Annual Report to Leadership Team. • CCU test of arrangements feedback. • Response and learning from recent incident at Ridware House. • Report on recovery plan and climate change to Overview & Scrutiny (O&S). **3rd Line:** • Internal Audit of business continuity 2019/20 – reasonable assurance, ICT – remote working 20/21 – reasonable assurance. • Flash Covid-19 Risk Assurance Business Continuity, Emergency Planning and Recovery 20/21 substantial assurance

Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
			'at risk' areas in the District and specific actions required. • Briefing paper to O&S Committee on Climate change agenda			**Leadership Team / ~~Dec 2020~~ March 2021**	
A good council, developing prosperity, shaping place, enabling people	**SR1 Pressures on the availability of finance may mean the Council is not able to deliver the key priorities of the strategic plan.** The risk is influenced by: • The spending review. • Local Government Finance Reform including New Homes Bonus, Business Rates and the Fair Funding Review. • The financial impact of the Covid-19 pandemic in the current year and beyond. • Other Government Policy announcements impacting on Local Government such as the Call for Evidence on Business Rates and	16 (L4xl4)	• Prudent estimates for Business Rates and New Homes Bonus based on modelling provided by Local Government Finance experts. • Risk assessed minimum level of reserves set at £1.6m. • Routine budget monitoring reported to Leadership Team, Cabinet and Strategic (OS) Committee. • Requirements of the new CIPFA Financial Management Code, information contained in the CIPFA Resilience Index and benchmarking reports from LG Futures. • In terms of the Covid-19 pandemic – introduction	12 (L4xl3) ⬌	4 (L2xl2)	• Update of the Medium Term Financial Strategy **Responsibility: Head of Finance and Procurement / commenced July 2020 and approval in February 2021**	**1st Line:** • Approved Medium Term Financial Strategy including the Capital Strategy covering 5 years plus a 25 year capital investment model. • A longer term financial plan covering a 25 year horizon for revenue budgets. • Approved Treasury Management Strategy. • Production of monthly budget reports to Managers. • Procurement Strategy **2nd Line:** • Leadership team review of 3, 6, 8 and 12 month reports to Cabinet, Strategic (OS) Committee. • Mid-year and outturn Treasury Management reports to Audit and Member Standards Committee.

Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	Procurement Policy Notes. **Owner:** Head of Finance & Procurement (Section 151 Officer).		of enhanced monthly income monitoring and receipt of financial assistance from Government.				• Initial assessment of LDC's level of compliance with the FM Code to Audit and Member Standards Committee 12/11/2020. **3rd Line:** • External Audit – going concern test and sign off of financial statements 2019/20. Unqualified VFM assessment. • Internal Audits of Accountancy and Budgetary Control 2018/19 -substantial assurance, Capital Strategy 2020/21 – reasonable assurance, Capital Accounting 2020/21 – substantial assurance, Income Management 20/21 – reasonable assurance, Procurement 20/21 limited assurance
A good council, developing prosperity, shaping place, enabling people	**SR3: Capacity and capability to deliver / adapt the new strategic plan to emerging landscape.** **Owner:** Leadership Team	6 (L2xI3)	• Regular review of progress against delivery plan outcomes and prioritisation process agreed between Leadership Team and Cabinet.	6 (L2xI3) ⬌	4 (L2xI2)	• Finalisation of people strategy and Workforce development plan to take account of Covid-19 *(initial drafts to be updated for agile working and also for*	**1st Line:** • Day to day business / service planning, financial planning and performance management. **2nd Line:** • Delivery Plan reported 6 monthly to Cabinet and shared with Overview & Scrutiny.

Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
			• Robust project management. • People strategy. • Communications to all staff. • PDRs linked to Strategic and Delivery Plans. • Recruitment activity. • PDR completion leading to identifying training and development needs. • Monitoring resource demands. • Mental health / wellbeing systems in place.			*new Chief Executive's steer, when appointed)* **Head of Governance & Performance** ~~**December**~~ **June 2021** • ~~Finalise PDR processes following Pentana pilot~~ ~~**Head of Governance & Performance – April 2021**~~ **IMPLEMENTED**	• Quarterly updates to LT on people strategy. **3rd Line:** • Internal Audits of People Strategy and Workforce Development 2019/20 – reasonable assurance, Performance Management 19/20 – substantial assurance.
A good council	**SR4: Failure to meet governance and / or statutory obligations e.g. breach of the law** (e.g. Health & Safety, GDPR, procurement, Safeguarding), lack of openness / transparency in decision making, breach of the constitution. This could lead to fines as well as reputational damage.	9 (L3xI3)	• Regularly reviewed constitution, policies and procedures. • Meta compliance policy training, testing and acceptance systems. • Training and awareness for all staff and members. • Effective Overview and Scrutiny and Audit & Member Standards Committee oversight. • Codes of Conduct. • Internal audit.	6 (L2xI3) ↔	6 (L2xI3)	• ~~Finalisation of GDPR Action Plan –~~ ~~**Head of Governance & Performance & Interim Head of Corporate Services / December 2020**~~ **IMPLEMENTED** • Annual Health & Safety Report to be produced for Employment Committee **Head of Governance & Performance /March 2021.**	**1st Line:** • Day to day processes and Local Code of Governance • Forward plans/committee work plans/ delivery plan and service planning. • Use of Mod Gov and publication scheme. **2nd Line:** • Annual reports to Audit and Member Standards Committee. • Regular reports to leadership team. • Transparency data publication.

Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	Owner: Head of Governance & Performance		• Roles of Section 151 Officer and Monitoring Officer. • Shared legal services. • New procurement team.				**3rd Line:** • RIPA, ICO and Ombudsman reports/returns. • External audit of Annual Governance Statement as part of the financial statements. • Internal Audits of Ethics 2019/20 – adequate assurance, Health and Safety 2019/20 – adequate assurance, GDPR follow up 2019/20 – limited assurance, Transparency code follow up 2019/20 reasonable assurance, Safeguarding Inc. modern slavery 2019/20 – reasonable assurance, Committee Reporting 2019/20 – substantial assurance, Legal Compliance (shared service agreement) 2019/20 – reasonable assurance, Equalities 2019/20 – substantial assurance, Management of Property (LA Trading Company) 20/21 – substantial assurance, Procurement 20/21 limited assurance

Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
A good council, developing prosperity, shaping place,	**SR5: Failure to adequately respond to the wider socio-economic environment over which the Council may have little control, but which may impact on the growth and prosperity of the local area**, for example, the UK withdrawal from the European Union / Covid-19 crisis, results in an increase in unemployment, business closures coupled with emergence of higher expectation of ongoing support from the Council. Increased demand on Council services such as benefits via increased Universal Credit claims, at the same time that Council suffering reduced income. **Owner:** Leadership Team	9 (L3xI3)	• Financial assistance from Government to businesses and the public (Grants, Test & Trace Support Payments) particularly in terms of furlough scheme end Oct 20, potential further implications for individuals and businesses arising from potential local lockdowns and Brexit. • Prosperity is a key theme in the new Strategic Plan. • Economic Development Strategy is in place. • Council's effective presence on the Local Enterprise Partnerships. • Strong partnership working e.g. Lichfield District Board, Staffs CC, Birmingham Chambers. Lichfield City BID, Burntwood Business Community LGA, DCN, • New burdens funding. • Partnership influences built into business case considerations.	4 (L2xI2) ⬌	4 (L2xI2)	• Continued delivery of immediate actions to support high street economy and business (including visitor economy and hospitality sector) ~~**post relaxation of Covid-19 lockdown measures**~~ **Head of Economic Growth and Development** **PARTIALLY IMPLEMENTED – 50% ERDF FUNDING ALLOCATED REVISED DATE ~~Dec 2020~~ March 2021**	**1st Line:** • Day to day delivery of economic development, housing and health and wellbeing strategies. **2nd Line:** • Leadership team review of 3, 6, 8 and 12 month Money Matters reports to Cabinet, Strategic (OS) Committee. • Health and Wellbeing Strategy delivery reports. **3rd Line:** • Internal Audit of Economic Development Partnership Arrangements 2017/18 – adequate assurance, Tourism 2019/20 – reasonable assurance, Housing Benefits – overpayments 2017/18 – adequate assurance, Housing Benefits – verification and performance 2016/17 – substantial assurance, Housing Benefits and Council Tax Relief 20/21 substantial assurance

Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
			• Work with redundancy task force • Continue to develop and improve the business contact and relationships locally.				
A good council, enabling people	**SR6: Failure to innovate and build on positives / opportunities / learning arising (including from the Covid-19 situation) to maximise outcomes for the Council, e.g. technological solutions** **Owner:** Leadership Team	9 (L3xl3)	• ICT service plan. • ICT hardware replacement programme. • Migration to HIS and implementing of O365. • Refurbishment and reorganisation of office spaces. • Cyber security e-learning. • Engagement Strategy. • Capture best practice • Reinforce a culture of innovation. • People strategy. • Virtual committee meetings. • Business cases required for all major projects. • Drive to find ongoing efficiencies as part of service / financial planning process. • Customer promise.	4 (L2xl2) ⬌	1 L1xl1	• ~~Test and further deployment of hybrid meeting rooms (MS Teams Rooms),~~ ~~**Information & Communications Technology Manager / Jan 2021**~~ **IMPLEMENTED** - Roll out of MS teams and all functions in train for completion later this year, **Information & Communications Technology Manager / October 2021** • Acceleration of agile working processes, terms and conditions. **Head of Governance & Performance / As part of recovery planning**	**1st Line:** • ICT hardware replacement programme providing the right equipment for mobile and flexible working. • Ongoing monitoring of customer (internal and external) feedback. **2nd Line:** • Monitoring of Lichfield Connects contact levels, trends and reporting on complaints and compliments to Leadership Team. **3rd Line:** • Local Government Ombudsman. • Flash Covid-19 Risk Assurance Staff Wellbeing 20/21 substantial assurance

Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
						processes – ~~March~~ June 2021 • Links to actions arising from recovery strategy e.g. Encourage digital contact, harness and encourage the spirit and commitment shown by the Council and the Community in response to recovery **Leadership Team / ~~Dec~~ Sept 2021** • ~~Digital innovation strategy **Interim Head of Corporate Services / January 2021**~~ **IMPLEMENTED**	
A good council	**SR7: Threat to the Council's ICT systems of a cyber-attack** following dramatic increase in remote working which if successful could result in loss of data / loss of access to applications – which may	3 (L1xI3)	• Use of firewalls and virus protection to manage cyber security, including penetration testing. • Strong access level controls (including remote access).	2 (L1xI2) ⬌	2 (L1xI2)	• ~~Planned revision of business continuity and disaster recovery plans for the end of the calendar year **Information & Communications Technology Manager /**~~	**1st Line:** • Day to day operation of ICT Training programme for all staff. • Up to date versions of software and implement all IT security patches. **2nd Line:**

Lichfield district council
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Appendix 1: Strategic Risk Register – February 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	incur fines / reputational damage. **Owner:** Interim Head of Corporate Services		• Training and regular awareness raising to staff of risks. • Digital strategy. • PSN compliance checklist. • Revision of Service Business Continuity Plans to incorporate lessons learnt from COVID-19.			**~~Dec 2020~~ IMPLEMENTED** • Migration to HIS and MS Office 365 by the end of the calendar year which will bring additional resilience and security features **Information & Communications Technology Manager / ~~Dec 2020~~ MARCH 2021**	• Regular monitoring and reporting on security issues to Leadership Team. • External penetration testing. **3rd Line:** • Internal Audit of business continuity 2019/20 – significant assurance (DR plan noted as an action), Cyber Security 2019/20 – reasonable assurance, IT Governance 2019/20 – adequate assurance, IT Application Controls – follow up 2019/20 – reasonable assurance, ICT – remote working 20/21 – reasonable assurance. Flash Covid-19 Risk Assurance Business Continuity, Emergency Planning and Recovery 20/21 substantial assurance

Key to 3 lines of assurance:	
1st Line	Day to day operations of internal control systems
2nd Line	Management oversight and monitoring controls
3rd Line	Independent assurance from Internal / external audit and other independent assurance sources (e.g. HSE, BFI)

Appendix 1: Strategic Risk Register – February 2021

Other Horizon Scanning Risks Arising February 2021:
Impact on the organisation arising from the devolution / local recovery white paper which was due in September 2020 and has now been postponed to 2021. Not a strategic risk at present, to include as a horizon scan until more information is known and impact on operations can properly be assessed.
Impact on planning activities arising from the ‘Planning for the Future’ white paper published 6 August 2020.
Significant changes in the approach to Procurement as a result of leaving the European Union.
Risks arising from staff leaving in key posts (i.e. Chief Executive, Head of Customer Services, Revenues & Benefits, Head of HR, Shared Head of Audit).
Transition to new payroll provider.
Delivery of elections during pandemic conditions.
Sunset clause on Regulations allowing remote council meetings ends early May 2021.

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Grant Thornton

The Annual Audit Letter for Lichfield District Council

Year ended 31 March 2020

January 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lichfield District Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Member Standards Committee as those charged with governance in our Audit Findings Report on 7 October 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £850,000, which is 2% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 27 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties, and the property assets of its pension fund, given the Coronavirus pandemic.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Lichfield District Council in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council’s financial statements to be £850,000, which is 2% of the Council’s gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality of £25,000 for disclosures relating to remuneration of senior officers, due to their sensitive nature

We set a lower threshold of £42,000, above which we reported errors to the Audit and Member Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020	As part of our audit work we have: • worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment	The Council's valuer reported their valuations as at 31 March 2020 on the basis of 'material valuation uncertainty'. Similar uncertainties were reported in the valuations of the Staffordshire Pension Fund's property and infrastructure assets as at 31 March 2020. We referred to these material valuation uncertainties in our audit report. We did not identify any other issues or concerns to report.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (including investment properties) The Council revalues land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value at the financial statements date.	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested, on a sample basis, revaluations of the Council's properties during the year to ensure they have been input correctly into the Council's asset register and financial statements; • evaluated the assumptions made by management for any assets not revalued at 31 March 2020, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.	Our audit work did not identify any issues in respect of the valuation of the Council's land and building assets, other than the uncertainties relating to Covid-19 discussed above.
Valuation of net pension liability The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£625 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions.	As part of our audit work we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • completed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report.	Our audit work has not identified any issues in respect of the valuation of the Council's pension fund net liability

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • tested 'top-side' journals between the general ledger and the financial statements for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work did not identify any issues in respect of management override of controls.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 27 November 2020.

Preparation of the financial statements
The Council presented us with draft financial statements in June 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council's Audit and Member Standards Committee on 7 October 2020.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in draft Statement of Accounts in June 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of Lichfield District Council in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

We updated this risk assessment up to the date of giving our report, including considering the impact of Covid-19 on the Council's finances, and identified no significant risks where we need to perform further work.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	October 2020
Annual Audit Letter	January 2021

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Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table below summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services below are consistent with the group's policy on the allotment of non-audit work to your auditor

Fees for non-audit services

Service	Fees £
Audit related services	
• Certification of Housing Benefits claim 2018/19	14,000
• Certification of Housing Benefits claim 2019/20	15,000
Non-Audit related services	
- None	nil

Fees

	Planned £	Actual fees £
Statutory audit	42,912	47,612

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £35,412 for the Council assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which led to additional work. These were set out in our Audit Plan.

We have given consideration to additional fees for the impact of Covid-19 on our audit processes, and have determined that an additional fee of £6,200 is appropriate. We have also deducted our planned fee for the audit of the implementation of IFRS 16, which has been deferred.

Fee variations are subject to PSAA approval.

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2020/21

Item	22 July 2020	7 October 2020	12 November 2020	3 February 2021	25 March 2021	27 April 2021	Deferred Reason
FINANCE							
Annual Governance Statement	√					√	
Annual Treasury Management Report	√						
Mid-Year Treasury Management Report			√				
Review of Accounting Policies		√			√		
Statement of Accounts		√					
Treasury Management Statement and Prudential Indicators				√			
Audit & Member Standards Committee Practical Guidance				*√			*Only relevant if there is updates to guidance so may not be needed
CIPFA Financial Management Code			√				
Redmond Review Report				√			
INTERNAL AUDIT							
Chair of the Audit Committee's Annual Report to Council	√					√	
Annual Report for Internal Audit (including year-end progress report)	√					√	
Internal Audit Plan, Charter & Protocol 2020/21	√				√		
Internal Audit Progress Report			√	√		√	
Quality Assurance and Improvement Programme /Public Sector Internal Audit Standards	√						
Risk Management Update	√		√	√		√	

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2020/21

Item	22 July 2020	7 October 2020	12 November 2020	3 February 2021	25 March 2021	27 April 2021	Deferred Reason
Counter Fraud Update Report including Counter Fraud & Corruption/Whistleblowing/Anti-Money Laundering/ Prevention of Tax Evasion Policies			√*				*Deferred from April
LEGAL AND DEMOCRATIC							
Annual report on Exceptions and Exemptions to Procedure Rules					√		Annual Review/? Briefing paper
Overview of the Council's Constitution in respect of Contract Procedure Rules						√	Annual Review
GDPR/Data Protection Policy			√				
Annual Report of the Monitoring Officer - Complaints							Annual Report due **July** (Allows for full year reporting)
RIPA reports policy and monitoring	√						Annual Report
Review of the Effectiveness of the Audit & Member Standards Committee					√		
Terms of Reference							
EXTERNAL AUDITOR							
Audit Findings Report for Lichfield District Council 2019/2020		√					
The Annual Audit letter for Lichfield District Council				√			
Certification Work for Lichfield District Council for Year Ended 31 March 2020				√			
Audit Plan (including Planned Audit Fee 2020/21)					√		

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2020/21

Item	22 July 2020	7 October 2020	12 November 2020	3 February 2021	25 March 2021	27 April 2021	Deferred Reason
Informing the Audit Risk Assessment - Lichfield District Council	√				√		
Audit Plan for Lichfield District Council 2019/20	√						
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2021				√		√	
Audit & Member Standards Committee Training Session by Grant Thornton						√	
Annual Audit Fee Letter	√						

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