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Lichfield district council

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Wednesday, 26 January 2022

Dear Sir/Madam

AUDIT AND MEMBER STANDARDS COMMITTEE

A meeting of the Audit and Member Standards Committee has been arranged to take place **THURSDAY, 3RD FEBRUARY, 2022 at 6.00 PM IN THE COUNCIL CHAMBER** District Council House, Lichfield to consider the following business.

Access to the Council Chamber is via the Members' Entrance.

In light of the current Covid-19 pandemic this meeting will be live streamed on the Council's YouTube channel for all members of the public to view.

Yours faithfully

Christie Tims
Chief Operating Officer

To: Members of Audit and Member Standards Committee

Councillors Spruce (Chair), Ho (Vice-Chair), Grange, Norman, Robertson, Silvester-Hall, White, M Wilcox,
Avtar Sohal (External Auditor), David Rowley (External Auditor) and Kirsty Lees (External Auditor)

AGENDA

AUDIT AND MEMBER STANDARDS COMMITTEE

11 NOVEMBER 2021

PRESENT:

Councillors Spruce (Chair), Ho (Vice-Chair), Norman, Robertson, White and M Wilcox

Observer:

Officers In Attendance:

Also Present:

79 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Joanne Grange and Councillor Silvester-Hall.

80 DECLARATIONS OF INTEREST

Councillor Wai-Lee Ho declared a personal interest in any discussion relating to Burntwood Leisure Centre within agenda item 5.

81 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 22 September 2021 previously circulated, were taken as read and approved as a correct record.

82 LOCAL AUDIT UPDATE

Anthony Thomas (Head of Finance and Procurement) provided an update on the invitation to become an opted-in authority for the five-year period 1 April 2023 to 31 March 2028.

The Audit & Member Standards Committee had previously been provided with an update on the Redmond Review and the Government's initial response on the 3 February 2021, with a further Local Audit Update on the 22 September 2021.

Anthony Thomas highlighted the Local Government Association (LGA) narrative on their reasons for the national framework remaining the best option for councils, including but not limited to, a reduced administrative burden on the council and easily demonstratable independence of the council's audit process.

RESOLVED: - (1) The Audit & Member Standards Committee approved the recommendation to Council to become an opted in authority in accordance with the regulations.

83 MID-YEAR TREASURY MANAGEMENT REPORT

Anthony Thomas (Head of Finance and Procurement) provided an update on the projected mid-year Treasury Management performance in 2021/22. This update follows the Treasury Management Strategy Statement considered by the committee on 3 February 2021.

Anthony Thomas outlined some of the key points of the report to the committee:

- Capital expenditure is projected to be lower than the Approved Revised Budget. This is mainly due to the delayed coach park enhancement and ICT projects now forming part of the Better Council Programme.

- Capital receipts are projected to be higher than the Approved Revised Budget. This increase is related to the Council's share of the Right to Buy sales from Bromford Housing Association.

- The Capital Financing Requirement is higher than budgeted mainly because not all funding required for the leisure centre early repayment has currently been identified. Alternative funding options are being explored, such as potential redirection of s106 monies.

- Investment balances at the end of March 2022 will be higher than the original budget, there are number of factors to this, including a high level of unapplied grants, some of which are being reclaimed by central government.

- There is a 'book gain' with the councils strategic investments

The Committee requested additional information on the figures outlined in 3.12 of the report. Anthony Thomas acknowledged that Right to Buy Sales fluctuate based on demand and therefore these figures are based on the most recent information provided by Bromford and that receipts are treated as windfall receipts.

The Committee requested additional information on the annual net gain of investments when accounting for the current rate of inflation. Anthony Thomas highlighted the information at item 3.41 of the report and outlined that accounting for inflation would give a negative return as it is such a high level. He also highlighted that any investment which provided a higher yield than 0.85% would likely be a higher risk investment.

The Committee requested assurances that the investment portfolio held by Lichfield District Council would be secure from any potential impact of broader financial issues experienced by other countries. Anthony Thomas provided assurances that the framework used to invest monies means it is unlikely that this would impact Lichfield District Council's investment portfolio.

The Committee requested further information on the reassessment of the pension long-term obligation by the Actuary at the 31 March 2021. Anthony Thomas confirmed that while there are secondary opinions obtained by the Actuary, Lichfield District Council do have an opportunity to change contribution levels every three years. The contribution step based and the preferred contribution level by the Actuary, which mitigates the impact in future years.

The Committee requested further information on whether construction related capital budgets would need to be increased to account for increases to construction inflation. Anthony Thomas agreed to ensure meetings were held with each Head of Service to make this assessment and account for anycost increases in the draft MTFS.

The Committee requested further information on the benefit of increasing the level of investment made within the Strategic Funds due to the higher rate of return compared to other investments. Anthony Thomas confirmed that this is under review and there will be a proposal through the Investment Management Strategy to increase the investment from ten million pound to fifteen million pounds. Additionally, the option to repay the External Loans from the PWLB to generate revenue savings was highlighted. Anthony Thomas indicated that this was actively being considered for the shorter period Annuity loan given the low level of early repayment premium.

RESOLVED: - (1) The Audit & Member Standards Committee reviewed and noted the report.

84 INTERNAL AUDIT PROGRESS REPORT

Andrew Wood (Internal Audit Manager) provided the Committee with an update on the progress of the internal audit work programme.

Andrew Wood highlighted the following:

- 6% of the Audit Plan has been completed against the profiled completion of 50%.
- 44% of the Audit Plan has been completed to draft or completion stage. At present there are four audits Shared Service (Joint Waste, Legal Services), IT Microsoft 365 and IT Remote Access which complete and draft reports issued to management. Grants and Council Tax audits are currently in progress.
- 6 audits have been scheduled for Quarter 3, a further 4 audits in Quarter 4

Andrew Wood provided assurances that where limited assurances had been indicated, further work has been completed and as a result are now are reasonable or substantial assurances.

The Committee raised the concern that there is a risk that outstanding audits may not be completed with consistent scrutiny due to the number of outstanding audits remining within the work programme. The Committee have therefore requested confirmation of the likely percentage of completion at the next meeting.

RESOLVED:- (1) The Audit & Member Standards Committee noted the report

85 RISK MANAGEMENT UPDATE

Andrew Wood provided the Committee with a Risk Management Update including the updates to the Strategic Risk Register as at October 2021 (agreed with Leadership Team) and the key changes since the last update to the Committee in July 2021. The Strategic Risk Register is reviewed by Leadership Team on a monthly basis to ensure all identified risks are regularly and routinely reviewed.

Andrew Wood highlighted the following:

- Strategic Risk 3 mitigating actions have been applied to the risk in relation to resilience within the service
- Strategic Risk 4 has decreased as there has been an increase in resilience within the service
- Strategic Risk 7 has increased due to the increase in the number of sophisticated phishing attacks. Multi factor authentication has been introduced across Lichfield District Council to mitigate this risk.

The Committee acknowledged the impact the Covid-19 pandemic has had on the Council’s 7 strategic risks and that this is a primary reason for the increase in the level of each risk, which has resulted in none of the risks falling within the green area of the grid at item 3.5 of the report.

The Committee noted the budget allocated to the new 'Better Council' programme and outlined their aspiration for this programme and budget being utilised to mitigate the strategic risks strategic risk 7.

Andrew Wood provided assurances to the Committee that the increase in cyber-attacks is world-wide and ICT are working to increase the awareness of phishing attacks with all members and staff. He confirmed that actions are being taken to mitigate these risks and Leadership are reviewing all strategic risks on a monthly basis.

The Committee requested the risk owner should be the responsible Cabinet member to ensure political oversight is maintained.

The Committee acknowledged the changeable guidance provided in relation to the use of meeting spaces during the Covid-19 pandemic and requested oversight of all risk assessments undertaken in relation the Councils meetings. Internal audit will review these risk assessments.

The Committee raised concerns in relation to the potential reputational risk if there are delays or significant changes to the commitment made to develop a new leisure centre. This will be reflected within the report within strategic risk 1 going forward, inclusive of any new information which may arise through other Committees.

RESOLVED: - (1) The Audit & Member Standards Committee noted the report
(2) The Chair will provide an update to the Leader of the Council on the concerns raised by the Committee

86 COUNTER FRAUD UPDATE REPORT

Andrew Wood provided the Committee with a Counter Fraud update, including information on the National Fraud Initiative.

Andrew Wood provided assurances to the Committee that while one instance of suspected instance of fraud was identified within 2020/21 recommendations have been agreed with the management of the service area to strengthen the controls on cash management within this service.

Andrew Wood provided assurances that there were no instances of whistleblowing within the Council in 2020/21, this has been the case for the last four years.

The Committee requested assurances that there are measures in place to mitigate any risk of tax evasion by staff members who are not on Lichfield District Council's payroll system. Anthony Thomas provided assurances that there are mechanisms in place to mitigate this risk, including the oversight of agencies being used by the new procurement team.

The Committee requested confirmation on the training cycles for staff and members, Andrew Wood will circulate this information ahead of the next meeting.

RESOLVED: - (1) The Audit & Member Standards Committee noted the report

87 WORK PROGRAMME

The existing Work Programme 2021/22 was noted.

(The Meeting closed at Time Not Specified)

CHAIRMAN

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The Treasury Management Strategy Statement (TMSS) 2022/23

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

Lichfield district council

Date:	3 February 2022
Agenda Item:	
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.

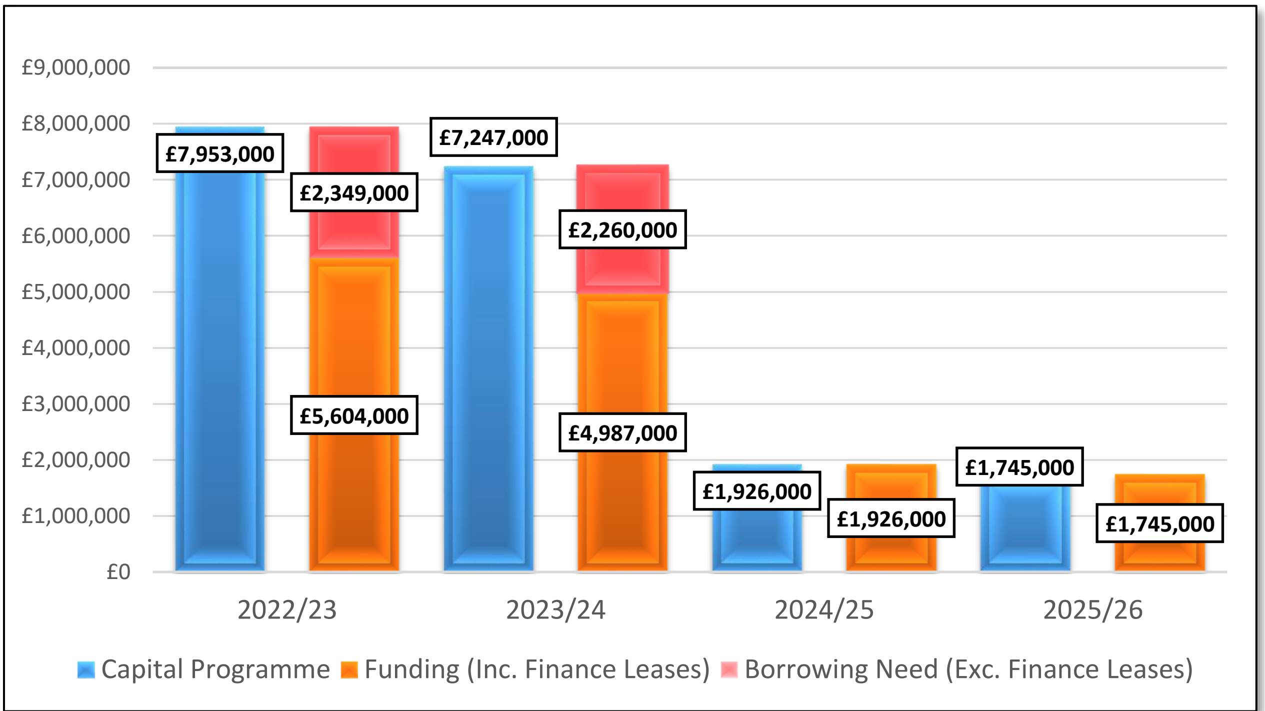
1.2 CIPFA released the latest version of the Prudential and Treasury Management Codes in December 2021 although the accompanying guidance notes are yet to be published. The revised Prudential Code takes immediate effect although the revised reporting requirements can therefore be deferred until the 2023/24 financial year.

1.3 This report fulfils the Authority's legal obligation, under the Local Government Act 2003, to have regard to both the CIPFA Code and the Department of Levelling Up, Housing and Communities (DLUHC) Guidance.

The Capital Strategy and Capital Programme

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

1.5 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

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

1.7 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 2022/23 **(APPENDIX C).**
- Treasury Management Strategy Statement for 2022/23 **(APPENDIX D).**
- Treasury Investments and their Limits **(APPENDIX D)**.
- The Investment Strategy Report for 2022/23 **(APPENDIX E)** as required under Statutory Guidance in January 2018.
- The Capital and Treasury Prudential Indicators 2021-26 in the financial implications section.

1.8 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 2022/23, 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 2022/23 including proposed limits shown at **APPENDIX D**.

2.4 The plan to undertake further Strategic Fund investments with a recommended increase of:

- **£1m** in the counterparty limit for strategic funds (from **£4m** to **£5m** per fund)
- **£5m (**from **£10m** to **£15m)** in the Prudential Indicator for Principal Sums invested for periods longer than a year.
- **£4m** in any group of pooled funds under the same management limit (from **£11m** to **£15m)**.

2.5 The Investment Strategy Report **(APPENDIX E)** including the proposed limits for 2022/23.

2.6 The Capital and Treasury Prudential Indicators for 2021-26 in the financial implications section.

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

2.8 The potential repayment of one of the two external loans outstanding to generate further savings.

3. Background

The Capital Strategy

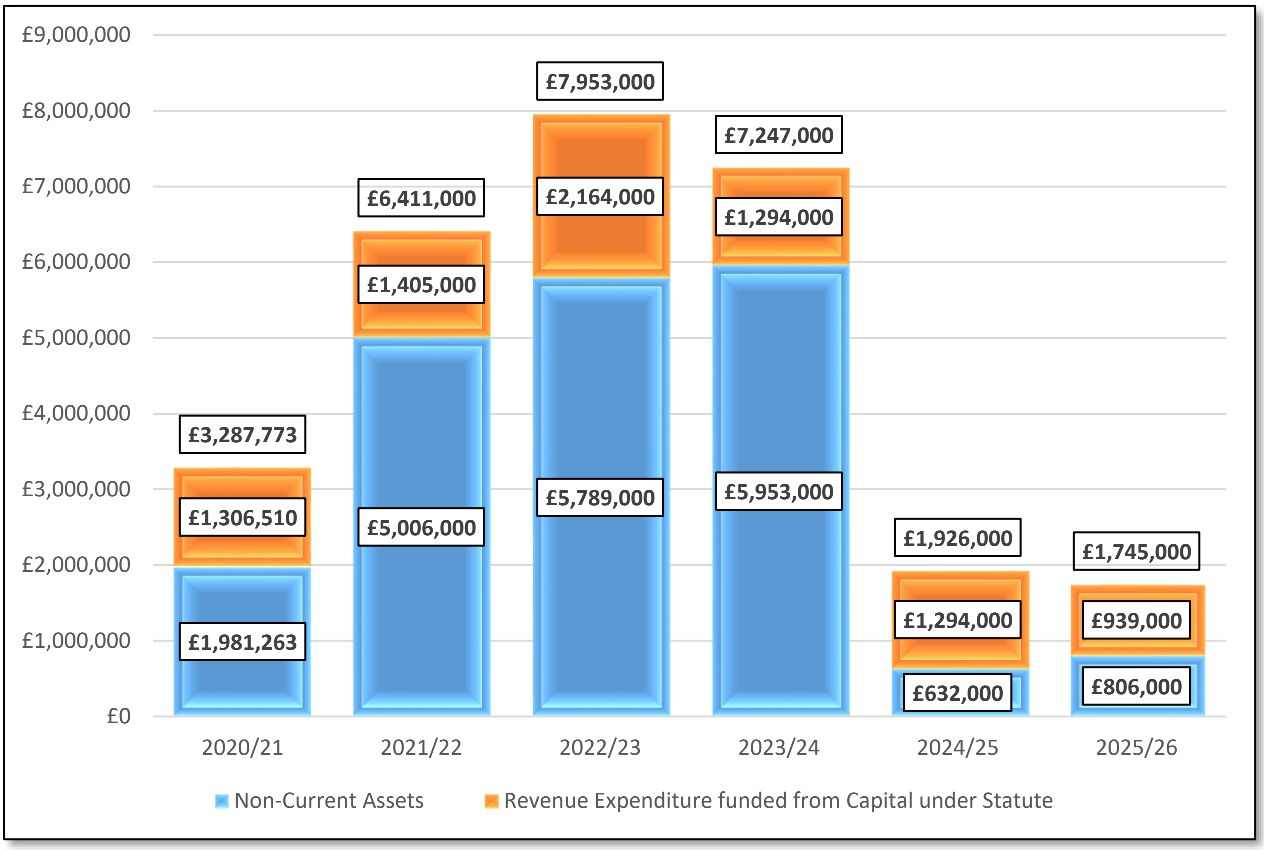
3.1 The Capital Strategy at **APPENDIX A** sets out the Council's framework for managing the Capital Programme including:

- **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)**.

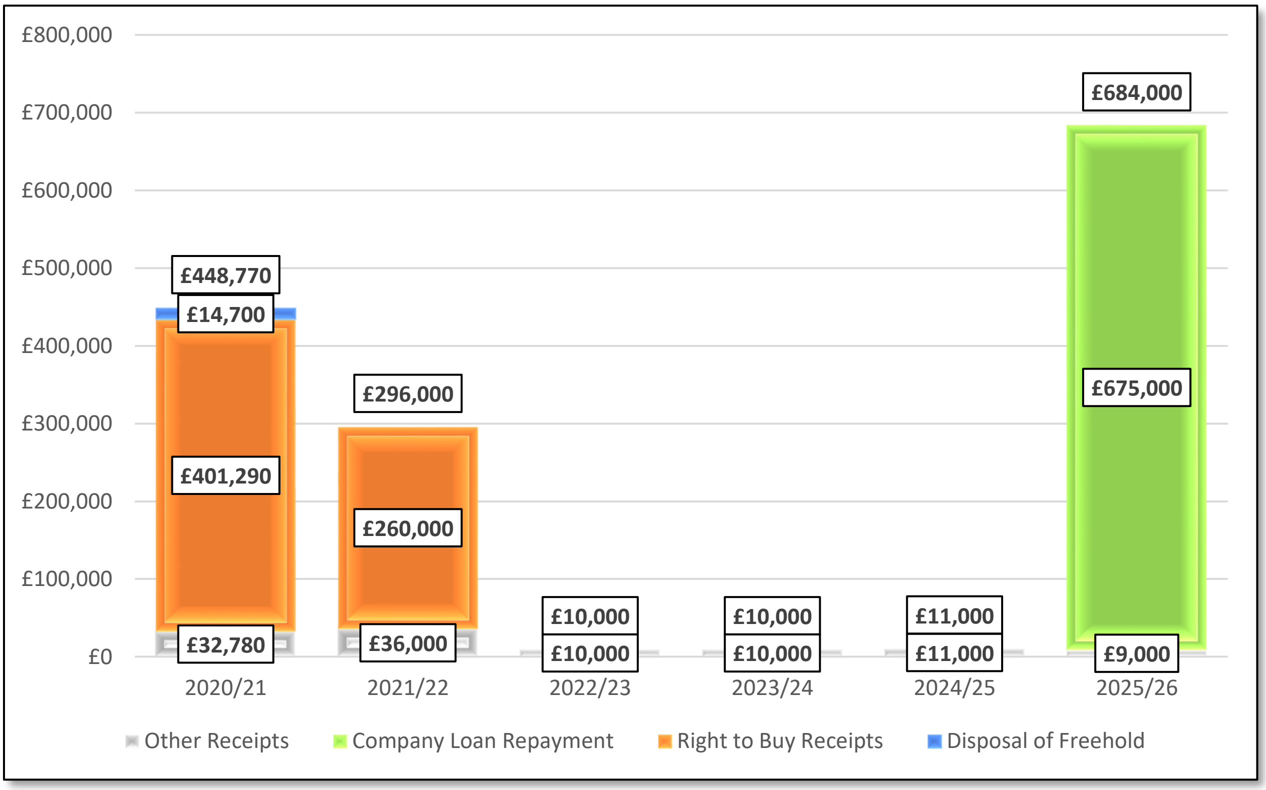
The Capital Programme

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:



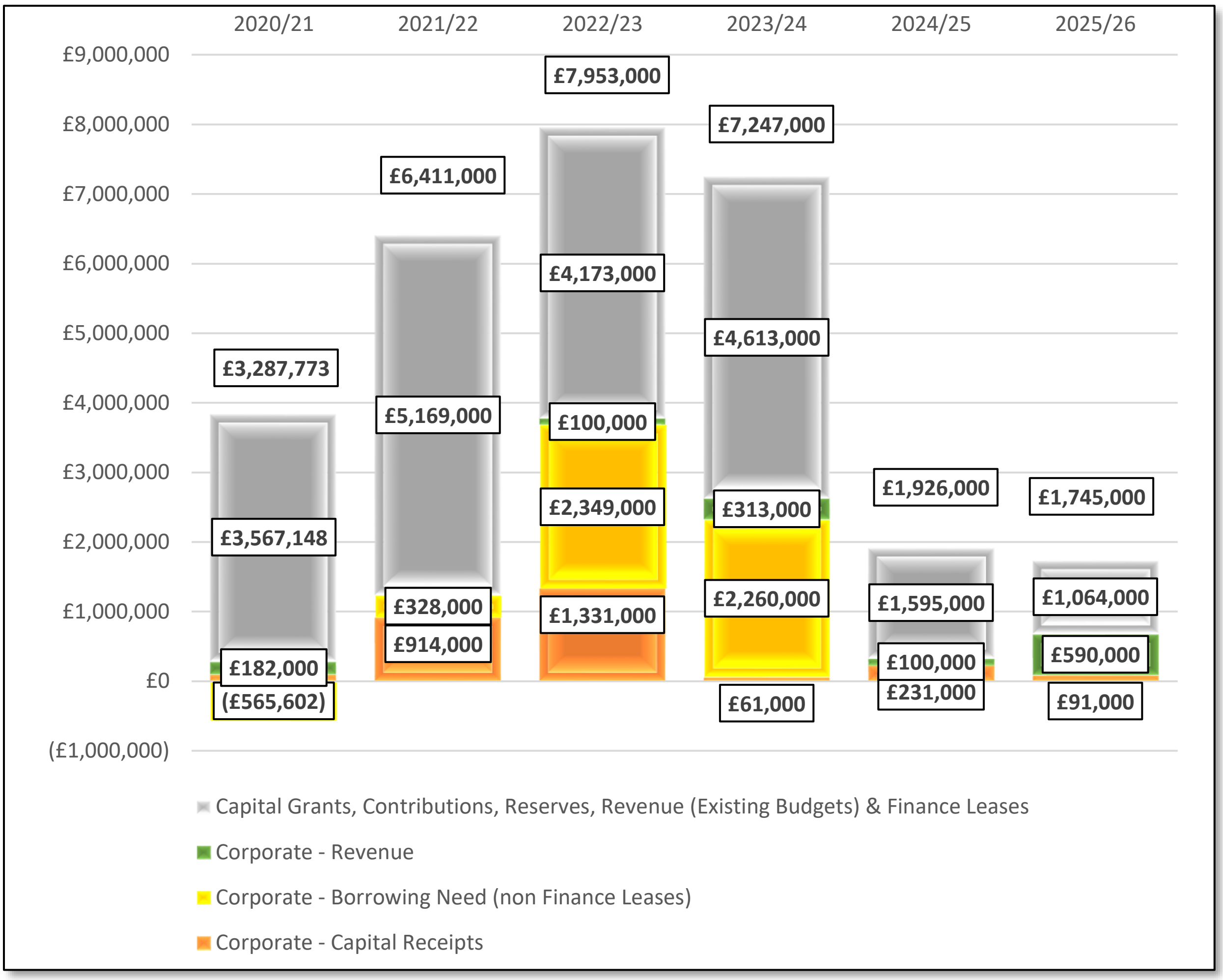
<u>Capital Receipts</u>

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



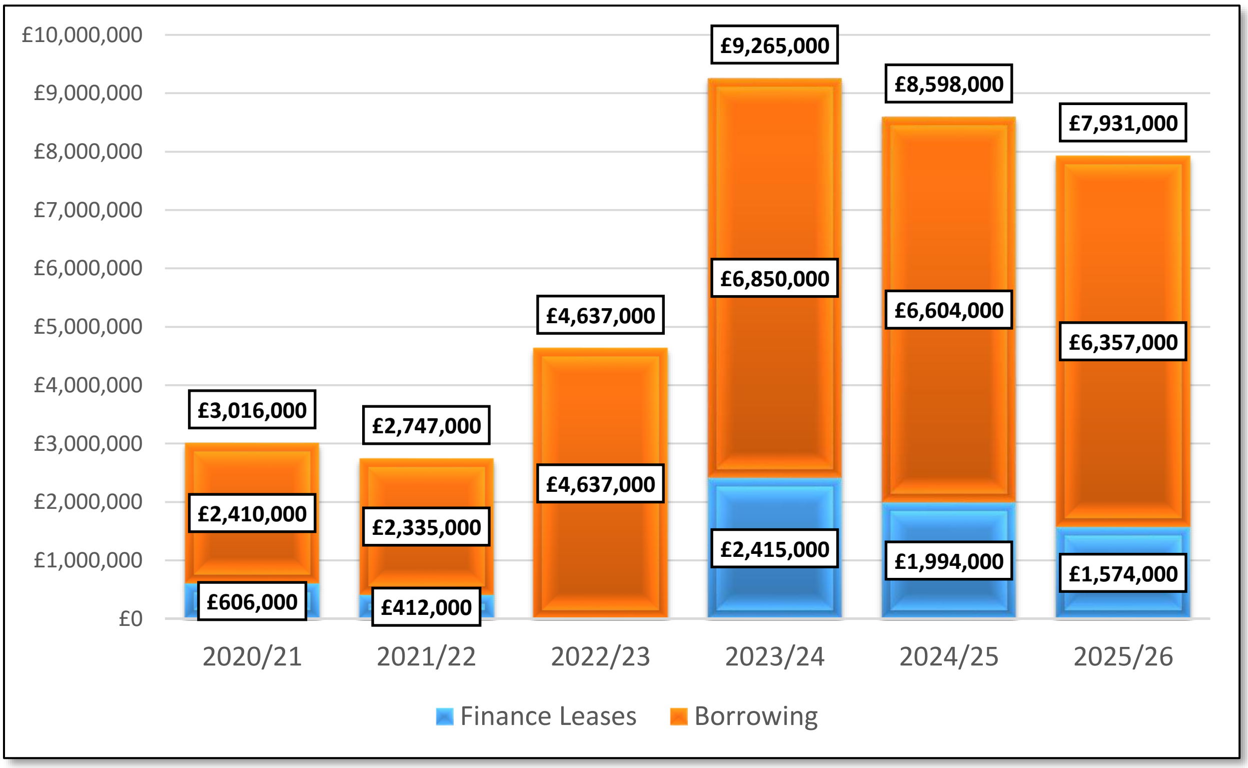
The Funding of the Capital Programme

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:

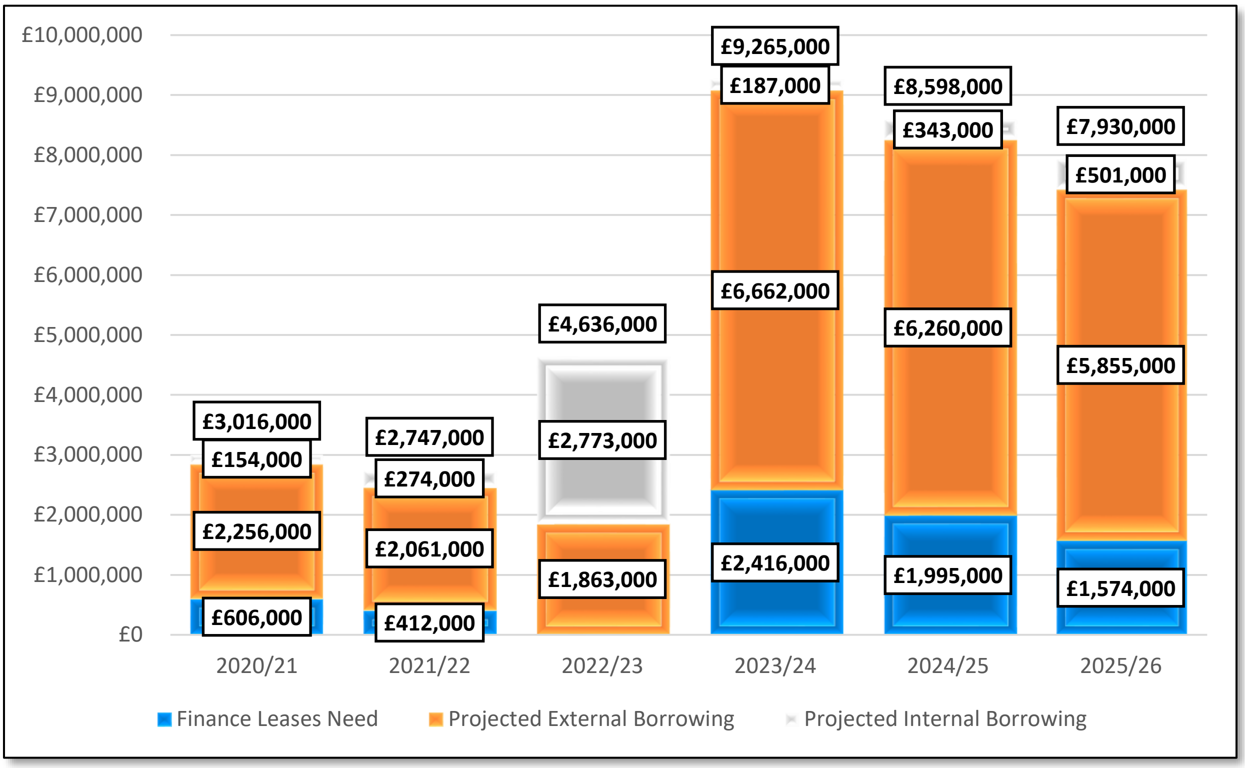


The Capital Financing Requirement (Borrowing Need) and its Financing

3.6 The projected Cumulative Borrowing Need related to the Capital Programme with increases from 2023/24 due to the planned 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:



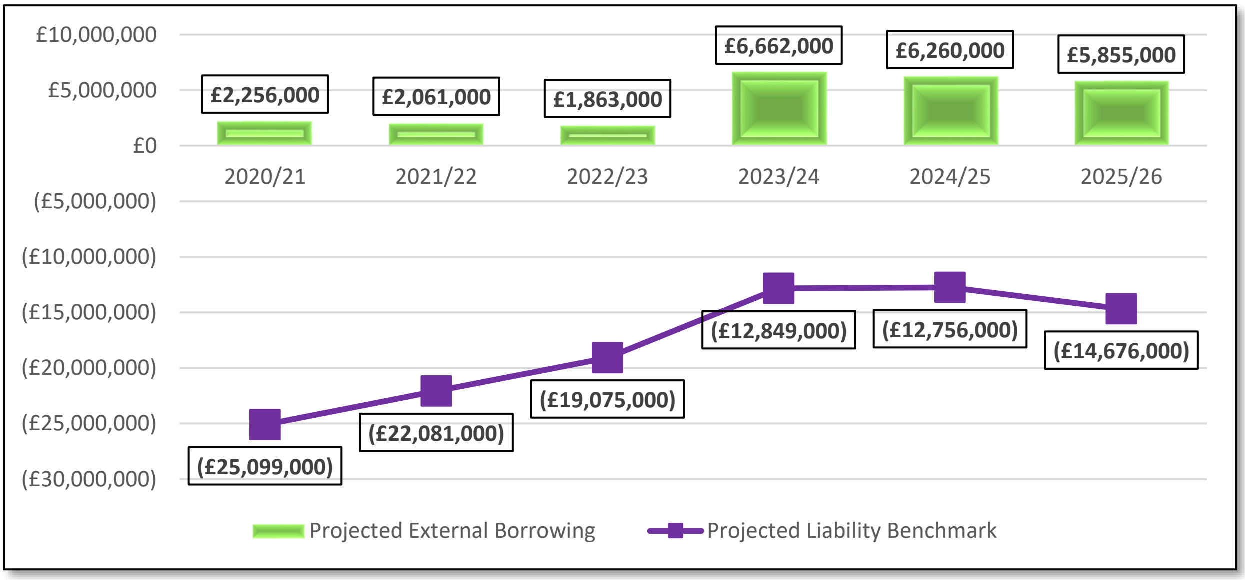
3.8 The Council currently has relatively low levels of external borrowing with two Public Works Loans Board Loans totalling **£2.061m** outstanding as at 31 March 2022.

3.9 One of the loans has **£0.934m** outstanding, a cost of finance of **1.71%**, a maturity in **6.5** years and would cost **£0.041m** to repay early.

3.10 The Capital Financing Requirement or Borrowing Need for Burntwood Leisure Centre capital investment has been funded as part of an Invest to Save project to produce annual savings in Minimum Revenue Provision. Therefore the potential to repay this external loan will also be evaluated to generate further annual savings in external interest.

3.11 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.

3.12 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:



3.13 The chart above indicates that based on current Balance Sheet projections where usable reserves are reducing, the Council has sufficient resources to fund additional internal borrowing.

Current Revenue Implications of the Capital Programme

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

Revenue Implications	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Interest on Loan to the LA Company	0	(4)	(18)	(22)	(22)
Friary Grange - Refurbishment	135	135	135	135	0
Coach Park Operation Costs	0	0	50	50	50
IT Hardware	9	4	(38)	9	9
Replacement Leisure Centre Debt Costs	0	0	0	294	290
Financial Information System	(20)	(40)	(40)	(40)	(40)
Revenue Budget - Bin Replacement	240	150	150	150	0
Revenue Budget - Other Projects	223	0	0	0	0
Revenue Budget - Corporate	0	0	213	0	0
Sub Total - Approved Budget	**587**	**245**	**452**	**576**	**287**
Revenue Budget - Corporate	0	100	100	100	590
Revenue Budget - Bin Replacement	0	0	0	0	150
Sub Total - Service and Financial Planning	**0**	**100**	**100**	**100**	**740**
Capital Programme Total	**587**	**345**	**552**	**676**	**1,027**

Treasury Management

3.15 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."

3.16 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

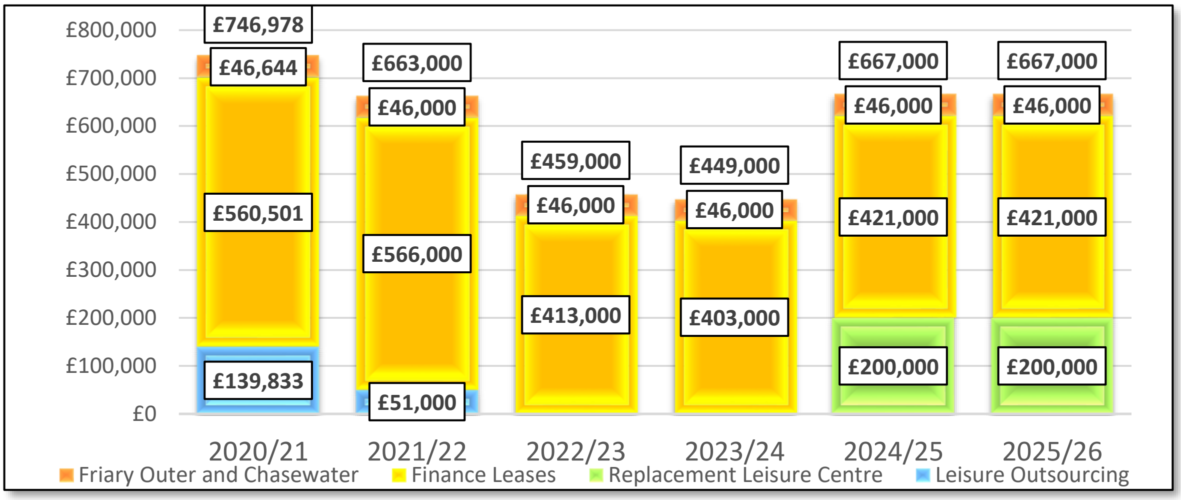
3.17 The Strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

3.18 **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. Our initial assessment is that this standard will have a relatively small impact on the Council's Balance Sheet with the most significant lease for the Joint Waste Fleet already being in line with the new Standard.

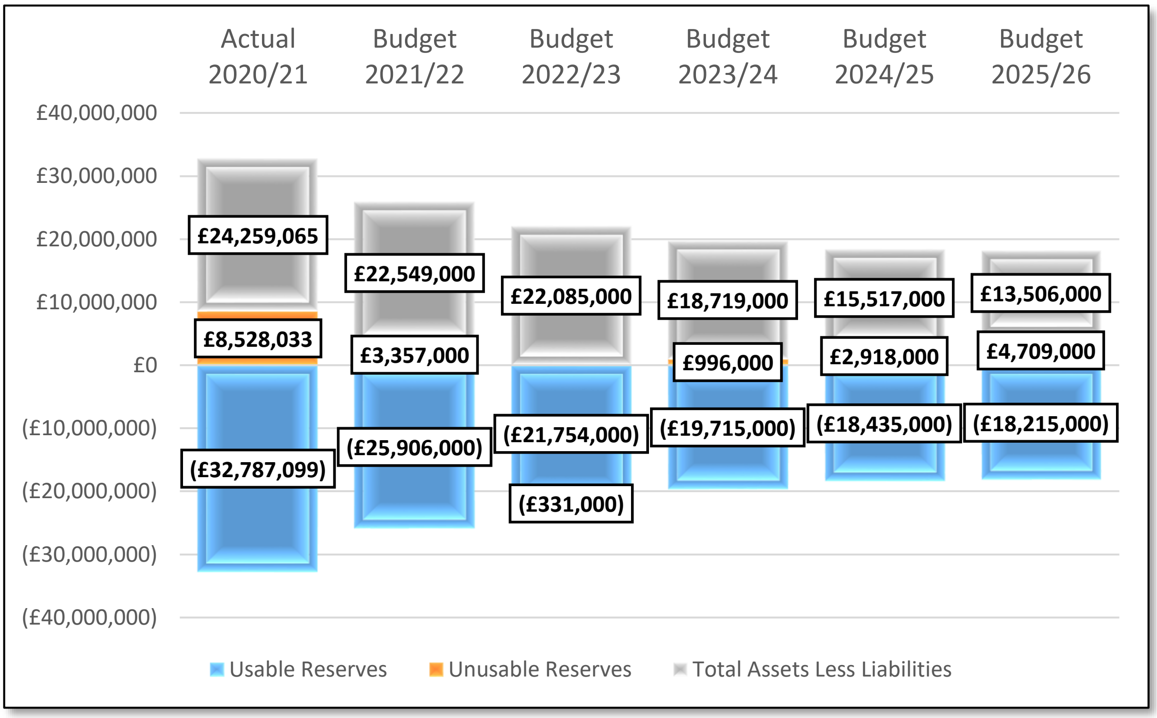
3.19 **Minimum Revenue Provision Statement 2022/23**

- 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 proposed the early repayment of the MRP in 2020/21 related to the capital investment Burntwood Leisure Centre undertaken as part of the leisure outsourcing. This project has been completed in 2021/22 and results in annual savings of **(£140,000)**.
- 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:



3.20 **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.
- A summary of the budgeted Balance Sheet from 2021/22 to 2025/26 is:



Non-Current Assets (an increase of £8,586,000)

- Non-Current Assets will increase mainly due to the replacement waste fleet and the capital provision for a replacement Leisure Centre

Borrowing and Leasing (an increase of (£4,567,000))

- The capital investment in Non-Current Assets will partly be financed through an increase in external debt (borrowing and leases).

Long Term Debtors, Investments and Working Capital (a reduction of £5,524,000)

- 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.

Pension Fund Obligation (an increase of (£9,247,000))

- This value is projected to increase in line with previous trends (although COVID-19 may impact).

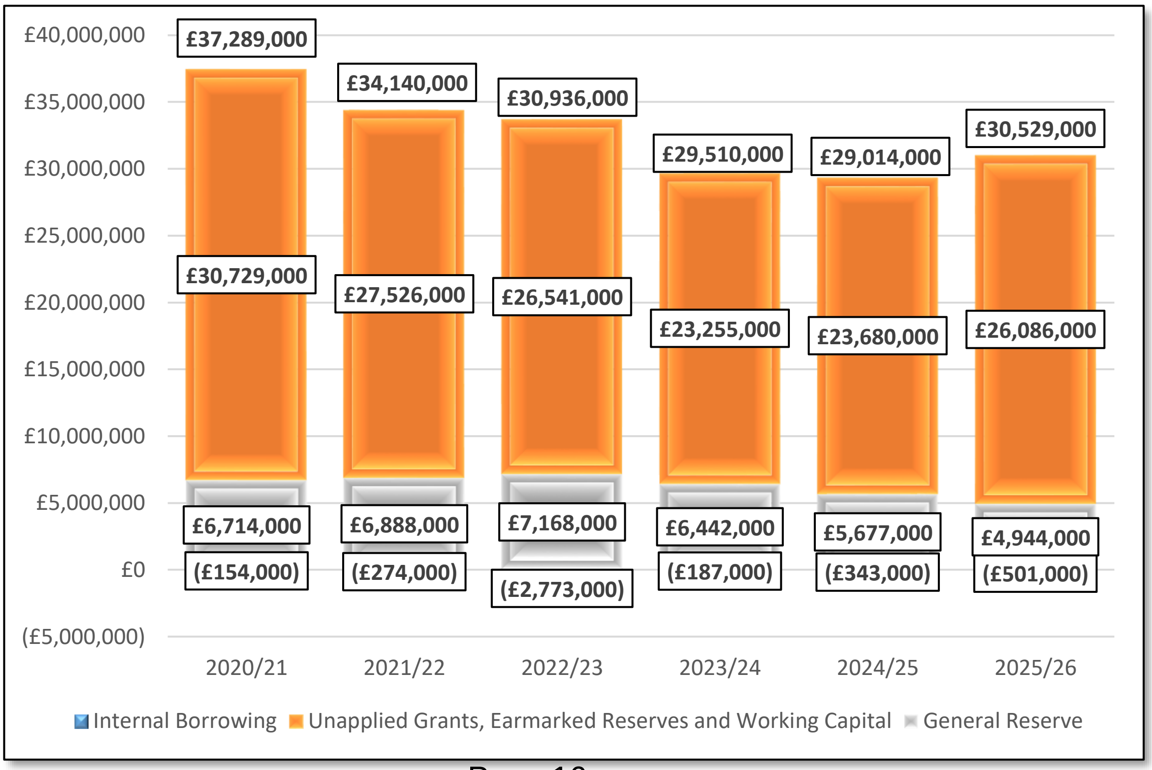
Unusable Reserves (an increase of £3,819,000):

- **Pensions Reserve** – the negative value of this statutory reserve will increase to offset projected increases in the long term liability for pensions.
- **Collection Fund** – the projected large deficit on Council Tax and Business Rate collection as a result of COVID-19 in 2020/21 is being transferred to the revenue budget over the three years 2021/22 to 2023/24 in line with regulatory requirements.

Usable Reserves (a reduction of £14,571,000):

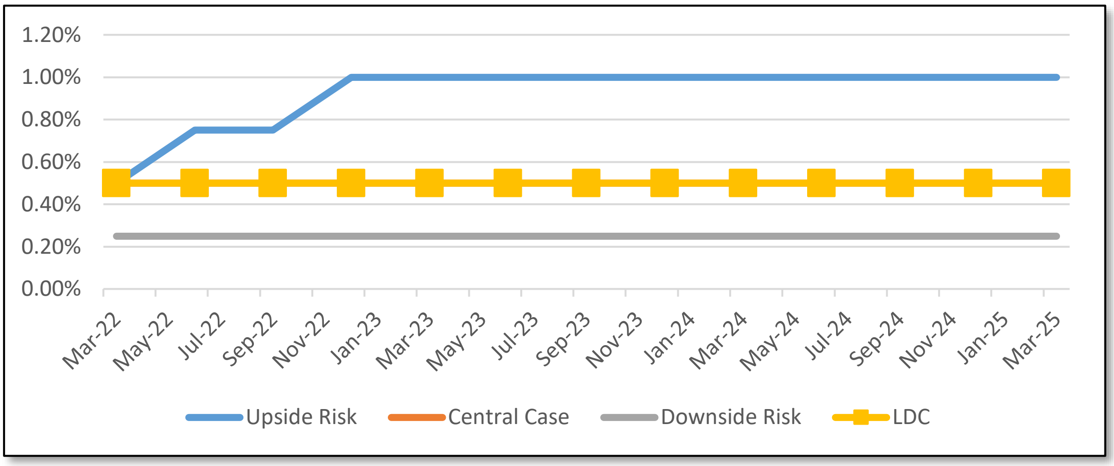
- **Earmarked Reserves** – these will reduce as they are used to fund both revenue expenditure and the Capital Programme. The Business Rates Volatility Reserve will reduce as it is transferred to the revenue budget to offset the deficit from 2021/22 to 2023/24.
- **General Reserve** – there will be a 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:



3.21 **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 will climb to **0.50%** in March 2022 and then remain at that level, is shown below:

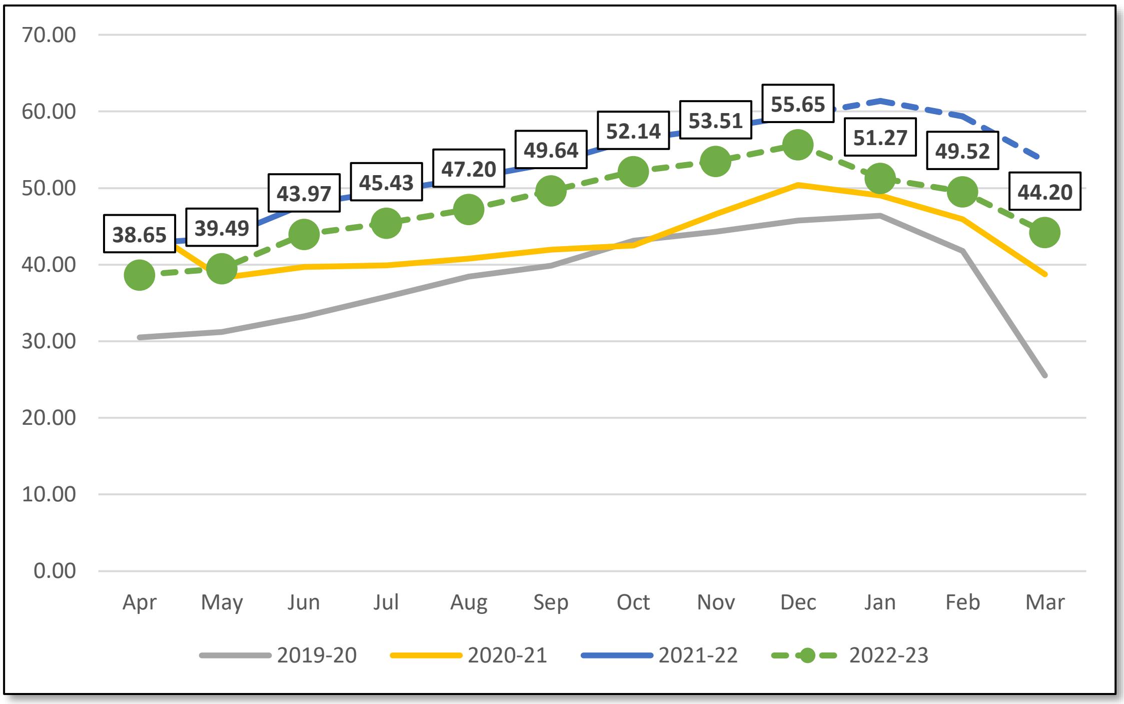


- The Council assumptions have been used as the basis for preparation of the investment income and borrowing budgets for 2022/23 and future years.

3.22 **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 2022/23 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 2022/23 for both investment income and borrowing are shown in the table below:

Treasury Management	2022/23 Original Budget	
	Investment Income	Borrowing
Average Balance	£47.56m	£1.93m
Average Rate[1]	1.45%	2.20%

Gross Investment Income	(£690,000)	
Corporate Revenue funding Capital		£100,000
External Interest		£44,000
Internal Interest		£1,000
Minimum Revenue Provision (less Finance Leases)		£47,000
Net Treasury Position	**(£690,000)**	**£192,000**
	(£498,000)	

- The gross investment income been estimated as **(£690,000)** and this equates to **5%** of The Council's total funding of **(£12,551,000)** in 2022/23**.**

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 approved TMSS includes a Prudential Indicator for investments for periods longer than a year of **£10m**. At present, the Council has **£10m** (cash value) invested in Strategic Funds. Therefore due to the relative success of these investments, Balance Sheet Projections and benchmarking, the recommendation is to increase the Prudential Indicator for Principal Sums invested for periods longer than a year to **£15m,** the counterparty limit for each strategic fund from **£4m** to **£5m** and any group of pooled funds under the same management limit from **£11m** to **£15m**.

3.22 **Investment Strategy Report for 2022/23**

- 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 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	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Capital Investment							
Capital Expenditure (£m)	£3.264	£6.530	£6.411	£7.953	£7.247	£1.926	£1.745
Capital Financing Requirement (£m)	£3.016	£2.444	£2.747	£4.637	£9.265	£8.598	£7.931
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£2.295)	(£2.167)	(£2.473)	(£1.863)	(£9.079)	(£8.255)	(£7.429)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£6.591	£15.435	£15.435	£15.238	£20.688	£20.440	£19.755
Operational Boundary (£m)	£6.591	£7.007	£7.007	£6.811	£11.610	£11.208	£10.803
Proportion of Financing Costs to Net Revenue Stream (%)	5%	5%	6%	4%	5%	6%	6%

1 Budgeted average rate for the entire financial year.

Local Indicators

Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Replacement of Debt Finance or MRP (£m)	(£0.747)	(£0.561)	(£0.663)	(£0.459)	(£0.449)	(£0.667)	(£0.667)
Repayment of Burntwood Leisure Centre Loan and new additions	(£0.542)	(£0.000)	(£0.306)	(£0.000)	(£0.000)	(£0.000)	(£0.000)
Capital Receipts (£m)	(£0.000)	(£0.537)	(£0.036)	(£0.010)	(£0.010)	(£0.011)	(£0.684)
Housing Capital Receipts (£m)	(£0.434)	£0.000	(£0.260)	£0.000	£0.000	£0.000	£0.000
Liability Benchmark (£m)	£25.033	£11.755	£22.081	£19.075	£12.849	£12.756	£14.676
Treasury Management Investments (£m)	£37.330	£23.813	£34.140	£30.936	£29.510	£29.014	£30.529

Treasury Management Indicators

Prudential Indicators

	Lower Limit	Upper Limit	As at 31/03/21	As at 31/12/21
Refinancing Rate Risk Indicator	0%	100%	0%	0%
Under 12 months	0%	100%	8.67%	9.61%
12 months and within 24 months	0%	100%	8.77%	9.72%
24 months and within 5 years	0%	100%	26.95%	29.87%
5 years and within 10 years	0%	100%	29.96%	25.69%
10 years and within 20 years	0%	100%	25.64%	25.12%
20 years and within 30 years	0%	100%	0%	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

	2022/23	2023/24
Revenue budget - Investment Income	(£690,000)	(£758,000)
Budget subject to Interest Rate Exposure	**(£150,000)**	**(£218,000)**
Budget with a 1% fall in interest rates	(£540,000)	(£540,000)
Budget with a 1% rise in interest rates	(£1,017,000)	(£1,070,000)

External Borrowing - Interest Rate Exposure

	2022/23	2023/24
Revenue budget - External Interest	£44,000	£40,000
Budget subject to Interest Rate Exposure	**£0**	**£0**
Budget with a 1% fall in interest rates	£44,000	£40,000
Budget with a 1% rise in interest rates	£44,000	£40,000

Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Principal Sums invested for periods longer than a year (£m)	£6.000	£10.000	£10.000	£15.000	£15.000	£15.000	£15.000

Local Indicators

Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
	£m	£m	£m	£m	£m	£m	£m
Balance Sheet Summary and Forecast							
Borrowing Capital Financing Requirement	£2.410	£2.336	£2.334	£4.636	£6.849	£6.603	£6.356
Internal (over) Borrowing	£0.155	£0.277	£0.274	£2.773	£0.187	£0.343	£0.501
Investments (or New Borrowing)	(£37.330)	(£23.813)	(£33.962)	(£30.758)	(£29.333)	(£28.837)	(£30.351)
Liability Benchmark	(£25.033)	(£11.755)	(£22.081)	(£19.075)	(£12.849)	(£12.756)	(£14.676)

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

Approved by Section 151 Officer	Yes

Legal Implications	The grant must be allocated in line with the qualifying criteria set by the Government.
Approved by Monitoring Officer	Yes

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 & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
	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 2022**	Likelihood : Green Impact : Red Severity of Risk : Yellow	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	Likelihood : Yellow Impact : Red Severity of Risk : Red	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	Likelihood : Red Impact : Red Severity of Risk : Red	The Council responded to the recent consultation. Not all of the projected New Homes Bonus is included as core funding in the Base Budget. In 2022/23 £400,000 is included with the balance transferred to general/earmarked reserves. 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 Review of Needs and Resources	Likelihood : Red Impact : Red Severity of Risk : Red	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	Likelihood : Yellow Impact : Red Severity of Risk : Red	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
F	The public sector pay	Likelihood : Yellow	The current MTFS assumes that the pay freeze	Likelihood : Yellow

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
	freeze in 2021/22 is not applicable to Local Government	Impact : Red Severity of Risk : Red	for those earning more than £24,000 per annum is applicable to Local Government. If this does not prove to be the case, an element of general reserves can be utilised to fund the increase in 2021/22 and projections for later years will be updated in the MTFS.	Impact : Yellow Severity of Risk : Yellow
G	Sustained higher levels of inflation in the economy	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow	To maintain a watching brief on economic forecasts, ensure estimates reflect latest economic projections and where possible ensure income increases are maximised to mitigate any additional cost.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
Strategic Risk SR3: Capacity and capability to deliver / adapt the new strategic plan to the emerging landscape				
H	The financial impact of COVID-19 is not fully reimbursed by Government and exceeds the reserves available resulting in a Section 114 notice	Likelihood : Yellow Impact : Red Severity of Risk : Yellow	The use of general and earmarked reserves to fund any shortfall	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
I	The Council cannot achieve its approved Delivery Plan for 2022/23	Likelihood : Yellow Impact : Red Severity of Risk : Red	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
J	The resources available in the medium to longer term to deliver the Strategic Plan are diminished	Likelihood : Yellow Impact : Red Severity of Risk : Red	The MTFS will be updated through the normal review and approval process	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
K	Government and Regulatory Bodies introduce significant changes to the operating environment	Likelihood : Red Impact : Red Severity of Risk : Red	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) 2020-25 – Cabinet 9 February 2021.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2020-25 – Council 16 February 2021.
- Money Matters: 2020/21 Review of Financial Performance against the Financial Strategy – Cabinet 8 June 2021.
- Medium Term Financial Strategy – Cabinet 6 July 2021.
- Money Matters: 2021/22 Review of Financial Performance against the Financial Strategy – Cabinet 7 September 2021.
- Money Matters: Calculation of Business Rates in 2022/23, Council Tax Base for 2022/23 and the Projected Collection Fund Surplus / Deficit for 2021/22 - Cabinet 7 December 2021.
- Money Matters: 2021/22 Review of Financial Performance against the Financial Strategy – Cabinet 7 December 2021.
- Service and Financial Planning Submissions.
- Full Budget Consultation Results and Business Survey Results

Relevant web link:

Recommended Capital Strategy

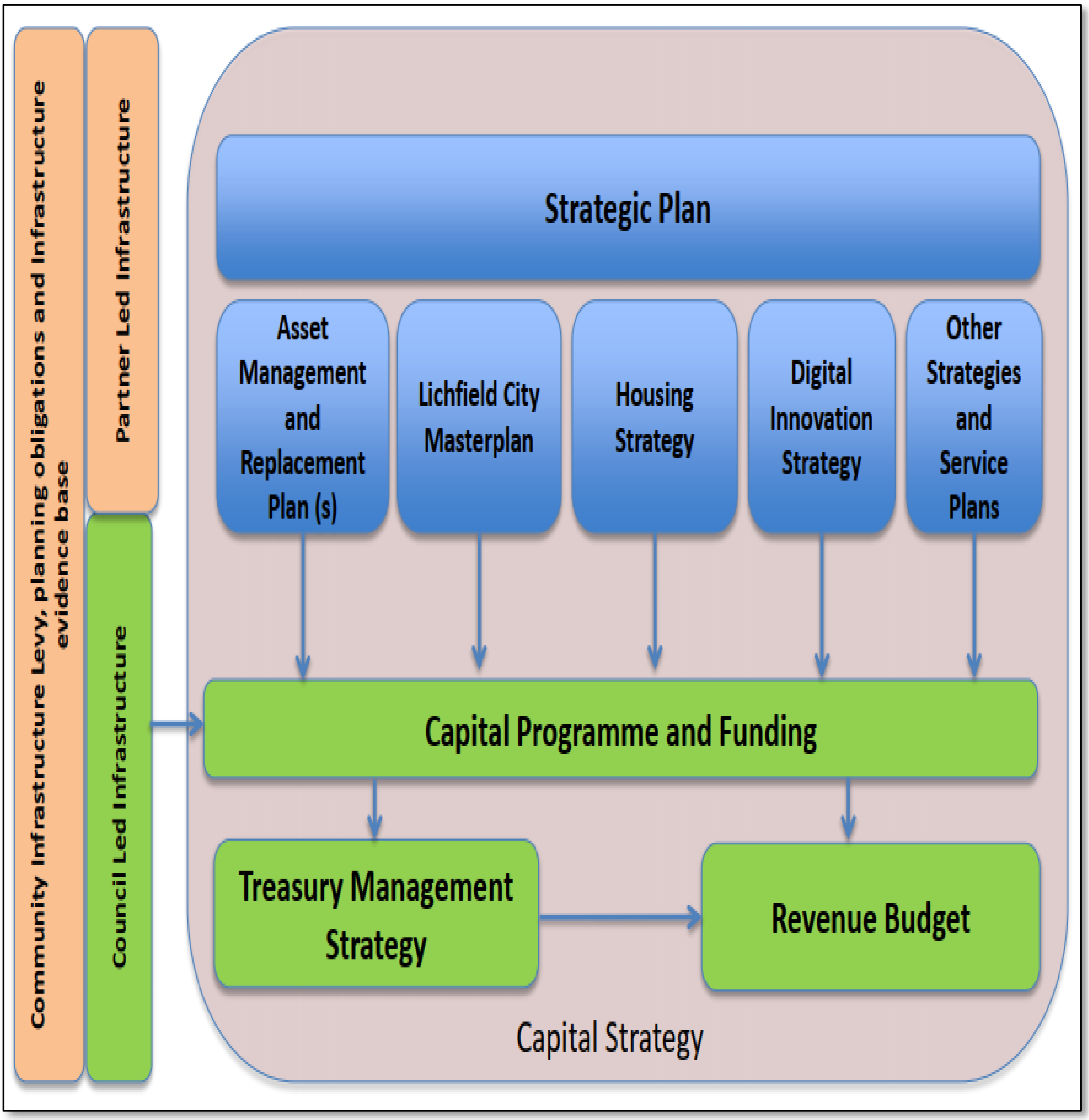
1. Introduction

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 Financial Planning Timetable and Governance Responsibility		
Service and Financial Planning	July	Medium Term Financial Strategy
	August	
	September	Money Matters as at 30 June
Review Medium Term Financial Strategy		
	October	Medium Term Financial Strategy
Review Medium Term Financial Strategy	November	
Mid Year Treasury Management Report		
	December	Money Matters as at 30 September
		Medium Term Financial Strategy
		Set Council Taxbase and approve Collection Fund Projections
Review Medium Term Financial Strategy	January	
Review Treasury Management and Capital Strategies	February	Money Matters as at 30 November
Approve the Medium Term Financial Strategy and set the Council Tax		Recommend Medium Term Financial Strategy and Council Tax to Council
	March	
	April	
Draft Statement of Accounts	May	
	June	Money Matters as at 31 March
Annual Treasury Management Report	July	
	August	
Statement of Accounts (was 31 July but for 2 years extended to 30 September)	September	

Key:
Pink = internal timelines
Blue = Cabinet
Salmon = Cabinet & Overview and Scrutiny Committee
Amber = Overview and Scrutiny Committee
Green = Audit & Member Standards Committee
Purple = Council

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 and 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.
- Where the project budget or annual allocation is **£500,000 or more**, a review of performance is not already separately monitored, and the service completes work / project outlined within the bid, the service will undertake 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 **Draft Capital Programme** and its **funding** by Strategic Priority is summarised below:

Strategic Priority	Draft Capital Programme 2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000	Corporate £'000
Enabling People	£2,794	£4,792	£3,596	£1,315	£939	£13,436	£55
Shaping Place	£1,984	£421	£3,127	£280	£300	£6,112	£338
Developing Prosperity	£577	£1,676	£193	£0	£0	£2,446	£415
Good Council	£1,056	£1,064	£331	£331	£506	£3,288	£2,923
Grand Total	**£6,411**	**£7,953**	**£7,247**	**£1,926**	**£1,745**	**£25,282**	**£3,731**

Funding Source	Draft Capital Programme 2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000	
Capital Receipts	£909	£1,331	£61	£231	£91	£2,623	
Capital Receipts - Statue	£5	£0	£0	£0	£0	£5	
Revenue - Corporate	£0	£100	£313	£100	£590	£1,103	
Corporate Council Funding	**£914**	**£1,431**	**£374**	**£331**	**£681**	**£3,731**	
Grant	£1,633	£2,741	£1,316	£1,315	£914	£7,919	
Section 106	£708	£254	£0	£0	£0	£962	
CIL	£44	£35	£0	£0	£0	£79	
Reserves	£1,885	£993	£329	£130	£0	£3,337	
Revenue - Existing Budgets	£463	£150	£150	£150	£150	£1,063	
Sinking Fund	£64	£0	£0	£0	£0	£64	
Leases	£372	£0	£2,818	£0	£0	£3,190	
Internal Borrowing	£0	£0	£0	£0	£0	£0	
Total	**£6,083**	**£5,604**	**£4,987**	**£1,926**	**£1,745**	**£20,345**	**£25,282**
External Borrowing	**£328**	**£2,349**	**£2,260**	**£0**	**£0**	**£4,937**	
Grand Total	**£6,411**	**£7,953**	**£7,247**	**£1,926**	**£1,745**	**£25,282**	

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

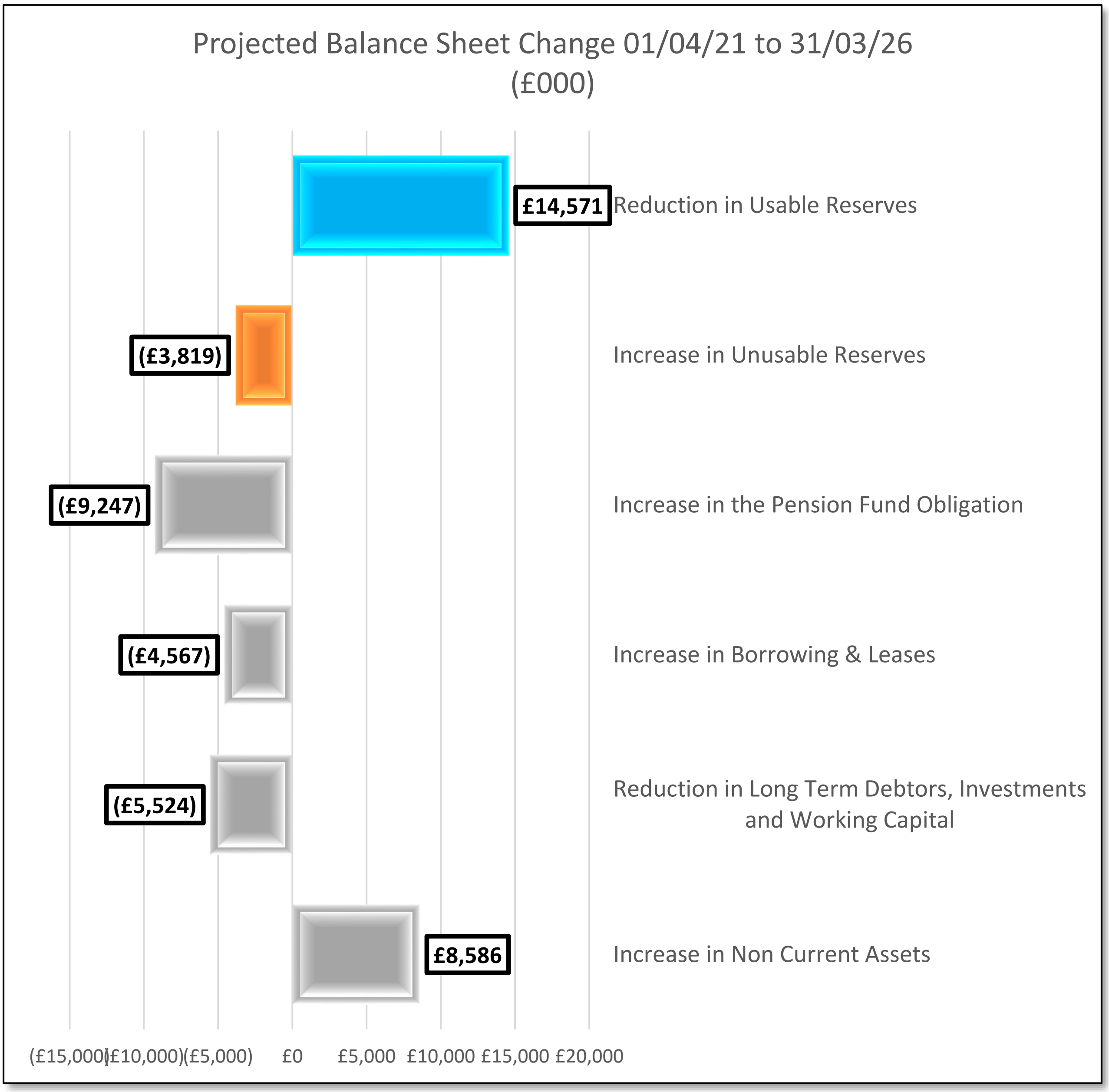
Revenue Implications	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Interest on Loan to the LA Company	0	(4)	(18)	(22)	(22)
Friary Grange - Refurbishment	135	135	135	135	0
Coach Park Operation Costs	0	0	50	50	50
IT Hardware	9	4	(38)	9	9
Replacement Leisure Centre Debt Costs	0	0	0	294	290
Financial Information System	(20)	(40)	(40)	(40)	(40)
Revenue Budget - Bin Replacement	240	150	150	150	0
Revenue Budget - Other Projects	223	0	0	0	0
Revenue Budget - Corporate	0	0	213	0	0
Sub Total - Approved Budget	**587**	**245**	**452**	**576**	**287**
Revenue Budget - Corporate	0	100	100	100	590
Revenue Budget - Bin Replacement	0	0	0	0	150
Sub Total - Service and Financial Planning	**0**	**100**	**100**	**100**	**740**
Capital Programme Total	**587**	**345**	**552**	**676**	**1,027**

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

Capital Receipts	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Opening Balance	**(2,578)**	**(1,689)**	**(368)**	**(317)**	**(97)**	**(2,578)**
Repayment of Company Loan	0	0	0	0	(675)	(675)
Other Receipts	(36)	(10)	(10)	(11)	(9)	(76)
Utilised in Year	909	1,331	61	231	91	2,623
Repayment of BLC Investment	16	0	0	0	0	16
Closing Balance	**(1,689)**	**(368)**	**(317)**	**(97)**	**(690)**	**(690)**
Housing Receipts						
Opening Balance	**(434)**	**(694)**	**(694)**	**(694)**	**(694)**	**(434)**
Right to Buy Receipts	(260)					(260)
Closing Balance	**(694)**	**(694)**	**(694)**	**(694)**	**(694)**	**(694)**

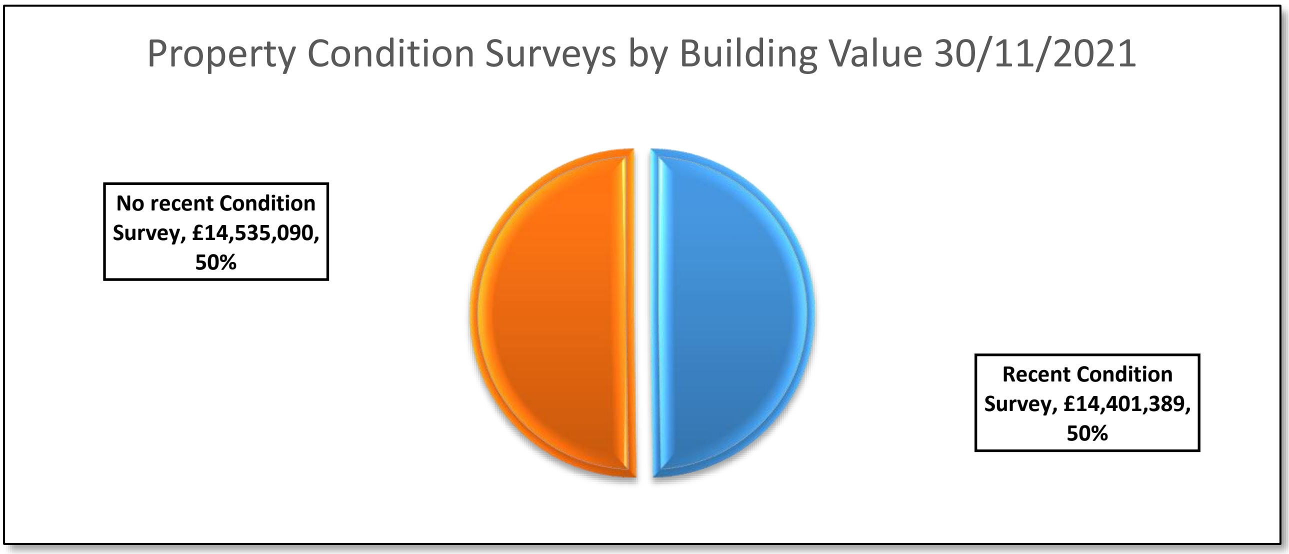
3. The Balance Sheet (in £000s)

3.1. The Revenue Budget, Capital Programme and its funding will impact on the Council's Balance Sheet:



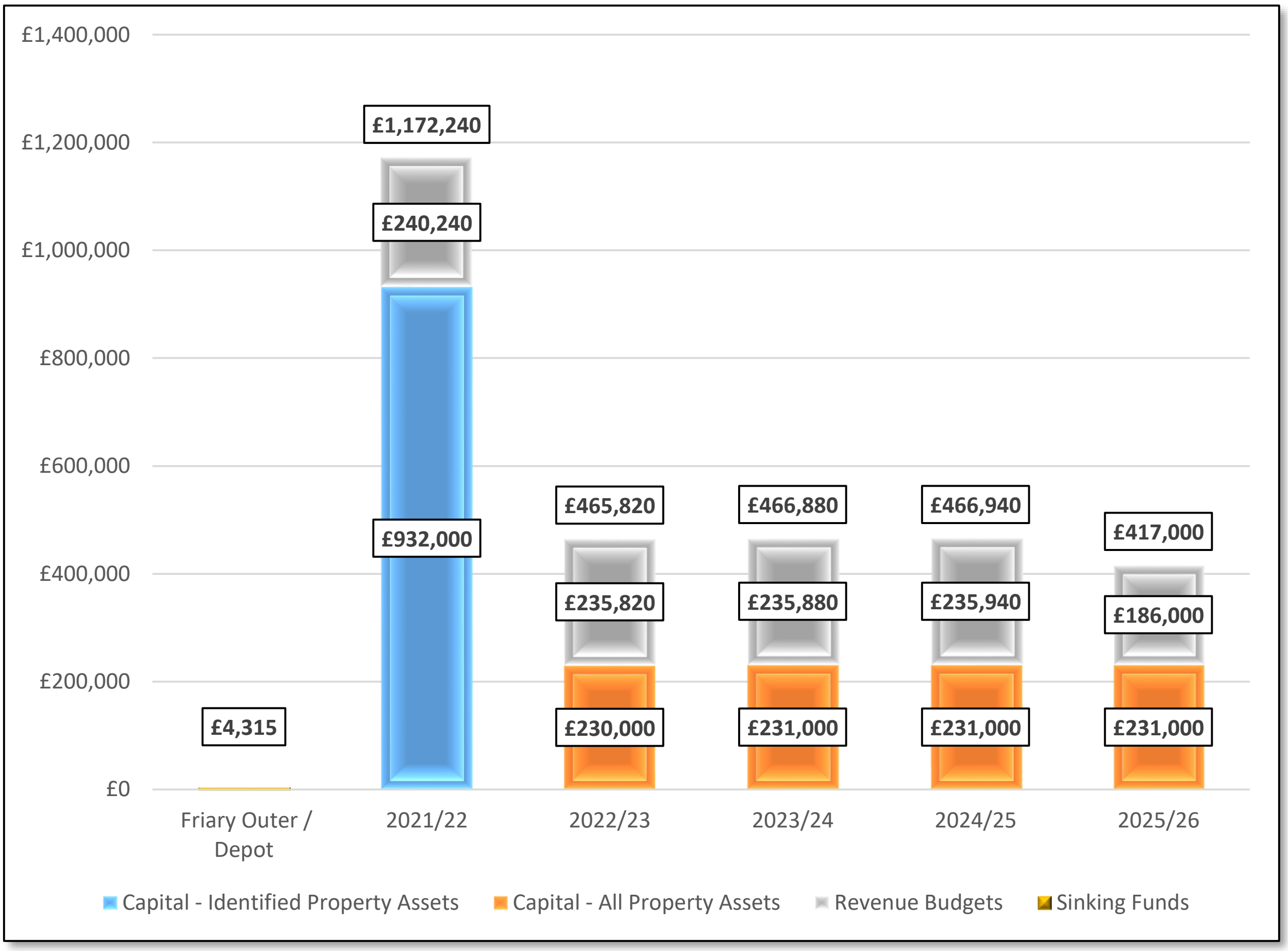
4. Asset Management Planning

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:

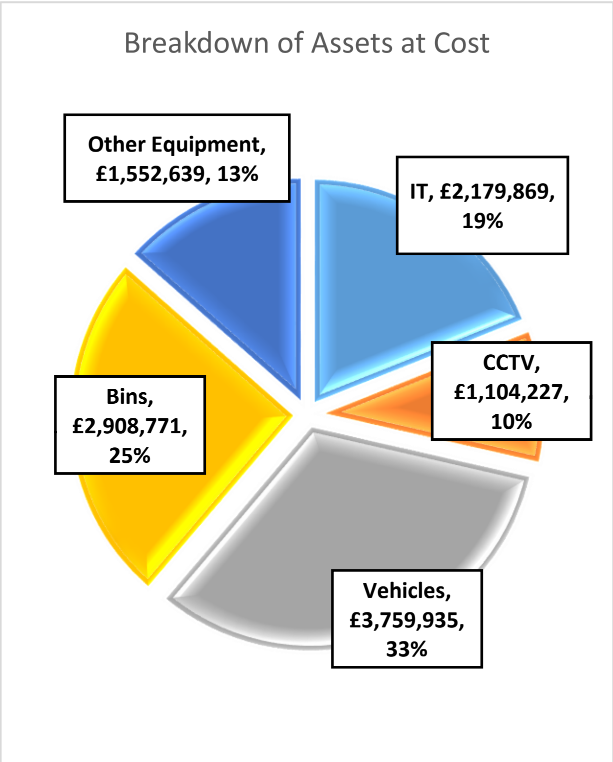


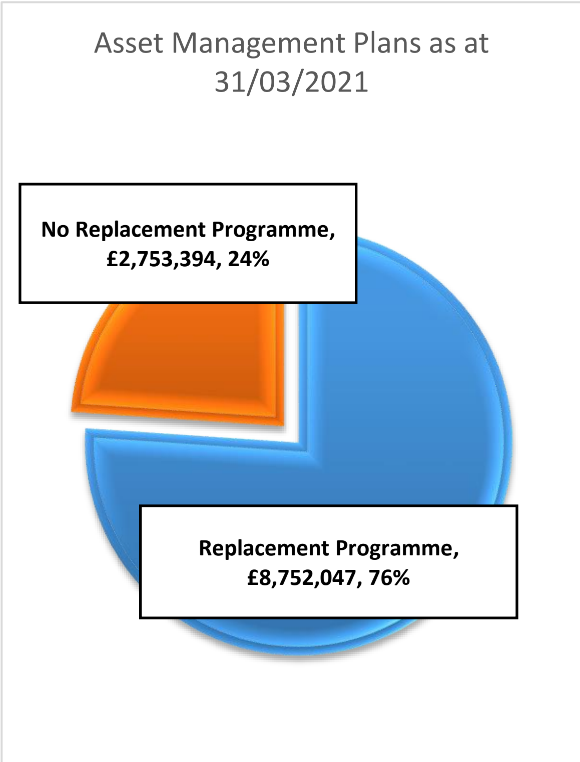
4.2. For financial planning purposes, an annual budget of **£230,000** (based on a % of projected asset value) has been included in the Capital Programme and Longer Term Capital Investment Plan.

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

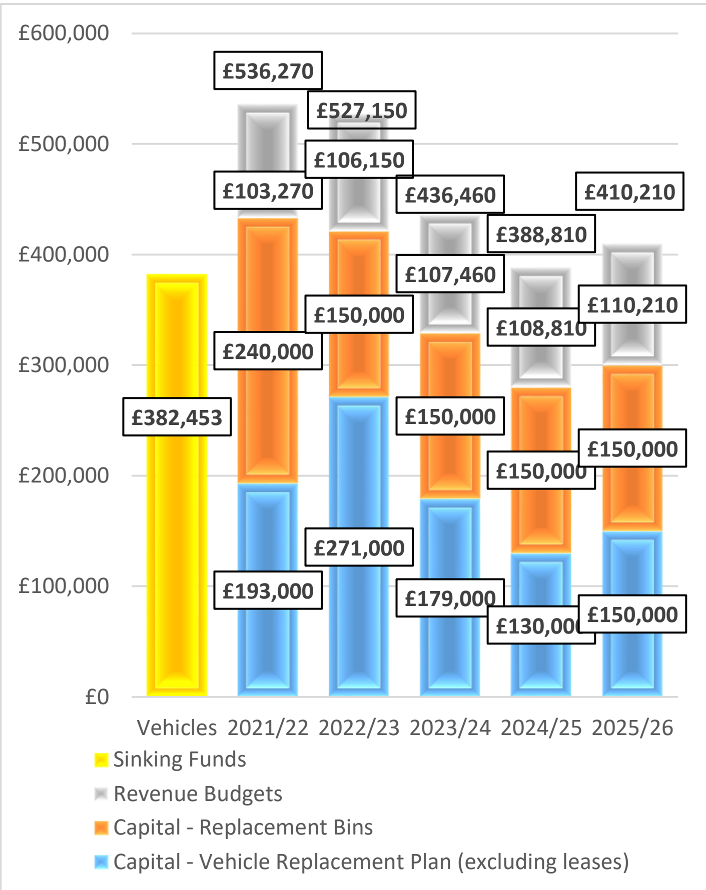


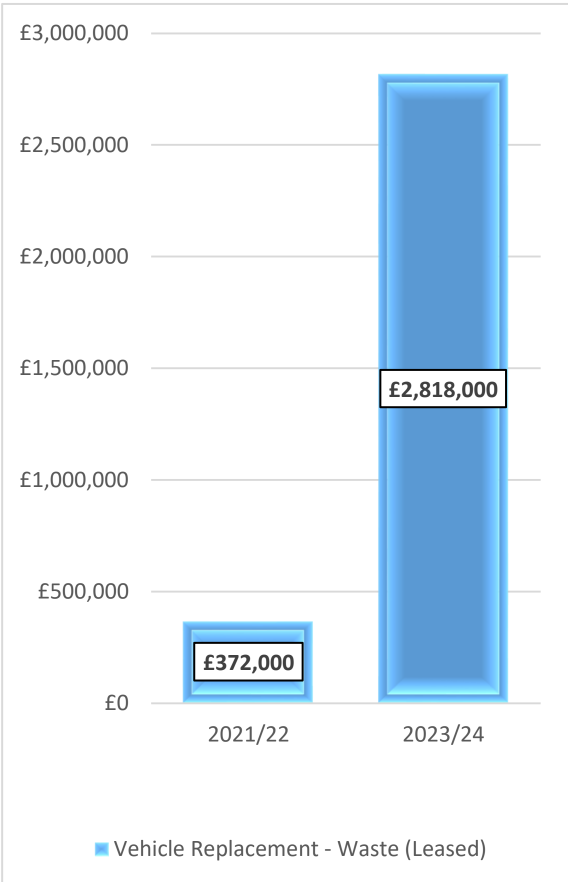
4.4. The Asset Management Plans in place for vehicles, plant and equipment assets are:





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





5. Longer Term Capital Investment Planning

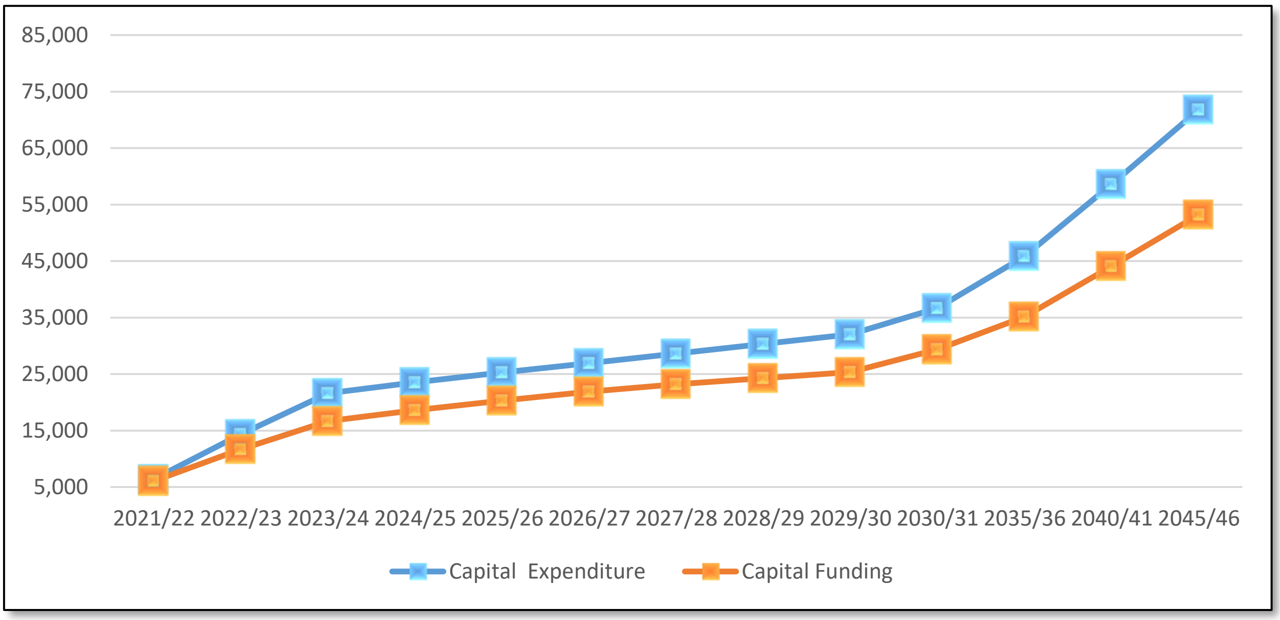
5.1. The Medium Term Financial Strategy covers a relatively short period of time (current financial year plus the next four years) and this short horizon is not reflective of the longer term investment needs associated with asset ownership.

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 2021/22 to **28%** by 2045/46.
- The value of building assets increases from **£35m** in 2021/22 to **£46m** in 2025/26 with the building of a new Leisure Centre.
- An assessment of Property Planned Maintenance budgets at a percentage of building value or **£230,000** per annum 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:



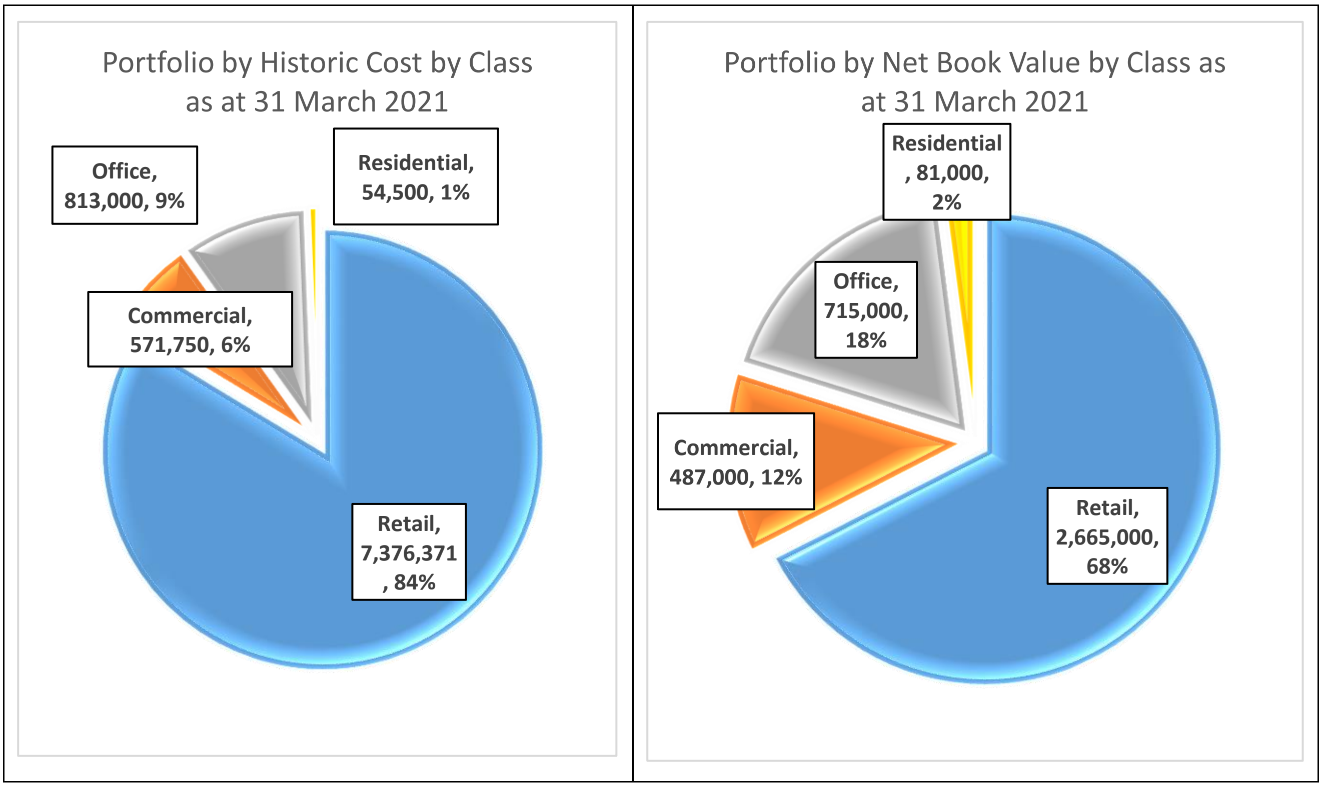
5.5. The difference between capital expenditure and funding would result in an increase in the cumulative level of borrowing need of **£19m** (including £5m approved for the new Leisure Centre).

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.

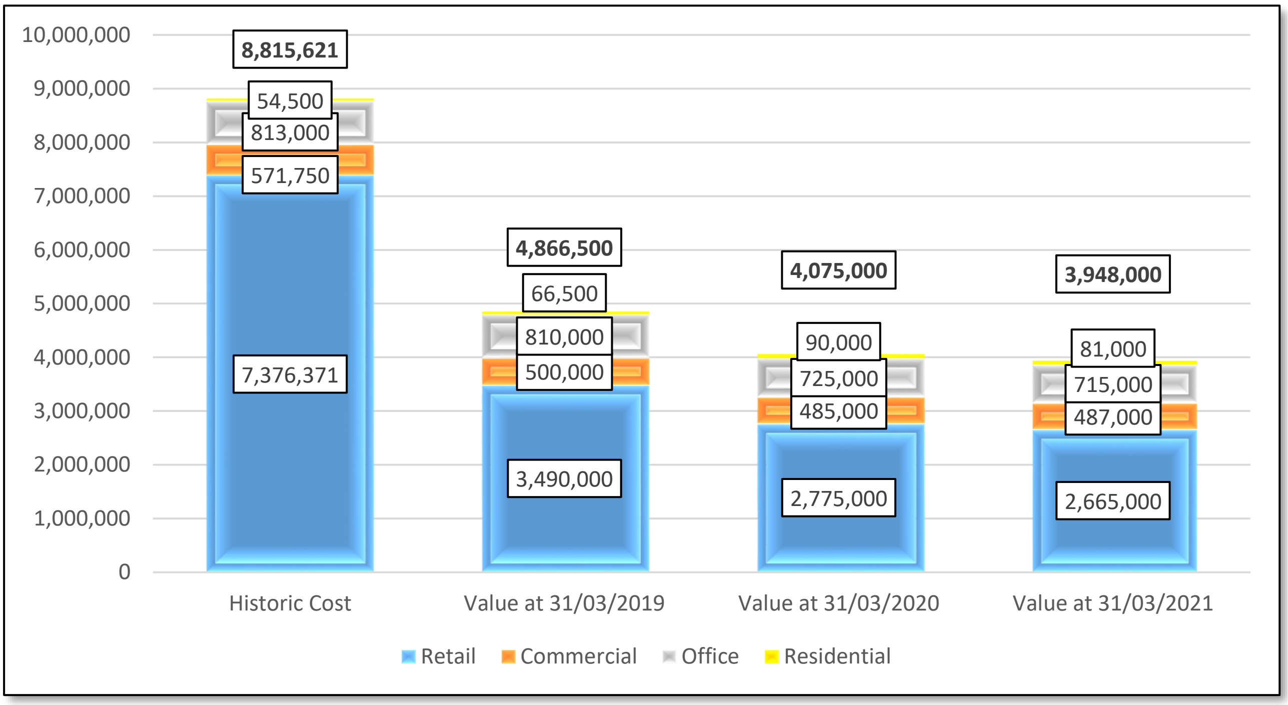
5.7. However the borrowing need can be reduced through actions such as the receipt of external funding or sale of assets.

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 2021 is shown below:



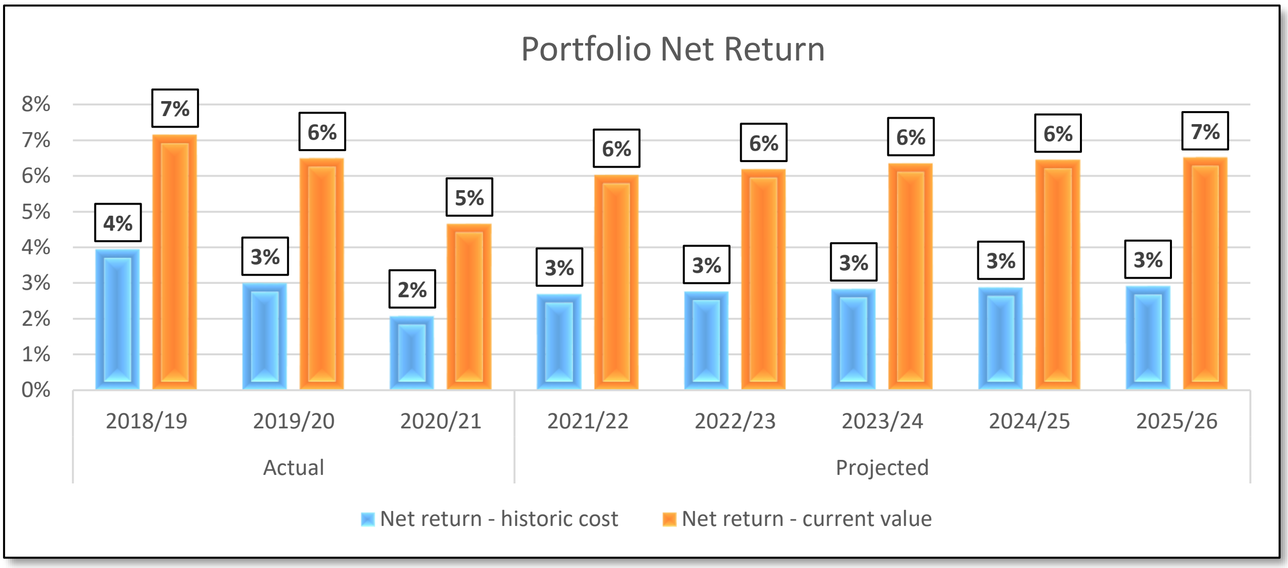
6.2. The value of these properties over the last three years is shown below:



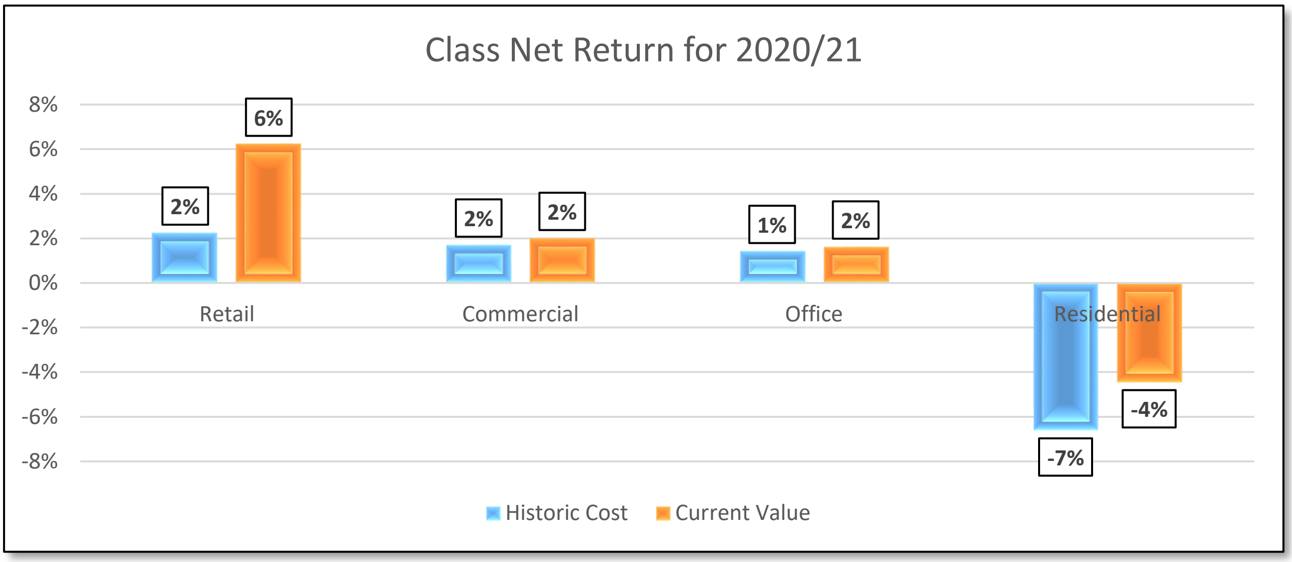
6.3. The value of these properties (mainly those classed as retail) have reduced because the value assessed by the external valuer is based on prevailing rental levels.

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

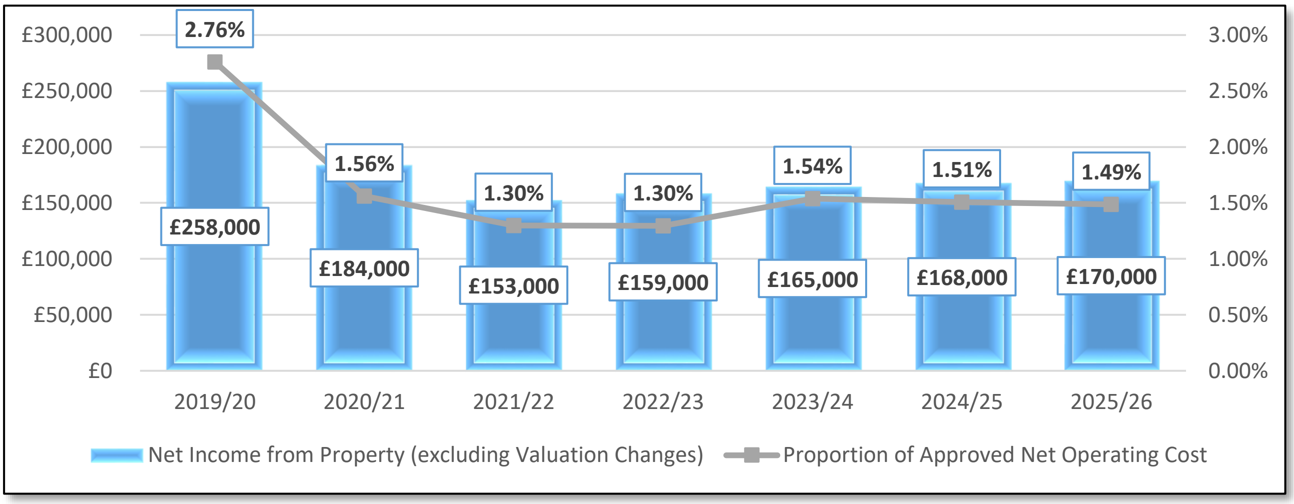
6.5. The portfolio net return based after taking account of management costs using historic asset cost and current value is shown in the chart below:



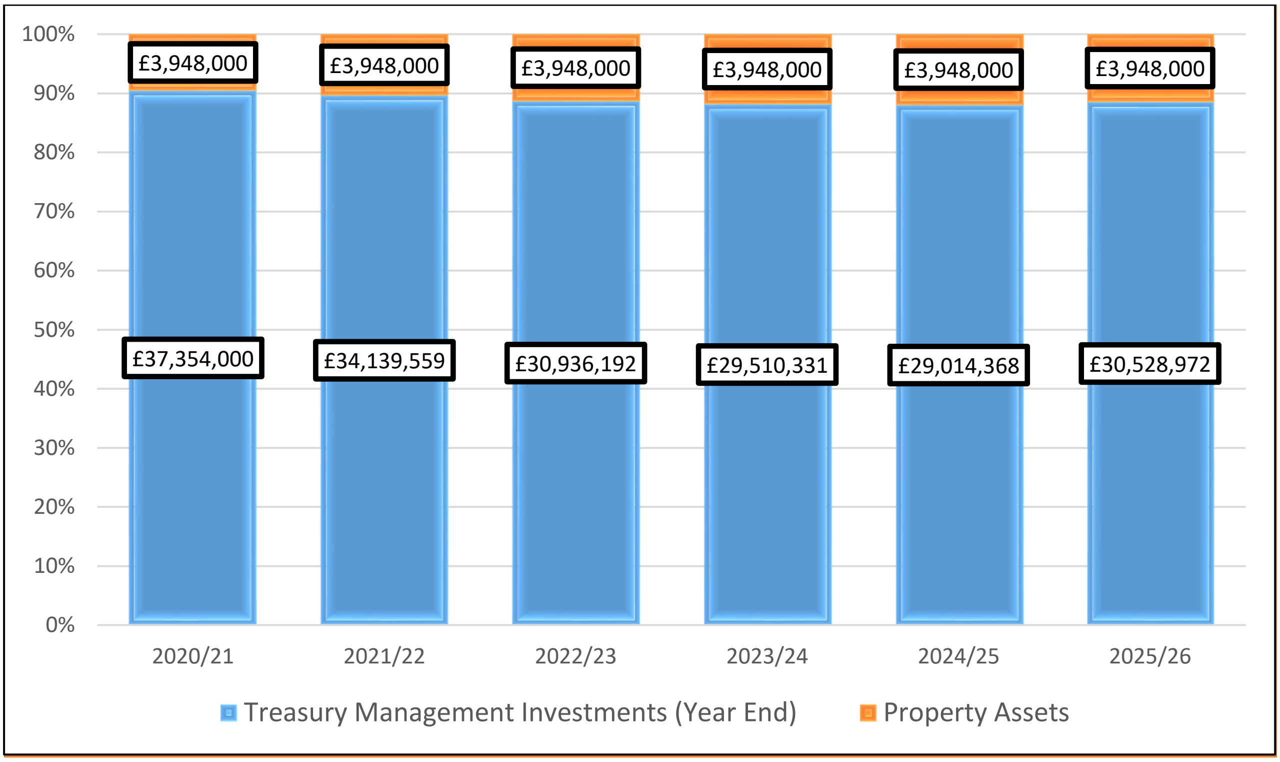
6.6. The net return is further analysed for 2020/21 by class of investment within the portfolio:



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, which was incorporated in September 2019 with an aim to deliver housing development although the potential for other services to be delivered by the Company is currently being reviewed.

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

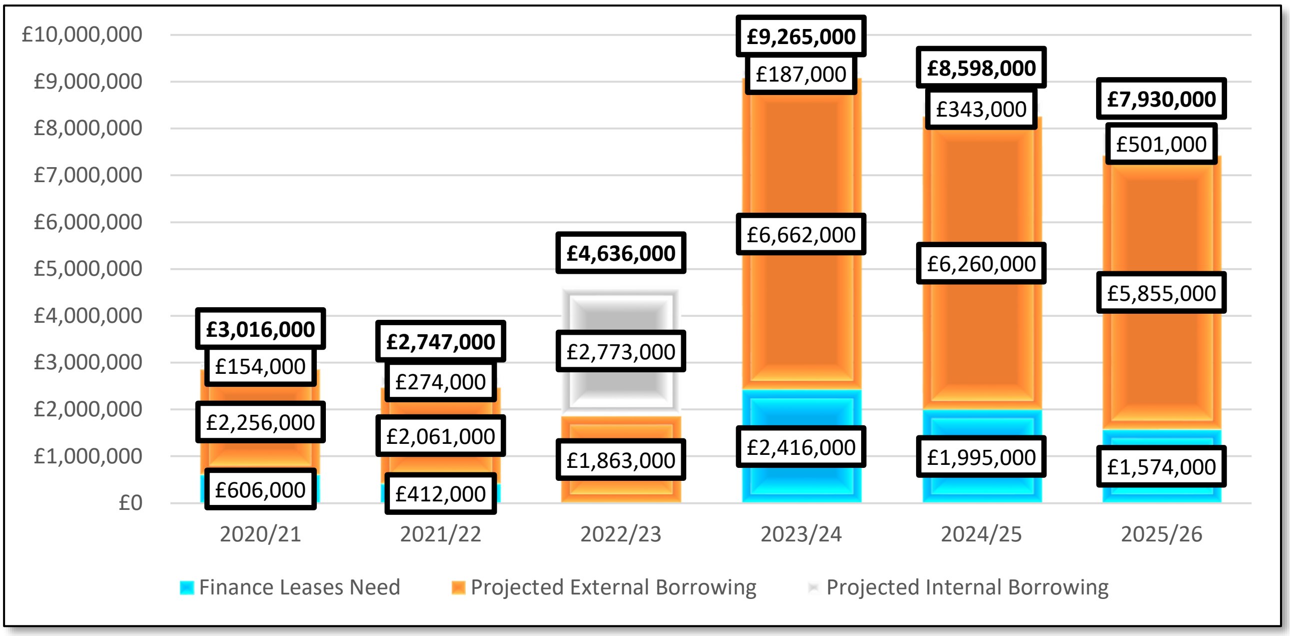
7.1. The Capital Programme is funded from a variety of sources. A number of these sources such as capital receipts, the revenue budget, grants, contributions and reserves utilise resources that are immediately available or are receivable. However when capital expenditure is approved, and these resources 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 2021 the Council had a relatively low level of external debt outstanding of **£2.862m**. The new leisure centre and the renewal of the waste fleet will mean external debt is projected to increase to **£7.429m** by 31 March 2026.

7.5. The projected CFR (the total for each column), **external debt** (finance leases and external borrowing) and **internal borrowing** 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.

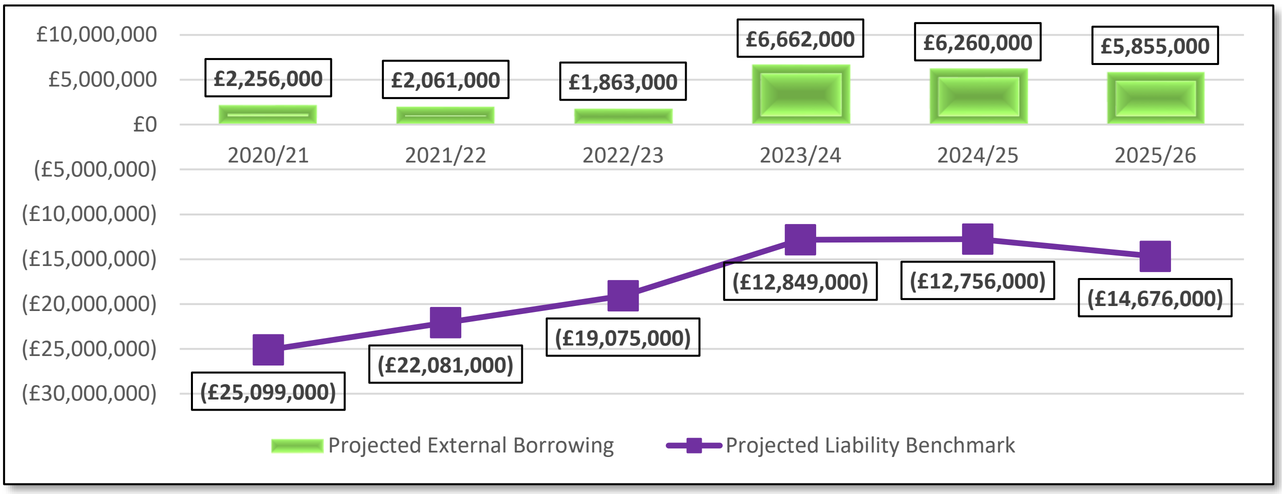
7.9. The external debt and Prudential Indicator projections based on the Capital Programme are:

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Borrowing		£10,987,000	£10,790,000	£16,240,000	£15,992,000	£15,307,000
Leases		£4,448,000	£4,448,000	£4,448,000	£4,448,000	£4,448,000
Authorised limit	**£6,591,000**	**£15,435,000**	**£15,238,000**	**£20,688,000**	**£20,440,000**	**£19,755,000**
Borrowing		£2,560,000	£2,363,000	£7,162,000	£6,760,000	£6,355,000
Leases		£4,448,000	£4,448,000	£4,448,000	£4,448,000	£4,448,000
Operational boundary	**£6,591,000**	**£7,008,000**	**£6,811,000**	**£11,610,000**	**£11,208,000**	**£10,803,000**

Projected borrowing	£2,256,000	£2,060,000	£1,863,000	£6,662,000	£6,260,000	£5,855,000
Projected leases	£606,000	£412,000	£1,000	£2,416,000	£1,995,000	£1,575,000
Projected total external debt outstanding at year end	**£2,862,000**	**£2,472,000**	**£1,864,000**	**£9,078,000**	**£8,255,000**	**£7,430,000**

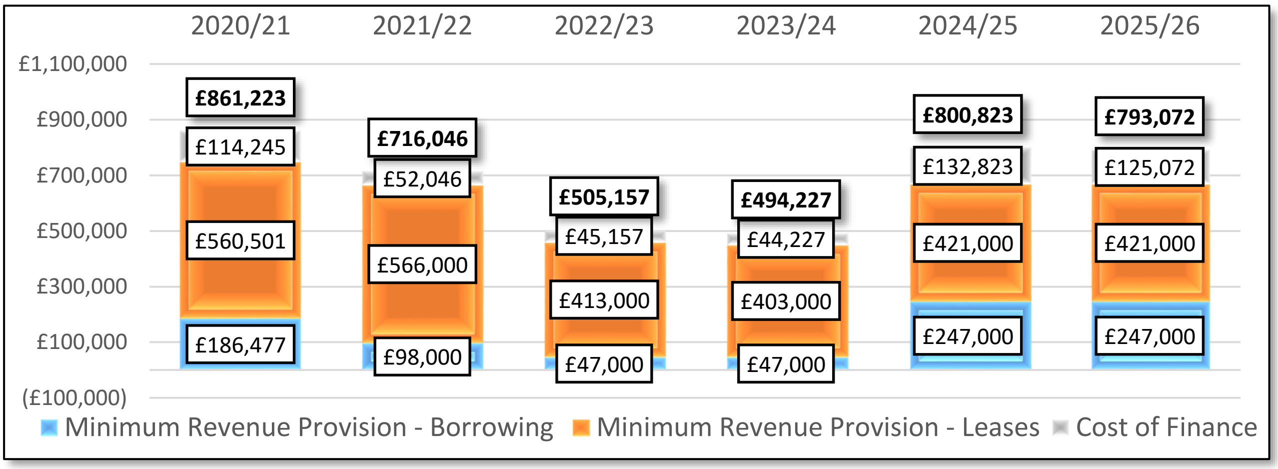
7.10. The **liability benchmark** is the lowest risk level of <u>external borrowing</u> by keeping cash and investments to a minimum of **£10m** at each year end to maintain liquidity but minimise credit risk.

7.11. The projected level of external borrowing, together with the projected liability benchmark is:

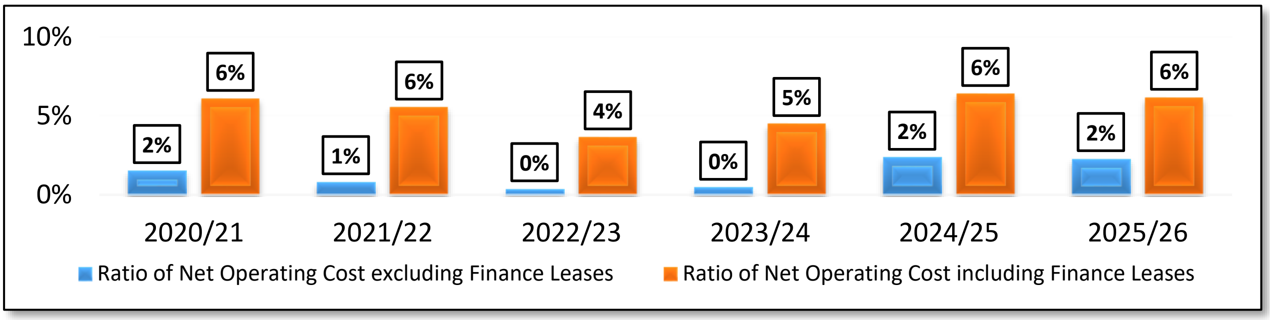


7.12. The chart above indicates that based on current Balance Sheet projections where usable reserves are reducing, the Council has sufficient resources to fund additional internal borrowing.

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 repaid, 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 is:



7.15. The Minimum Revenue Provision and therefore the financing costs ratio increases in 2024/25 due to the inclusion of the 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 2021 the risk of default was assessed as less than **1%** and therefore the financial risk to the Council is **£3,603.** This guarantee is currently being reviewed with the Pension Fund Administration Authority given the last active member has left the employ of the Lichfield Garrick.
- On 1 February 2018, **Freedom Leisure** took over the management of the **Council's Leisure Centres**. 96 staff were transferred by TUPE via a pass through agreement. An assessment has been carried out by management of the risk and potential financial consequences should the Council be called to settle these liabilities. For 2020/21, the risk is very difficult to quantify after Covid-19, but has been assessed at moderate, between **5%** or **£363,424** and **30%** or **£2,288,699**. This is based on the operating environment nationally, the overall financial position of Freedom Leisure, the contract between Freedom and the Council, and the support provided both by the Government and Lichfield District Council.

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 plans to utilise the flexible use of capital receipts for transformation projects such as the Being a Better Council Programme.

10. Prudential and Local Indicators

10.1. The Prudential and Local Indicators in relation to the Capital Strategy are shown below:

Prudential Indicators							
Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Capital Investment							
Capital Expenditure (£m)	£3.264	£6.530	£6.411	£7.953	£7.247	£1.926	£1.745
Capital Financing Requirement (£m)	£3.016	£2.444	£2.747	£4.637	£9.265	£8.598	£7.931
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£2.295)	(£2.167)	(£2.473)	(£1.863)	(£9.079)	(£8.255)	(£7.429)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£6.591	£15.435	£15.210	£15.238	£20.688	£20.440	£19.755
Operational Boundary (£m)	£6.591	£7.007	£7.008	£6.811	£11.610	£11.208	£10.803
Proportion of Financing Costs to Net Revenue Stream (%)	5%	5%	6%	4%	5%	6%	6%

Local Indicators							
Indicators	2020/21 Actual	2021/22 Original	2021/22 Revised	2022/23 Original	2023/24 Original	2024/25 Original	2025/26 Original
Replacement of Debt Finance or MRP (£m)	(£0.747)	(£0.561)	(£0.663)	(£0.459)	(£0.449)	(£0.667)	(£0.667)
Repayment of Burntwood Leisure Centre Loan and new additions	(£0.542)	(£0.000)	(£0.306)	(£0.000)	(£0.000)	(£0.000)	(£0.000)
Capital Receipts (£m)	(£0.000)	(£0.537)	(£0.036)	(£0.010)	(£0.010)	(£0.011)	(£0.684)
Housing Capital Receipts (£m)	(£0.434)	£0.000	(£0.260)	£0.000	£0.000	£0.000	£0.000
Liability Benchmark (£m)	£25.033	£11.755	£22.081	£19.075	£12.849	£12.756	£14.676
Treasury Management Investments (£m)	£37.330	£23.813	£34.140	£30.936	£29.510	£29.014	£30.529

11. Chief Finance Officer Assessment of the Capital Strategy

11.1. I have assessed the current overall risk as **32** out of **64** based on the following factors:

	Likelihood	Impact	2022/23	2021/22
Minimum			**0**	**0**
Capital Strategy				
Slippage Occurs in the Capital Spend	4	2	8	8
Planned Capital Receipts are not received	2	2	4	12
The Capital Programme does include investment to realise all of the Council's Strategic aims	4	4	16	0
Actual Cashflows differ from planned Cashflows	2	2	4	4
Assessed Level of Risk			**32**	**24**
Maximum			**64**	**48**

11.2. Therefore I believe the level of risk is Material (Yellow).

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

Key Assumptions													
Year	**2021/22 1**	**2022/23 2**	**2023/24 3**	**2024/25 4**	**2025/26 5**	**2026/27 6**	**2027/28 7**	**2028/29 8**	**2029/30 9**	**2030/31 10**	**2035/36 15**	**2040/41 20**	**2045/46 25**
Population Projections	105,293	105,709	106,073	106,432	106,749	107,070	107,398	107,724	108,040	108,335	110,002	111,955	113,959
% Increase in Population		0.40%	0.34%	0.34%	0.30%	0.30%	0.31%	0.30%	0.29%	0.27%	0.32%	0.37%	0.33%
% of population 65 and over	24.33%	24.48%	24.70%	24.88%	25.03%	25.31%	25.57%	25.80%	26.09%	26.44%	27.49%	27.90%	27.63%
Projected Council Tax Base							42,470	42,773	43,076	43,379	44,894	46,409	47,924
Asset Values (£000)													
Buildings	31,277	34,534	36,298	35,757	35,196	42,196	42,196	42,196	42,196	42,196	42,196	42,196	42,196
Leisure Centre Cost above £5m			7,000	7,000	7,000								
Land	13,292	13,292	13,292	13,292	13,292								
Vehicles, Plant and Equipment	3,228	3,974	6,379	5,766	5,349								
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						0.55%							

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	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**	**2030/31 £000**	**2035/36 £000**	**2040/41 £000**	**2045/46 £000**
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**25**
Council Assets													
New Assets													
Loan in Council Company	675												
Replacement Leisure Centre	328	2,349	2,260										
Housing Investment	496	334	22	21									
New Coach Park		1,137	43										
New Coach Park - Land	300												
Sub Total	**1,799**	**3,820**	**2,325**	**21**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Existing Property													
Property Planned Maintenance		230	231	231	231	230	235	239	244	249	275	303	335
BRS - Short Term Redevelopment	13												
Equipment Storage	125												
Burntwood Leisure Centre	507												
Multi Storey Car Park	259												
Beacon Park Pathway	37												
Burntwood Park	116												

District Council House	425												
Construction Inflation Contingency		100	100	100	100								
Public Conveniences	85												
Sub Total	**1,567**	**330**	**331**	**331**	**331**	**230**	**235**	**239**	**244**	**249**	**275**	**303**	**335**
Vehicles, Plant and Equipment													
Bin Purchases/Dual Stream Recycling	569	150	150	150	150	150	151	152	153	154	160	165	170
Vehicles - Waste	437		2,818							2,874			
Vehicles - Other	128	239	179	130	150	165	169	172	175	179	197	218	241
ICT Investment	131				175	175	179	182	186	190	209	231	255
Building a Better Council	150	600											
Car Park Strategy		480	150										
Car Park Barriers		36											
Committee Audio-Visual Hybrid Meetings		90											
New Financial Information System	225	44											
Sub Total	**1,640**	**1,639**	**3,297**	**280**	**475**	**490**	**498**	**506**	**515**	**3,397**	**567**	**614**	**666**
Other Capital Investment													
Disabled Facilities Grants	921	1,654	1,272	1,272	914	914	926	937	951	966	1,020	1,053	1,062
Home Repair Assistance / Energy Insulation	6	4	22	22	25	25	25	25	25	25	25	25	25
Other Projects	478	506	0	0	0								
Sub Total	**1,405**	**2,164**	**1,294**	**1,294**	**939**	**939**	**951**	**962**	**976**	**991**	**1,045**	**1,078**	**1,087**
Total Modelled Expenditure	**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**1,659**	**1,684**	**1,708**	**1,734**	**4,637**	**1,886**	**1,996**	**2,088**

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	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**	**2030/31 £000**	**2035/36 £000**	**2040/41 £000**	**2045/46 £000**
Corporate Funding													
Capital Receipts	(909)	(1,331)	(61)	(231)	(91)	(475)	(225)						
Capital Receipts - Statue	(5)												
Revenue - Corporate	0	(100)	(313)	(100)	(590)								
Other Funding													
Disabled Facilities Grant - New		(1,474)	(1,272)	(1,272)	(914)	(914)	(926)	(937)	(951)	(966)	(1,020)	(1,053)	(1,062)
Disabled facilities Grant - Existing	(921)	(180)											
Home Repair Assistance / Energy Insulation	(6)	(4)	(22)	(22)									
Other Grants	(706)	(1,083)	(22)	(21)									
Section 106	(708)	(254)											
CIL	(44)	(35)											
Reserves	(1,885)	(993)	(329)	(130)									

Revenue - Existing Budgets	(463)	(150)	(150)	(150)	(150)	(150)	(151)	(152)	(153)	(154)	(160)	(165)	(170)
Burntwood Leisure Centre Sinking Fund	(64)												
Finance Leases	(372)		(2,818)			0	0	0	0	(2,874)	0	0	0
Total Modelled Funding	**(6,083)**	**(5,604)**	**(4,987)**	**(1,926)**	**(1,745)**	**(1,539)**	**(1,302)**	**(1,090)**	**(1,104)**	**(3,995)**	**(1,180)**	**(1,218)**	**(1,232)**

Annual Borrowing Need	**328**	**2,349**	**2,260**	**0**	**0**	**120**	**382**	**618**	**630**	**642**	**707**	**778**	**856**
Cumulative Borrowing Need	**328**	**2,677**	**4,937**	**4,937**	**4,937**	**5,057**	**5,439**	**6,058**	**6,688**	**7,331**	**10,733**	**14,477**	**18,597**

APPENDIX B

Recommended Capital Programme

Project		Draft Capital Programme (R=>500k, A=250k to 500k and G=<250k)						
		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Corporate
Parish Office/Community Hub	R	0	92	0	0	0	92	0
Village Hall storage container	R	6	0	0	0	0	6	0
Armitage War Memorial	R	120	0	0	0	0	120	0
Artificial grass at Armitage	R	3	0	0	0	0	3	0
Burntwood LC CHP Unit	A	64	0	0	0	0	64	0
Friary Grange - Short Term Refurb	R	209	0	0	0	0	209	0
Replacement Leisure Centre	A	328	2,349	2,260	0	0	4,937	0
Beacon Park Pathway	A	37	0	0	0	0	37	30
Burntwood Leisure Centre - Decarb	A	443	0	0	0	0	443	0
Disabled Facilities Grants	R	921	1,654	1,272	1,272	914	6,033	0
Home Repair Assistance Grants	R	6	4	0	0	0	10	0
Decent Homes Standard	R	0	147	0	0	0	147	0
Energy Insulation Programme	R	0	0	22	22	25	69	25
DCLG Monies	R	0	212	0	0	0	212	0
S106 Affordable Housing Monies	A	496	334	22	21	0	873	0
Vehicle - Env Health	A	0	0	20	0	0	20	0
Burntwood Park Resurfacing	A	11	0	0	0	0	11	0
Burntwood Park Play Equipment	A	75	0	0	0	0	75	0
Burntwood Park Fencing	A	30	0	0	0	0	30	0
Enabling People Total		**2,749**	**4,792**	**3,596**	**1,315**	**939**	**13,391**	**55**
Canal Towpath Improvements	R	44	0	0	0	0	44	0
Loan to Council Dev Co.	A	675	0	0	0	0	675	116
Lichfield St Johns Community Link	R	0	35	0	0	0	35	0
Staffordshire Countryside Explorer	R	44	0	0	0	0	44	0
Lichfield Public Conveniences	A	40	0	0	0	0	40	40
Vehicles - Waste	A	437	0	2,818	0	0	3,255	32
Bin Purchase	A	240	150	150	150	150	840	0
Dual Stream Recycling	A	329	0	0	0	0	329	0
Vehicles - Other	A	128	229	159	130	150	796	150
Env. Improvements - Upper St John St	R	0	7	0	0	0	7	0
Leomansley Area Improvement Project	R	3	0	0	0	0	3	0
Cannock Chase SAC	R	44	0	0	0	0	44	0
Burntwood Public Conveniences	A	45	0	0	0	0	45	0
Shaping Place Total		**2,029**	**421**	**3,127**	**280**	**300**	**6,157**	**338**
Multi Storey Car Park Refurb Project	A	259	0	0	0	0	259	0
Vehicle - Car Parks	A	0	10	0	0	0	10	0
Coach Park	A	300	1,137	43	0	0	1,480	374
Birmingham Road Redevelopment	A	13	0	0	0	0	13	0
Car Parks Variable Message Signing	A	0	150	0	0	0	150	0
Old Mining College - Refurbish access	R	0	13	0	0	0	13	0
Pay on Exit System at Friary Car Park	A	0	150	0	0	0	150	0
Card Payment in All Car Parks	A	0	100	0	0	0	100	0
Pay on Exit System at Lombard Street	A	0	0	150	0	0	150	0
Electric Vehicle Charge Points	A	0	80	0	0	0	80	0
Car Park Barriers	A	0	36	0	0	0	36	36
St. Chads Sculpture	R	5	0	0	0	0	5	5
Developing Prosperity Total		**577**	**1,676**	**193**	**0**	**0**	**2,446**	**415**
Equipment Storage	A	125	0	0	0	0	125	111
Property Planned Maintenance	A	0	230	231	231	231	923	923
New Financial Information System	A	225	44	0	0	0	269	219
District Council House - Decarb	A	263	0	0	0	0	263	0
IT Infrastructure	A	108	0	0	0	0	108	108
ICT Hardware	A	5	0	0	0	175	180	180
IT Innovation	A	18	0	0	0	0	18	18
Building a Better Council	A	150	600	0	0	0	750	750
Audio-Visual Hybrid Meeting Platform	A	0	90	0	0	0	90	90
First Floor Office Refit	A	162	0	0	0	0	162	124
Construction Inflation Contingency	A	0	100	100	100	100	400	400
Good Council Total		**1,056**	**1,064**	**331**	**331**	**506**	**3,288**	**2,923**
Recommended Capital Programme		**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**25,282**	**3,731**

		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Corporate
Non-Current Assets	A	5,006	5,789	5,953	632	806	18,186	3,701
REFCUS	R	1,405	2,164	1,294	1,294	939	7,096	30
Total		**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**25,282**	**3,731**

	Draft Capital Programme					
Funding Source	**2021/22[2] £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**Total £000**
Capital Receipts	909	1,331	61	231	91	2,623
Capital Receipts - Statue	5	0	0	0	0	5
Revenue - Corporate	0	100	313	100	590	1,103
Corporate Council Funding	**914**	**1,431**	**374**	**331**	**681**	**3,731**
Grant	1,633	2,741	1,316	1,315	914	7,919
Section 106	708	254	0	0	0	962
CIL	44	35	0	0	0	79
Reserves	1,885	993	329	130	0	3,337
Revenue - Existing Budgets	463	150	150	150	150	1,063
Sinking Fund	64	0	0	0	0	64
Leases	372	0	2,818	0	0	3,190
Internal Borrowing	0	0	0	0	0	0
Total	**6,083**	**5,604**	**4,987**	**1,926**	**1,745**	**20,345**
External Borrowing	**328**	**2,349**	**2,260**	**0**	**0**	**4,937**
Recommended Capital Programme	**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**25,282**

Reconciliation of Original Capital Programme to this Recommended Capital Programme

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000	Cabinet or Decision Date
Original Budget Council 16/02/2021	**6,530**	**8,430**	**4,278**	**1,608**	**0**	**20,846**	
Approved Changes							
Acceptance of Decarbonisation Grant	263					263	09/02/2021
Slippage from 2020/21	762					762	08/06/2021
Money Matters Mth 3	(116)	86	20			(10)	07/09/2021
Introduction of Dual Stream Recycling	229					229	07/09/2021
Lichfield City Centre Car Parking Strategy	330	118	150			598	09/11/2021
Dual Stream Recycling	100					100	09/11/2021
Building a Better Council	77	257	(160)	(174)		0	09/11/2021
Money Matters Mth 6	(873)	711	25	161	0	24	07/12/2021
Rough Sleeper Grant	140					140	07/12/2021
Money Matters Mth 8	(1,031)	(1,749)	2,834	231	91	376	08/02/2022
Other Proposed Changes							
Construction Contingency		100	100	100	100	400	08/02/2022
Projections for 2025/26							
Long Term Model					1,554	1,554	16/02/2021
Recommended Capital Programme	**6,411**	**7,953**	**7,247**	**1,926**	**1,745**	**25,282**	

2 Funding sources have been updated compared to the version considered by Overview and Scrutiny Committee to reflect more up to date information.

APPENDIX C

Minimum Revenue Provision Statement 2022/23

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 Department of Levelling Up, Housing and Communities (DLUHC) guidance on MRP most recently issued in 2018.

The broad aim of the DLUHC 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 DLUHC 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**.
- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- 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.

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Capital Financing Requirement (Borrowing)	£2,410	£2,335	£4,636	£6,849	£6,603	£6,356
Capital Financing Requirement (Finance Leases)	£606	£412	£0	£2,416	£1,995	£1,574
Total	**£3,016**	**£2,747**	**£4,636**	**£9,265**	**£8,598**	**£7,930**

External Borrowing	(£2,256)	(£2,061)	(£1,863)	(£6,662)	(£6,260)	(£5,855)
Finance Leases	(£606)	(£412)	£0	(£2,416)	(£1,995)	(£1,574)
Total	**(£2,862)**	**(£2,473)**	**(£1,863)**	**(£9,078)**	**(£8,255)**	**(£7,429)**

Liability Benchmark	£25,033	£22.081	£19.075	£12.849	£12.756	£14.676

APPENDIX D

Balance Sheet Projections 2021-26

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

	Type	2020/21 Actual £000s	2021/22 Budget £000s	2022/23 Budget £000s	2023/24 Budget £000s	2024/25 Budget £000s	2025/26 Budget £000s	2020/26 Change £000s
Non-Current Assets	ASSET	44,575	47,121	51,125	55,293	54,140	53,161	8,586
Equity Investment in Local Authority Company	ASSET	225	225	225	225	225	225	0
Long Term Debtors	CRED	165	165	165	165	165	165	0
Long Term Investment (Company Loan)	LOAN	0	675	675	675	675	0	0
Investments	INV	37,289	34,140	30,936	29,510	29,014	30,529	(6,760)
Borrowing	BOLE	(2,256)	(2,060)	(1,863)	(6,662)	(6,260)	(5,855)	(3,599)
Finance Leases	BOLE	(606)	(412)	(1)	(2,416)	(1,995)	(1,575)	(969)
Working Capital	CRED	(13,580)	(13,386)	(12,688)	(12,516)	(12,344)	(12,344)	1,236
Pensions	CRED	(41,554)	(43,918)	(46,490)	(45,554)	(48,103)	(50,801)	(9,247)
TOTAL ASSETS LESS LIABILITIES		**24,258**	**22,549**	**22,085**	**18,719**	**15,517**	**13,506**	**(10,752)**

Unusable Reserves								
Revaluation Reserve	REV	(10,131)	(10,131)	(10,131)	(10,131)	(10,131)	(10,131)	0
Capital Adjustment Account	CAP	(31,653)	(35,143)	(37,258)	(36,797)	(36,311)	(35,325)	(3,672)
Deferred Credits	CRED	(47)	(47)	(47)	(47)	(47)	(722)	(675)
Pension Scheme	CRED	43,821	45,136	46,490	47,884	49,321	50,801	6,980
Benefits Payable During Employment Adjustment Account	CRED	460	460	460	460	460	460	0
Collection Fund	CRED	6,037	3,457	528	0	0	0	(6,037)
Available for Sale Financial Instruments Reserve	CRED	41	(374)	(374)	(374)	(374)	(374)	(415)
Usable Reserves								0
Unapplied Grants and Contributions	UGER	(3,618)	(3,184)	(2,452)	(2,408)	(2,323)	(2,323)	1,295
Usable Capital Receipts	UGER	(3,042)	(2,408)	(1,087)	(1,036)	(816)	(1,409)	1,633
Burntwood Leisure Centre Sinking Fund	UGER	(64)	0	0	0	0	0	64
Earmarked Reserves - Unrestricted	UGER	(15,145)	(9,994)	(8,427)	(7,694)	(7,484)	(7,404)	7,741
Earmarked Reserves - Restricted	UGER	(4,204)	(3,433)	(2,620)	(2,136)	(2,136)	(2,136)	2,068
General Fund Balance	GEN	(6,714)	(6,888)	(7,168)	(6,442)	(5,677)	(4,944)	1,770
TOTAL EQUITY		**(24,259)**	**(22,550)**	**(22,086)**	**(18,720)**	**(15,518)**	**(13,507)**	**10,752**

Reserves Available to cover Investment Losses	**(21,859)**	**(16,882)**	**(15,595)**	**(14,136)**	**(13,161)**	**(12,348)**	**9,511**

Summary								
Capital Funding	CAP	(31,653)	(35,143)	(37,258)	(36,797)	(36,311)	(35,325)	(3,672)
Revaluation Reserve	REV	(10,131)	(10,131)	(10,131)	(10,131)	(10,131)	(10,131)	0
Borrowing and Leasing	BOLE	(2,862)	(2,473)	(1,863)	(9,079)	(8,255)	(7,429)	(4,567)
Non-Current Assets	ASSET	44,800	47,346	51,350	55,518	54,365	53,386	8,586
Investments	INV	37,289	34,140	30,936	29,510	29,014	30,529	(6,760)
Unapplied Grants & Earmarked Reserves	UGER	(26,073)	(19,019)	(14,586)	(13,273)	(12,758)	(13,271)	12,801
General Reserve	GEN	(6,714)	(6,888)	(7,168)	(6,442)	(5,677)	(4,944)	1,770
Long Term Debtors	DEBT	165	165	165	165	165	165	0
Long Term Investment (Company Loan)	LOAN	0	675	675	675	675	0	0
Working Capital & Pensions	CRED	(4,822)	(8,672)	(12,120)	(10,147)	(11,087)	(12,980)	(8,158)
Total		**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**0**
Internal Borrowing		**154**	**274**	**2,773**	**187**	**343**	**501**	**347**

Liability Benchmark								
Capital Financing Requirement (Borrowing)		2,409	2,333	4,635	6,848	6,601	6,355	3,946
Working Capital, Pensions & Long Term Debtors		(4,657)	(8,507)	(11,955)	(9,982)	(10,922)	(12,815)	(8,158)
Usable Reserves		(32,787)	(25,907)	(21,754)	(19,715)	(18,435)	(18,215)	14,571
Minimum Level of Investments		10,000	10,000	10,000	10,000	10,000	10,000	0
Total		**(25,033)**	**(22,081)**	**(19,075)**	**(12,849)**	**(12,756)**	**(14,676)**	**10,359**

Borrowing Strategy

The Council currently projects **£2.060 million** of loans outstanding at the 31 March 2022, a decrease of **£0.196 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 2022/23. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of **£15.238 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 2022/23 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 **£42.7 million** and **£61.4 million** and similar levels are expected in the forthcoming year.

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 2022/23. This is especially the case for the estimated £15m 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
UPDATE : Strategic pooled funds	n/a	**£5m (Approved £4m)**	**£15m (Approved £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 **£16.9 million** on 31st March 2022. 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 and pooled funds) 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
UPDATE: Any group of pooled funds under the same management	**£15m per manager (Approved) £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.

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 2022/23 is **£0.690 million**, based on an average investment portfolio of **£47.56 million** at an interest rate of **1.45%**. The budget for external debt interest paid in 2022/23 is **£0.044 million**, based on an average external debt portfolio of **£1.93 million** at an average interest rate of **2.20%**. 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 **3.6%** 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 2022/23

Introduction

The Council invests its money for three broad purposes:

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

This investment strategy 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 **£38.65 million** and **£55.65 million** during the 2022/23 financial year.

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

Further details: Full details of the Council's policies and its plan for 2022/23 for treasury management investments are covered in 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	31.3.2021 actual			2021/22	2022/23
	Balance owing	Loss allowance	Net figure in accounts	Projection	Proposed Limit
Subsidiaries	£0	£0	£0	£675,000	£675,000
Employees – car loans	£0	£0	£0	£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	£12,708	(£12,708)	£0	£0	£50,000
TOTAL	**£59,799**	**(£12,708)**	**£47,091**	**£722,091**	**£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 are 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	31/03/2021 Actual £000	31/03/2022 Forecast £000	31/03/2023 Forecast £000	31/03/2024 Forecast £000	31/03/2025 Forecast £000	31/03/2026 Forecast £000
Treasury Management Investments	£37,354	£33,962	£30,758	£29,332	£28,836	£30,351
Commercial Investments: Property	£3,948	£3,948	£3,948	£3,948	£3,948	£3,948
TOTAL INVESTMENTS	**£41,302**	**£37,910**	**£34,706**	**£33,280**	**£32,784**	**£34,299**
Commitments to Lend	£0	£675	£675	£675	£675	£675
TOTAL EXPOSURE	**£41,302**	**£38,585**	**£35,381**	**£33,955**	**£33,459**	**£34,974**

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	31/03/21 Actual %	31/03/22 Forecast %	31/03/23 Forecast %	31/03/24 Forecast %	31/03/25 Forecast %	31/03/26 Forecast %
Treasury Management Investments	0.82%	0.73%	1.45%	1.64%	1.71%	2.12%
Loan to Council Owned Company	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%
ALL INVESTMENTS	**0.82%**	**0.73%**	**4.45%**	**4.64%**	**4.71%**	**5.12%**

Other Investment Indicators	31/03/21 Actual %	31/03/22 Forecast %	31/03/23 Forecast %	31/03/24 Forecast %	31/03/25 Forecast %	31/03/26 Forecast %
Investment Property Income as a proportion on Net Operating Cost	1.56%	1.30%	1.30%	1.54%	1.51%	1.49%

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

Quarter 3 Internal Audit Progress Report

Cabinet Member for Finance, Procurement and Revenues & Benefits

Lichfield district council

Date:	3 February 2022
Agenda Item:	
Contact Officer:	Andrew Wood
Tel Number:	01543 308030
Email:	Andrew.wood@lichfielddc.gov.uk
Key Decision?	**No**
Local Ward Members	**Full Council**

Audit and Member Standards Committee

1. Executive Summary

1.1 This report comprises Internal Audit's progress report for the period to 31 December 2021 (to Quarter 3) (**Appendix 1**).

1.2 Quarter 3 audit work performance has identified that 44% of the Audit Plan has been completed against profiled completion of 75%. There have been a number of factors which have impacted on the delivery of audits. Attributable factors include; reduced availability of internal audit staff due to staff leaving the section and implementation of new system processes / changes delayed audit commencement. In addition, the subsequent procurement exercise was not concluded until the start of September.

1.3 As Committee will be aware and reported in November 2021, we have procured both a general auditor (TIAA) and IT auditor services (E-tec). Fieldwork started from both service providers in mid-September 2021. Following delivery of these contracts work has been progressing as reflected in **Appendix 1**. The draft reports outlined and reported to this committee in November have now been finalized and reflected in the Appendix attached.

1.4 E-tec have now fully completed their contracted work for 2021/2022 and TIAA are progressing with their allocated audits.

1.5 The Audit Plan has been reviewed and taking into account the maintenance of audit standards and compliance with Public Sector Internal Standards requirements it is anticipated that that we will complete 80% of the plan by 31 March 2022. It is anticipated that the Elections review will be moved to 2022/2023 and an assessment undertaken of the work required for Housing Benefit Memorandum of Understanding.

1.6 To ensure completion of the audit plan all audits for the remainder of the year have been allocated to named individuals or to the general/IT Auditor. This will ensure completion of the audit plan.

1.7 The Audit Manager will continue to review current work plans to ensure completion of the 2021/2022 Audit Plan provide updates to Committee and liaise with the Head of Finance & Procurement (Section 151).

2. Recommendations

- 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.
Approved by Section 151 Officer	Yes

Legal Implications	There are no specific legal implications.
Approved by Monitoring Officer	Approved

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	There are no Equality, Diversity or Human Rights issues.

Crime & Safety Issues	There are no Crime and Community Safety Issues.
Environmental Impact	None arising.

GDPR/Privacy Impact Assessment	There are no specific implications.

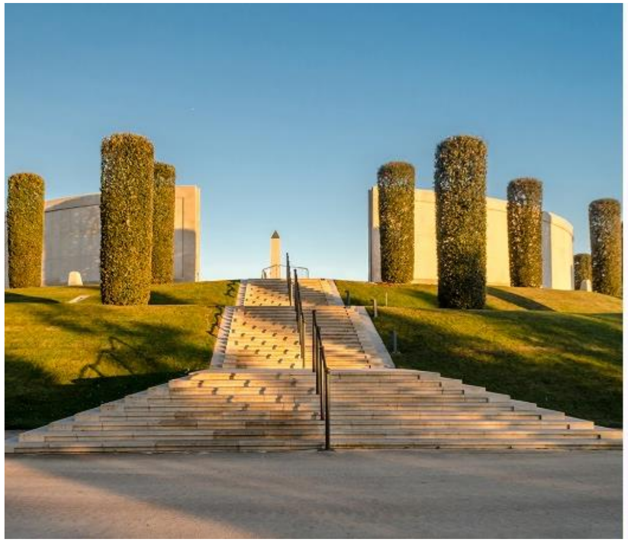
	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	Significant / high risk systems of internal control fail and go un-addressed. Audit Manager	Likelihood: Yellow Impact: Red Severity: Red	The audit planning process ensures that audit resources are directed to areas of most significance / highest risk. The audit plan is monitored and progress is reported.	Likelihood – Green Impact - Yellow Severity of risk - Green (tolerable)

Background documents	Audit & Member Standards Committee routine reports, internal audit reports.

Relevant web links	

Appendix 1

Internal Audit Progress Report (To Quarter 3)
December 2021



Appendix 1

Contents

If you have any questions about this report, please contact Andrew Wood, Audit Manager andrew.wood@lichfielddc.gov.uk

Appendix 1

01 INTRODUCTION

BACKGROUND

This report summarises internal audit activity and performance for the period to 31 December 2021.

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 2021/22 was approved by the Audit & Member Standards Committee in March 2021. The plan is for a total of 16 audits.

Quarter 3 work has been undertaken with the resources provided by the Principal Audit and that procured through TIAA and E-tec Business Services. As previously reported this started in mid-September 2021.

Performance indicators (Section 05) show there is a reduced coverage of the plan during quarter two (44% achieved against a profiled 75%). As Committee are aware two members of Internal Audit staff left the section in the quarter one of the financial year. The reduced completion rate of audits is being monitored and reviewed on a regular basis by the Audit Manager. The procurement exercise has provided further resource to ensure completion of the audit plan and a number of audits are scoped and in progress at the end of quarter3, this is detailed in Appendix 1 of this report.

To ensure completion of the audit plan all audits for the remainder of the year have been allocated to named individuals or to the general/IT Auditor.

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

Appendix 1

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

One matter has been reported to Internal Audit and is currently under investigation.

CONSULTANCY & ADVICE

The audit team may be requested by managers to undertake consultancy and advice on governance, risk management and internal control matters. During the period to 31 December 2021, the following was undertaken:

Attending project board for payroll and new finance system.

- Review of draft Contract Procedure Rules.
- Attending elections core meeting.
- NFI data match investigations.
- Review of legal arrangements around Fradley Challenge.
- Attending Staffordshire Counter Fraud Partnership.
- Fraud Awareness Week participation.
- Participating member at Discretionary Housing Panel Appeal.

04 FOLLOW UP

Internal audit follow up all high priority actions and those arising from no and limited overall assurance, manager's confirmation applies to the rest. There were eight high priority recommendations due to be followed up during the period, of which two were implemented (see KPI section 05).

Appendix 1

Of those 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.

Currently there are 92 outstanding recommendations at 31 December 2021, shown in the table below:

Action Priority Rating	Total Open Actions at 1 April 2021	Actions Raised Since April 2021	Total Overall	Total Closed out at 31 Dec 2021	Total Open at 31 Dec 2021	% Implemented in the period
High	10	0	10	4	6	40%
Medium	67	23	90	24	66	27%
Low	18	10	28	8	20	29%

Appendix 1

05 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 anv interest.

Performance of internal audit

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% (profiled 75%) of the audit plan – 44%
- 100% Draft reports issued within 6 weeks of start date – 33%
- 100% Closure meetings conducted within 5 days of completion of audit work – 67%
- 100% draft reports to be issued within 10 working days of closure meeting – 100%
- 100% of all high priority actions are implemented at follow up – 40%
- All no and limited assurance reports have a revised assurance rating of substantial or reasonable on follow up - 100%
- Achieve an average customer satisfaction score of 4 or more – 100%
- Added value – Annual measure

Appendix 1

APPENDIX 01: SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Core Financial Systems	Debtors	Risk based review covering the adequacy and effectiveness of controls around debtors, including account set up / amendment, invoice requisitioning, invoicing, fees and charges and recovery. To accommodate the change to the new Civica Financials Live financial system.	Q3	Audit allocated to TIAA Ltd. Audit scoped.	
	Assets & Inventory	Risk based review covering the adequacy and effectiveness of controls regarding the Council's assets and inventory.	Q4	Audit allocated to TIAA Ltd. Audit scoped and fieldwork commenced	
	Grants	Risk based review of the adequacy of controls surrounding grants awarded to the authority. To include compliance with accountable body agreements including arrangements for third party compliance where appropriate.	Q2	Grants made by the Council must be compliant with the Council's Guidance to External Funding and Finance Regulations. Whilst not all departments have a procedure/policy that has been approved by Cabinet, they do however have clear processes in place to ensure that all grant funding applications must meet the required criteria in order to be eligible for grant funding, applications. The grant fund application process requires all organisations to provide appropriate information to ensure that value for money can be demonstrated. Appropriate monitoring information was held on file for all relevant organisations reviewed.	 Reasonable Assurance H -0 M - 2 L - 1

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				Regular progress reports have been received from the contractors and reported to the Council and others as required (Salix). Payments made have been fully supported with authorised invoices/payment requests and have been made in line with contractual agreements. The Finance Department confirmed that all income and expenditure in relation to these grants have been correctly coded	
	Council Tax	Risk based review of council tax including assurance over the adequacy of controls around the maintenance of systems recording taxable properties and liable persons, billing, discounts and reliefs, collection, refunds and write offs.	Q4	Audit allocated to TIAA Ltd	
Strategic & Operational Risks	Strategic Risk Register	Risk based review of the adequacy and effectiveness of the controls in place to mitigate the Council's strategic risks.	Q4		
	Pandemic risks	'Flash' audits of dynamic risks arising from the Council's pandemic response. To include continuity and recovery arrangements, business grants, productivity and performance.	Q1-Q4	**Flash Covid 19 Risk Assurance - Governance** Control measures to mitigate against the risk of potential governance failings arising from the Covid-19 crisis a year on from the start of the pandemic, were found to be adequate and effective. A number of good practice areas were noted: • The system implemented by the Authority for remote governance was in accordance	 Substantial Assurance No recommendations

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				with the Local Authorities and Police and crime Panels (Coronavirus) (Flexibility of Local authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. • Remote meetings were set up quickly and effectively using Zoom US. • A communications action plan to roll out virtual committee meetings was adopted. • Internal and external training was provided to staff and members providing an understanding of Zoom. The first live remote meeting took place on 5th May 2020 (Planning Committee). • 'Virtual Meetings – Guidance and Tutorials' procedure notes were created setting out meeting procedures (before and during), viewing meeting documents, voting and polling, etc. Additionally, reminder guidance is sent out to all Councillors prior to a meeting. • Urgent decision arrangements were in place and managed in line with the Constitution. There was one urgent decision in January 21 in relation to the award of grant funding. • Meetings are live streamed through Youtube. Social Media (Facebook and Twitter) was utilised to update followers of upcoming meetings including signposts to agendas and those who have subscribed to	

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				LDC's Youtube Channel receive notifications. • From the 7th May 2021 traditional face to face meetings resumed. This has been reflected in the work undertaken by Health & Safety to ensure updated Government guidance is being met. E.g. Risk Assessments for all venues being considered for meetings. Hybrid meetings (live streaming of face to face meetings) are not yet set up but members of the public are now able to attend in public or review recorded meetings on Youtube. With the continuation of Council meetings occurring albeit in a pre-Covid format the following areas are suggested as a forward focus: • Covid specific risk assessments should be regularly reviewed and amended where new hazards are identified to ensure they are in line with Government Legislation. • Members have expressed a wish for continued virtual and hybrid meetings. The Council does not currently have the required equipment to facilitate hybrid meetings. On-going management of expectations around broadcasting meetings is one of the rising risks within the strategic risk register. Further progress	

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				should be made to implement hybrid meetings. **Covid 19 Risk Assurance –Productivity** Control measures to mitigate against the risk of productivity being adversely impacted by the Covid-19 crisis were found to be adequate and effective within IT, Joint Waste and the Housing service areas. A number of good practice areas were noted: • A suite of KPI's for each service area is monitored and reviewed on a regular basis by managers. During the lockdown Housing showed a peak in B&B use due to government requirements for rough sleepers to be off the street and a temporary closure of accommodation. IT had an increase of work requests through their service desk. • Performance and Development Reviews (PDR's) continued to be completed and were 80% for both the Corporate Services and Regulatory, Housing and Well-being service areas. However completion for Joint Waste was limited (25%) due to Covid and the requirement for 'Bubbles' for crew members. • Housing monitor officer caseloads and productivity through their database	 Substantial Assurance No recommendations

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				reporting function and produce quarterly government returns. • Performance of service areas has been managed by weekly reporting and monitoring. This is completed via Leadership Team Meetings with updates / issues discussed. Regular meetings are held within teams to discuss workload, wellbeing and duties. • Service delivery has been maintained coupled with Covid specific tasks i.e. reducing crew sizes (bubbles) in Joint Waste to minimise interactions and for Housing, a telephone was provided to rough sleepers without internet/ telephone access to enable a telephone interview. For IT the rotation of on-site and off-site staff was consciously chosen to provide resilience. • Covid-19 has accelerated the pace of change with ICT Services implementing new systems and features to support remote working i.e. MS Office 365 and moving to the cloud. Whilst the Covid Pandemic continues and there remains a revision to working practice, a forward focus is suggested on lessons learned to ensure service delivery is maintained and productivity is managed effectively with KPI's continuing to be reviewed. Additionally, 1-2-1's and weekly Teams meetings will ensure	

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				productivity is maintained. PDR's which provide the opportunity of communication between managers and employees should be fully completed, particularly for Joint Waste where the restrictions have previously prevented this occurring.	
	Replacement Financial System	Programme assurance based review of the replacement financial system programme to Civica Financials Live. To include income management system replacement. Programme assurance includes programme planning, governance structure and controls, delivery, change management, RAIDD management (Risk, Action, Issue, Decision, Dependency), testing and reporting.	Q4		
	Payroll transition	Assurance based review on the effectiveness of payroll controls following the transition from Stafford Borough Council to Stoke City Council, the new payroll agency provider.	Q3	Audit Allocated to TIAA Ltd. Audit brief issued.	
	Development Control (Planning)	Risk based review of systems of internal control for planning (using CIPFA control matrices), to include applications, appeals, fee	Q2	The Development Management (Planning) System is designed with controls in place to mitigate the major risks and were found to be adequate and effective.	 Reasonable Assurance

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
		management. Audit carried forward from 2020/21.		There are documented procedure notes that are available to staff and a suite of planning information accessible on the Council's website to residents. Planning applications are available to view on the Council's website, also providing opportunity for residents to comment on an application. Testing noted that officers pro-actively seek views through requesting feedback from statutory consultees, neighbours, placing of site notices or media advertising. The Uniform system is pre-populated with required consultees however spatial attributes require reviewing separately for instance, on Easytrees and Local View with the technical officers having to choose relevant consultees. The aim is to pre-populate spatial information onto Uniform. Decisions are independently reviewed by a more senior officer and the applicant/agent is notified electronically, the decision also uploaded to the website through Public Access. Appeals are received on notification from the Planning Inspectorate. The Council is required to provide information within set timescales. Testing confirmed the process had been followed. When an appeal decision is received it is distributed to all planning staff for discussion and a change of process would be introduced, if required. A review of new starters noted that qualifications are sufficient for the role and that detailed training is provided. The employee will follow the Council's	H- 0 M- 5 L- 2

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				Learning Passport or a specific accelerated training plan aimed for technical officers. For both applications and pre-applications, the correct fee had been received. Income is monitored through monthly meetings between the Planning Development Manager and the Accountant. Planning fee income is reported to Cabinet through the Money Matters reports. There are 4 KPI's that are updated quarterly (the latest being May 21). Performance is also reported through National Indicators to the Ministry of housing, communities and local government (MCHLG). A suite of monitoring information is also available through Enterprise. Target timescales are monitored and the system can also be used to monitor individual officer's case load and performance. Some weaknesses in control were found in the achievement of targets set for pre-applications and planning applications. The KPI's are currently not reported internally and the service plan (2021/22) which includes KPI's and risks, is not yet finalised. There are functionality weaknesses with the IT supporting systems. Implementation of the recommendations in the action plan will enhance arrangements and address these risks.	
	Shared Services	Risk based review of controls in place for effective delivery of shared services e.g. waste management,	Q2	**Joint Waste** A Joint Waste Service Committee Constitution provides the overarching agreement which sets out objectives, roles and responsibilities, delegations	 Reasonable Assurance

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
		legal services, building control, internal audit.		and governance arrangements for the joint waste service committee. A business plan including actions, risks, staffing and finances was produced in 2018/19. The Staffordshire Waste Partnership (of which both Councils are part) has a joint strategy covering all the districts, County Council and Stoke. Financial information is collated by LDC and meetings are held between the accountants at both authorities and budgets are monitored and discussed with the General Manager and the Chief Waste Officer (Chief Executive) at TBC. Liaison is on-going between the LDC and TBC through email/ telephone and there is an awareness of incidents in real time. Regular meetings are in place should there be fundamental service changes, both Councils are involved. Feedback from users is received through 'Your views and feedback' and are recorded on pentana. A review showed 5 complaints since April 2021. LDC host the Joint Waste Service and through discussions with officers at TBC (Chief Waste Officer, Customer Services and Accountant) it was evident that there is a good working relationship in place. Comments from TBC confirm that they are aware of the current state of service provision, are engaged in service development, performance and operation. Regular updates are received and staff are involved. It is a true joint service.	H- 0 M- 5 L- 1

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Page 76				Some weaknesses were noted, although a Constitution is in place the governance arrangements in terms of the frequency of the joint waste service committee meetings is not being followed. A revision is required where there is reference to the Memorandum of Agreement which is not in place. A business plan and rolling annual action plan have not been produced since 2018/19 and there is no formal year end review of performance against KPI's, action status, finance etc. Service level agreements are not in place with transportation, finance or policy/ education. Risks are identified but are not regularly reviewed. Formal meetings are not minuted. **Legal Shared Services** The Shared Service - Legal System is designed with controls in place to mitigate the major risks and were found to be adequate and effective. A comprehensive formal agreement is in place, which sets out the scope of services, the cost and contributions of each council, the Governance Arrangements and the Terms of Reference of the board. Board meetings are held regularly between the 3 members. Details of the service and instruction forms are available to staff on the intranet. A review of the first year of the service has been completed by the 3 Councils. During 2021 there has been a large turnover in solicitors with current vacancies. Demand for	 Reasonable Assurance H-0 M-4 L-4

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				urgent cases and planning advice has increased and the service may not be sustainable with the current resource available. Staffing issues have been discussed by all 3 Councils and an additional charge has been requested to recruit further solicitor resource and a Paralegal has been employed from unspent external lawyer costs. At LDC a funding bid has been requested and the capacity and resilience concerns have been discussed at Leadership Team with options being considered. Some weaknesses were noted in relation to the use of instruction forms and their counter-signing. Indicators should be introduced and further information on case status received to monitor the performance of the service. Performance monitoring would also be enhanced through pro-actively requesting customer feedback. The guidance on the intranet would benefit from a review to reflect current practice. Finally future reviews of the service should be discussed at Leadership Team. Implementation of the recommendations in the action plan will enhance arrangements and address these risks.	
	Elections	Risk based review of elections processes and in particular financial returns.	Q2	Due to Peer Review and structural changes, move to plan for 2022/2023.	
	Climate Change	Risk based review looking at the Council's preparation to de-	Q3	Audit allocated to TIAA Ltd	

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
		carbonisation / climate change agenda.			
ICT	IT Microsoft 365	A risk based review IT applications hosted in cloud together with One Drive storage		Draft report issued to IT awaiting management responses.	
ICT	Website Management and Security	A risk based review of the management and security of the Council's website.	Q2-4	Draft report issued to IT awaiting management responses.	
ICT	Remote Access - Additional work to the originally agreed plan.	A risk based review of the management of remote working arrangements.	Q3	Draft report issued to IT awaiting management responses.	
Governance, Fraud & Other Assurance	Disabled Facilities Grant	Assurance statement	Q3	Work completed and assurance statement finalised and submitted to Staffordshire County Council	Complete
	Housing Benefit Memorandum of Understanding	Assurance statement to enable the Chief Finance Officer sign off to DWP.	Q3	Review to determine work required in this area.	
	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	
	Annual Audit Opinion	Production of the Annual Audit Opinion.	Q2		
	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	

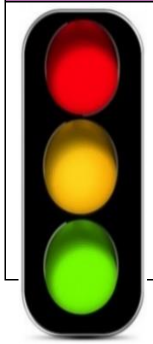
Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
	Risk Management	Supporting the Council's risk management systems.	Q1-Q4	In progress and continuing, see Risk Management report at this Committee.	
	Election Support	Support to May 2021 Elections	Q1	Complete. Auditors provided support to the May 2021 Elections across a number of roles.	
Follow up all no and limited assurance reports and all high priority recommendations.	GDPR	Limited Assurance Follow up	Q1	A third follow up audit has now been undertaken and the full follow up audit report was issued to accountable officers and members of the Committee on 20 May 2021. In summary: Of the 2 outstanding actions (1 high and 1 medium). It can be confirmed that 1 has now been fully implemented with the remaining 1 (1 high) partially implemented.	 Substantial Assurance
	GDPR	Limited Assurance Follow up	Q2	A fourth follow up audit has now been undertaken and the full follow up audit report was issued to accountable officers and members of the Committee on 18 October 2021. All recommendations have now been implemented.	 Substantial Assurance
	Procurement	Limited Assurance Follow up	Q1	Originally 9 recommendations were made, 8 of which were agreed to be implemented by management. The findings of the follow up review show 5 of the recommendations have been implemented and 3 have been partially implemented.	 Reasonable Assurance
	Beacon Park	Limited Assurance Follow up	Q1	Originally 4 medium risk recommendations were made. The findings of this follow up review show 3 of the recommendations have been implemented, with 1 not implemented but has a due date not until January 2022.	 Reasonable Assurance

Appendix 1

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.

Risk Management

Cabinet Member for Finance, Procurement and Revenues & Benefits

Date:	3 February 2022
Agenda Item:	
Contact Officer:	Andrew Wood
Tel Number:	01543 308030
Email:	andrew.wood@lichfielddc.gov.uk
Key Decision?	**No**
Local Ward Members	**Full Council**

Lichfield district council

Audit and 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 Strategic Risk Register as at January 2022 is to be considered by Leadership Team on 19 January 2022 and is detailed at **Appendix 1** The key changes since the Committee's last risk update (November 2021) are:

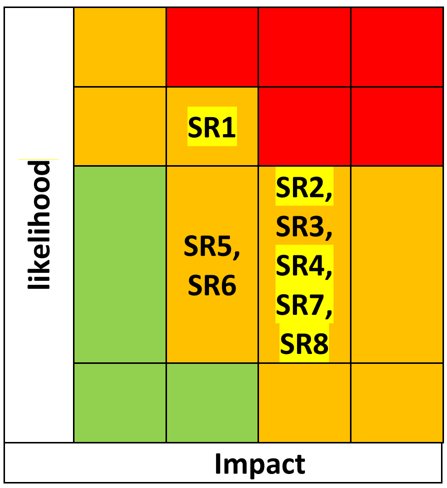
- **SR1** (Pressures on the availability of finance may mean the Council is not able to deliver the key priorities of the strategic plan). The risk has now been re-scored and has a rating of 6 (2 Likelihood x 3 Impact) from 12 (3 Likelihood x 4 Impact). The Settlement is more advantageous that the assumptions used in the draft MTFS presented to Overview and Scrutiny Committee on 18 November 2021. This is because the Provisional Settlement included an additional New Homes Bonus payment for 2022/2023, some additional 'one off' grant funding and because Local Government Finance Reform has been delayed by at least a further year, business rate growth will be retained. This additional funding means that the level of uncertainty for 2022/2023 can be reduced to Medium.
- **SR2** (Resilience of teams to effectively respond to a further serious disruption to services). This risk has been re-evaluated and now has a rating of 6 (2 Likelihood x 3 Impact) from 12 (3 Likelihood x 4

Impact). Additionally the Recovery Strategy and from the pandemic has been reviewed by Leadership Team on 27 October 2021.

- **SR3** (Capacity and capability to deliver / adapt the new strategic plan to emerging landscape) A partner as part of the ESPO Framework has been procured to provide client side advice (and resources) in a range of areas including; Regeneration, Leisure, Housing, Economic Development and Planning.
- **SR4** (Failure to meet governance and/or statutory obligations e.g., breach of law). This risk has been reviewed by Leadership Team. It is noted that the risk score has been re-evaluated by Leadership Team and the current score reassessed with a rating of 6 (2 Likelihood x 3 Impact) from 9 (3 Likelihood x 3 Impact).
- **SR7** (Threat to the Council's ICT systems of a cyber-attack). This risk has also been re-evaluated due to the mitigating actions put into place in relation to cyber security and the take up and implementation of mandatory multi factor authentication and monitoring by management of mandatory training undertaken by staff. The rating is now 6 (2 Likelihood x 3 Impact) from 9 (3 Likelihood x 3 Impact).
- **SR8** (Being a Better Council, The Council is not able to deliver the key priorities of the strategic plan). This is new risk identified by Leadership Team following its meeting in December. This risk has been discussed at Leadership Team at its meeting on 19th January 2022 and the strategic risk register has been added and updated with the agreed score evaluations following this meeting.
- Updates to mitigating controls, actions and lines of assurance have been updated on the Register where applicable.
- 'Other Horizon Scanning Risks Arising at January 2022' (at the end of the register) are risks which are not strategic risks currently, but that need a 'watching brief' have been reviewed and updated. Two previous horizon scanned risks have been brought into the Strategic Risk Register in respect of the following;
    - **SR1** (Pressures on the availability of finance may mean the Council is not able to deliver the key priorities of the strategic plan), inclusion of inflationary pressures.
    - **SR4** (Failure to meet governance and/or statutory obligations e.g., breach of law) additional information around filing and retention of documentation.

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

3.5 The Council's 8 strategic risks at January 2022 are shown below:



- **SR1:** Pressures on the availability of finance may mean the Council is not able to deliver the key priorities of the strategic plan.
- **SR2:** Resilience of teams to effectively respond to a further serious disruption to services.
- **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.
- **SR8**: Being a Better Council, The Council is not able to deliver the key priorities of the strategic plan. This risk is being reviewed at Leadership Team on 19 January 2022 and an update to the scoring will be provided.

3.6 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).
- Quarterly update meetings have been scheduled with Heads of Service and Audit Manager (Shared Service).
- 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).
- At this stage, no sub strategic risks need to be escalated to the strategic risk register?

Alternative Options	There are no alternative options.
Consultation	Leadership Team receive monthly updates on Strategic Risk Register
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.
Approved by Section 151 Officer	Yes
Legal Implications	None identified.
Approved by Monitoring Officer	Approved

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	Sound risk management ensuring a consistent and robust approach all equality, diversity and human rights issues and their implications to the Council.

Crime & Safety Issues	None.
Environmental Impact	Risk arising from climate change and the green agenda are considered by management and Leadership Team.

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 law (e.g., Health & Safety, GDPR, procurement, Safeguarding).

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	Failure to manage known risks and opportunities proactively. Leadership Team	Likelihood: Green Impact: Red Severity: Red	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: Green

Background documents	Risk Management Policy – updated and approved by Audit & Member Standards Committee 11 November 2021.

Relevant web links	

Lichfield district council

Appendix 1: Strategic Risk Register – January 2022

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	**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 Procurement Policy Notes. • Funding of Council's headline priorities and the shortfall of funding.	16 (L4xI4)	• 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 of enhanced monthly income monitoring and receipt of financial assistance from Government.	6 (L2xI3) was 12 (L4xI3)	4 (L2xI2)	• Update of the Medium Term Financial Strategy **Responsibility: Head of Finance and Procurement /will commence in July 2021 and approval in February 2022** • Outcome of Government Financial Settlement – single year.	**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 and Strategic (OS) Committee. • Mid-year and outturn Treasury Management reports to Audit and Member Standards Committee. • Initial assessment of LDC's level of compliance with the FM Code to Audit and Member Standards Committee 12/11/2020.

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	• Inflationary pressures on procurement of services and replacement fleet vehicles. **Owner:** Head of Finance & Procurement (Section 151 Officer).		• Confirmation and Implementation of financial settlement.				• CIPFA Resilience Index with comparative information to nearest statistical neighbours and all District Councils. • Cabinet and Leadership Team are undertaking work to look at options to address the Funding Gap. **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 • LGA Corporate Peer Challenge

Appendix 1: Strategic Risk Register – January 2022

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). New people into organisation. **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	6 (L2xI3) Was 12 (L3xI4)	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 **Leadership Team / Complete** • 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

Lichfield district council

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
			our response and the multi-agency response to such events. This includes identifying 'at risk' areas in the District and specific actions required.			**Leadership Team/ Complete** • Tasks completing and move away from initial Pandemic response, move to Being a Better Council.	**3rd Line:** • 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 • External Audit – going concern test and sign off of financial statements 2020/21. Unqualified VFM assessment.
A good council, developing prosperity, shaping place, enabling people	**SR3: Capacity and capability to deliver / adapt the new strategic plan to emerging landscape.** Cabinet review of corporate priorities. Work Place Plan and New Ways of Working with upcoming Peer Review.	6 (L2xl3)	• Regular review of progress against delivery plan outcomes and prioritisation process agreed between Leadership Team and Cabinet. • Robust project management. • People strategy.	6 (L2xl3)	4 (L2xl2)	• Implementation of Belonging and Wellbeing Strategy to take account of 'Better Council' **Chief Operating Officer / January 2022** • Implementation of Being a Better Council.	**1st Line:** • Day to day business / service planning, financial planning and performance management. • Completion of PDRs. **2nd Line:** • Delivery Plan reported 6 monthly to Cabinet and shared with Overview & Scrutiny.

Lichfield district council

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	Upcoming pay settlement 0f pay claim for 2021/2022. **Owner:** Leadership Team		• 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. • Being a Better Council and implementation of Better Led, Better Equipped.			• Commissioned Partner (via ESPO framework) – Lambert Smith Hampton, provision of client side advice (and resource) in a range of areas including Regeneration, Leisure, Housing, Economic Development and Planning.	• Quarterly updates to LT on Belonging and Wellbeing 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.	6 (L2xI3) Was 9 (L3xI3)	6 (L2xI3)	• Annual Health & Safety Report to be produced for Employment Committee **COMPLETE**	**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.

Lichfield district council

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	Subsidy Control Framework and self-assessment risks subject to challenge. Arrangements in process of being developed, requirement to build in operation and awareness training. Risk of failure to retain documentation in a manner to allow both storage and retrieval. **Owner:** Chief Operating Officer		• Codes of Conduct. • Internal audit. • Dedicated Monitoring Officer • Roles of Section 151 Officer and Monitoring Officer. • Shared legal services. • New procurement team. • New Governance Team with additional capacity being recruited. • Review of document storage and filing systems. • Electronic retention of documentation. • Sealed documents held in fire proof room. • Education and development of Service Managers to support teams with advice and guidance. • Training in place for LT October covering H&S. • Meta Compliance training.				• Regular reports to leadership team. • Transparency data publication. • Completed review of document storage. • Procurement Team in place and operating. **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

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
							(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. • External investigations and lessons learnt exercises to address internal control weaknesses.
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	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	4 (L2xI2)	4 (L2xI2)	• Continued delivery of immediate actions to support high street economy and business (including visitor economy and hospitality sector). • Further government support – the Welcome back Fund - received to extend timescales and assist	**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.

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	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. Local Enterprise Partnership review and residual role around support. Ongoing relationship change leading to potential increase in future opportunities. **Owner:** Leadership Team		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. • Work with redundancy task force • Continue to develop and improve the business contact and relationships locally. • Development of Wellbeing indicators at			with the reopening of high streets and support to local businesses through to March 2022. Additional spend on a variety of projects currently in process of being identified. • Economic Development, Finance and Revenues and Benefits Services distributing government grants to support businesses impacted by Covid-19 pandemic. Discretionary Additional Restricted Grant scheme providing for direct business support, start up assistance and skills/training. ARG top up monies to be allocated shortly subject to member agreement.	**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 – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
			ward level for both activity and response.			• Decision taken to defer preparation of new ED Strategy to focus on Covid-19 recovery via the Corporate Recovery Plan and use time to gather intelligence to inform new strategy. • Council continues to be a member of the County Redundancy Task Group identifying impacts of Covid-19 on local employment levels and particular demographic groups and agreeing responses. **Interim Director of Regeneration/LT** • Implementation of Being a Better Council – Better Led, Better Equipped and Better Performing.	
		9		4	1		**1st Line:**

Lichfield district council

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
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	(L3xI3)	• 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. • Belonging and Wellbeing 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.	(L2xI2)	L1xI1	• Roll out of MS teams and all functions in train for completion later this year, **Information & Communications Technology Manager / TBC** • Acceleration of New Ways of Working processes, terms and conditions. **Chief Operating Officer / As part of recovery planning processes – October 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 / Complete**	• 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

district council

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
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 incur fines / reputational damage. Increased number of sophisticated 'phishing' attacks with increased time taken to investigate and remediate. Move away from purely email to other platforms such as 'Teams'. Failure by staff to complete ICT training and the take up of MFA.	3 (L1xI3)	• Use of firewalls and virus protection to manage cyber security, including penetration testing. • Strong access level controls (including remote access). • 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. • IT Auditor provision resourced from August 2021. • Adoption of multi-factor authentication.	6 (L2xI3) Was 9 (L3xI3)	2 (L1xI2)	• The move to Health is sufficiently complete that we have been able to end the contract for our hardware maintenance and support with ANS. The migration has presented the opportunity to also upgrade some of our servers to the latest version of Windows Server and close down the oldest servers with the additional security benefits that this brings. • The email migration to Office 365 has been completed and the next stage will be to	**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:** • Regular monitoring and reporting on security issues to Leadership Team. • External penetration testing. • Full Council wide adoption of multi-factor authentication.

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	Owner: Head of Corporate Services		• Development of monthly reports from software supplier for follow up of staff not completing mandatory ICT training.			roll out the Office 365 desktop software along with Teams and starting the migration of our file server to Microsoft OneDrive. • Bringing these elements together opens further opportunities in relation to security and to look at how people log into our systems with the intention of reducing our reliance on passwords and increasing the use of other authentication methods such as secondary devices and biometrics.	**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 Business Continuity 20/21 substantial assurance. • ICT Audit Procurement to review risk environment. • ICT Audit Needs Assessment completed. • Review of Microsoft 365 2021/22

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
						• Review of risk scores completed due to increase in 'phishing attacks'. **Completed.** • Full enrolment of staff adopting multi-factor authentication. **Complete.** • Message from Leadership Team and reminder to staff of importance of MFA and training. **Completed.** • Review mandatory training requirements. • Follow Up MFA take up and mandatory training. **Complete** • Switch on MFA for all users. **Complete** • Session for Councillors concerning switch on of MFA, to be arranged. **Complete** • Member training and implementation by 31 January 2022.	

Appendix 1: Strategic Risk Register – January 2022

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	**SR8 Being a Better Council** **The Council is not able to deliver the key priorities of the strategic plan.** The risk is influenced by: • The costs of delivering the programme exceed the capital funding available. • Changes proposed jeopardise delivery of our statutory obligations. • People implications are not managed effectively to ensure staff developed and have capacity to deliver. • Key processes and services do not remain available and operational throughout the programme. • The programme deviates from supporting delivery of our Strategic Plan.	12 (L4xI3)	• Robust project methodology is employed to manage costs with dedicated Programme Manager. • Robust project methodology is employed to manage risk and legal obligations. • Methodology employed to identify culture, behaviours and skills required. Ensuring all current applicable policies are followed and new policies support transition are developed and consulted effectively. • Methodology to capture of data, demand and expectations. Clear engagement along with robust user testing and suitable mechanisms to deal with additional needs. • Creation and review of a programme roadmap to	6 (L3xI2)	4 (L2xI2)	• Management oversight and robust project management requirements for delivery of Better Council.	**1st Line:** • Day to day project management of Being a Better Council **2nd Line:** • Regular monitoring of delivery targets by Programme Board to deliver themes. **3rd Line:** • Inclusion in Audit Plan for reviews against delivery of themes. • LGA Corporate Peer Challenge follow up.

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
	• Programme and project delivery is not sufficiently resilient enough to underpin delivery. • We do not use internal capability and capacity to deliver the required business change. • Programme disruption causes service failures in relation to BAU. • IT infrastructure and IT systems do not support delivery of the changes required. • Volume of training events required across all projects and workstreams will create capacity issues for both delivery resources and attendance. **Owner:** Chief Executive.		tackle latest strategic issues. Ensuring baseline and robust tracking mechanisms exist to monitor progress and evidence deliver – deal with what matters most. • Ensuring the correct skills and resources are identified to deliver the programme and projects. • Designing a programme delivery approach to change the culture as well as the individual projects. • Building capacity within the programme and projects to ensure that colleagues are allowed to carry out BAU. • Designing IT infrastructure and IT systems around the transformed organisation. • Designing a programme delivery roadmap				

Lichfield district council

Appendix 1: Strategic Risk Register – January 2022

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
			combined with clear planning and business communications.				

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)

Other Horizon Scanning Risks Arising January 2022:
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 Council activities via the Government's legislative timeframes and planning activities arising from the Planning Bill detailed in the Queen's Speech.
Risks arising from staff leaving key posts.
~~Sunset clause on Regulations allowing remote council meetings ends early May 2021 on going management of expectations around broadcasting of meetings.~~
Elections review by Association of Electoral Administrators (AEA) and challenge around legislation in the reduction of time for provision of elections.
Resourcing requirements for the retention and filing of legal documentation – adapted and raised within Strategic Risk 4
To balance the delivery of service specific objectives against the priorities and demands from Members/Cabinet to ensure continued alignment with Strategic Plan.
Legal Shared Service – capacity and resilience
Disabled Facilities Grants
Economic pressures due to energy price reviews/inflation rates and index linking to prices adapted and raised within Strategic Risk 1.
Impact of withdrawal of government support measures (furlough), Universal Credit and implications for businesses and residents.

Audit Committee Effectiveness Report

Cabinet Member for Finance, Procurement and Revenues & Benefits

Date:	3 February 2022
Agenda Item:	
Contact Officer:	Andrew Wood
Tel Number:	01543 308030
Email:	Andrew.wood@lichfielddc.gov.uk
Key Decision?	**No**
Local Ward Members	**Full Council**

Lichfield district council

Audit and Member Standards Committee

1. Executive Summary

1.1 This report is to undertake the annual self-assessment of Audit & Member Standards Committee effectiveness.

2. Recommendations

2.1 That the Committee considers the attached self-assessment checklist and endorses any actions to improve its effectiveness as appropriate.

3. Background

3.1 CIPFA have published guidance on the function and operation of Audit Committees in local authorities and police bodies and this represents good practice for audit committees. The guidance was updated in 2018 and incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018) (the Position Statement), which sets out CIPFA's views on the role and functions of an Audit Committee.

3.2 The Position Statement emphasises the importance of Audit Committees being in place in all principal local authorities and it also recognises that Audit Committees are a key component of governance. Audit Committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.

3.3 As part of the review it has been identified that are there are potential changes being considered to strengthen the role of the Audit Committee such as;

- Appointment of a suitably qualified independent member to the Audit Committee; and
- Proposals to strengthen audit committee arrangements within councils – consideration is being given as to whether it should be a statutory requirement to have an Audit Committee. There is particular interest in making sure the Audit Committee has an effective position in the overall committee structure, the ability to be heard by full council, the duty to report significant issues, knowledge/expertise/training for members, enhanced input from independent members, and facilities for auditors to meet privately with the Audit Committee or Council. The Accounts and Audit Regulations will be amended so that auditors will present their annual audit findings to full council, accompanied by a report from the Audit Committee with responses to the findings. This would take place at the first meeting of full council after the Audit Committee has considered the findings. Consideration will also be given to how external auditors can best reflect that authorities

are required, by the Accounts and Audit Regulations, to have an effective internal audit to evaluate the effectiveness of risk management, control and governance processes.

3.4 **Appendix 1** provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement. Where an Audit Committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective Audit Committee.

3.5 In advance of the Committee, Committee members were sent a 'knowledge and skills' self- assessment to undertake. The results of these returns have been fed into the assessment at Appendix 1.

Alternative Options	N/A
Consultation	Audit & Member Standards Committee members were circulated a pro forma self-evaluation questionnaire and the responses received incorporated into the Appendix.
Financial Implications	None identified.
Approved by Section 151 Officer	Yes
Legal Implications	There are no specific legal implications.
Approved by Monitoring Officer	Approved
Contribution to the Delivery of the Strategic Plan	An effective Audit & Member Standards Committee supports the delivery of the Council's strategic plan by seeking assurance that the Council's risk management, internal control and governance arrangements are sufficient and operating effectively.
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	None arising.
GDPR/Privacy Impact Assessment	There are no specific implications.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	The Committee does not have the skills and knowledge available to ensure robust challenge and scrutiny of Council performance. Audit Manager	Likelihood: Yellow Impact: Red Severity: Red	Annual review of Audit & Member Standards Committee effectiveness highlighting skills/knowledge gaps.	Likelihood – Green Impact - Yellow Severity of risk - Green (tolerable)

Background documents	Audit & Member Standards Committee routine reports, internal audit reports.

Relevant web links	

Appendix 1

Audit and Member Standards Committee Self-assessment of Compliance with Good Practice

Good Practice Questions	Yes	Partly	No	Comments / Actions
Audit committee purpose and governance				
1 Does the Authority have a dedicated audit committee?	Y			Nine councillors other than the Chairman and the Leader of the Council. Option to co-opt one independent person who is not a Councillor or officer of the Council or any other body having a Standards Committee for Member Standards matters (see also 12).
2 Does the audit committee report directly to Full Council?	Y			Minutes of each Audit & Member Standards Committee are presented to the next full Council meeting for endorsement. There is also a right of access to the Leadership Team. Chair's Annual Report circulated to all Councillors as reported to Council. **questions 6, 8, 19, 23 and 25).**
3 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Y			Comprehensive terms of reference in place which accords with CIPFA guidance.
4 Is the role and purpose of the audit committee understood and accepted across the Authority?	Y			Set out in the Constitution – role and purpose understood by Members, Leadership team and reporting officers. Audit & Member Standards Committee Training was held for all members in September 2019.
5 Does the audit committee provide support to the Authority in meeting the requirements of good governance?	Y			Through coverage of all the areas set out in the terms of reference.

6 Are the arrangements to hold the committee to account for its performance operating satisfactorily?	**Y**			Via minutes submitted to Council. Chair's Annual Report circulated to all Councillors.
Functions of the committee				
7 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				
■ good governance	**Y**			Arrangements for monitoring the effective development and operation of corporate governance is included within the terms of reference.
■ assurance framework, including partnerships and collaboration arrangements	**Y**			The assurance framework forms part of the annual governance statement and annual internal audit opinion and includes consideration of all assurances sourced from external/ independent sources.
■ internal audit	**Y**			Detailed provision in the terms of reference for oversight of internal, external audit and financial reporting (accounts).
■ external audit	**Y**			
■ financial reporting	**Y**			
■ risk management	**Y**			The terms of reference includes the ability to monitor the effectiveness of the Council's risk management arrangements.
■ value for money or best value	**Y**			This is covered explicitly in the terms of reference and through the work completed and assurance provided by external audit. Ensuring value for money also forms an inherent part of the Internal Audit approach.
■ counter fraud and corruption	**Y**			The ability to monitor the effectiveness of the Council's policies and arrangements for anti-fraud and corruption and whistle-blowing are included within the terms of reference.
■ supporting the ethical framework	**Y**			Matters concerning standards and codes of conduct form an inherent part of the Committee's remit and via its sub-committees. Internal audit also provide assurance on areas associated with the ethical framework as part of annual internal audit plans.
8 Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?		**P**		Core areas from the CIPFA guidance considered as part of this assessment. Chair's Annual Report circulated to all Councillors. Annual review of effectiveness adopted, last review February 2020.
9 Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	**Y**			The committee has assumed responsibility for some of these areas, including standards and treasury management.
10 Where coverage of core areas has been found to be limited, are plans in place to address this?	**N/A**			Coverage of core areas is felt to be sufficient.
11 Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	**Y**			The Committee has maintained its oversight / advisory role during the period despite restrictions due to COVID-19 pandemic.
Membership and support				

12 Has an effective audit committee structure and composition of the committee been selected? This should include: ▪ separation from the executive ▪ an appropriate mix of knowledge and skills among the membership ▪ a size of committee that is not unwieldy ▪ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).	Y Y Y Y			See 16.
13 Have independent members appointed to the committee been recruited in an open and transparent way and approved by the Full council or as appropriate for the organisation?	N/A			See 12 above.
14 Does the chair of the committee have appropriate knowledge and skills?	Y			Chair has a background and experience which supports his role on the Committee.
15 Are arrangements in place to support the committee with briefings and training?	Y			Members were asked to complete a knowledge and skills' self- assessment prior to the Committee. Of the 4 returns received, the following was identified as potential areas to focus training: • **Fraud risks** • **Regulatory requirements** • **Governance** • **Treasury Management** **Proposed Action: The Committee is asked to endorse the above areas as a training focus for the next Council year.**
16 Has the membership of the Committee been assessed against the core knowledge and skills framework and found to be satisfactory?		P		See 15 above.
17 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	Y			Good relationships are in place.
18 Is adequate secretariat and administrative support to the committee provided?	Y			Governance and Performance provide support.
19 Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		P		No formal feedback on performance, however, the Committee does get feedback from external audit. Chair's annual report circulated to all Councillors.
20 Are meetings effective with a good level of discussion and engagement from all the members?	Y			Meetings have a good level of discussion, challenge and engagement from members.

21 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	**Y**			Senior managers have attended Audit & Member Standards Committee meetings to present updates for Members and to be challenged on specific areas of interest or concern. This practice will continue as appropriate.
22 Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	**Y**			Agreed actions and recommendations are followed up at subsequent meetings.
23 Has the committee evaluated whether and how it is adding value to the organisation?		**P**		As part of this self-assessment process. Chairs Annual Report to all Councillors.
24 Does the committee have an action plan to improve any areas of weakness?	**Y**			Proposed actions have been detailed as part of this annual self-assessment process.
25 Does the committee publish an annual report to account for its performance and explain its work?		**P**		Minutes of the Committee are provided to full Council. Chair’s Annual Report circulated to all Councillors.

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Grant Thornton

Lichfield District Council
Audit Progress Report and Sector Update

Year ending 31 March 2022

3 February 2022

Contents

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

Introduction

Your key Grant Thornton team members are:

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

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

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

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

Progress at January 2022

Financial Statements Audit

We reported the findings of our work on the audit for the year ended 31 March 2021 in the Audit Findings Report at the September 2021 meeting of the Audit and Members Standard Committee and we gave our opinion on the financial statements on 15 October 2021.

Guidance issued by Central Government (Department for Levelling Up, Housing and Communities) on 16 December 2021 outlined measures to improve local audit delays. Subject to consultation, the deadline for publishing audited local authority accounts will be extended to 30 November 2022 for the current year, and then subsequently 30 September for five years until 31 March 2028. The proposed deadline for preparation of draft accounts will remain at 31 May each year.

We are currently finalising our resourcing plan for the 2021/22 audit and will communicate this to management as soon as possible, with a view to undertaking our planning work in March 2022 and reporting our Audit Plan to members as those charged with governance at the meeting of the Audit and Member Standards Committee on 20 April 2022.

Value for Money

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

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

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

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

We are currently in the process of finalising our report, which we then expect to agree with management in early February 2022. Once completed, the Auditor's Annual Report will be presented to members of the Audit and Member Standards Committee.

Progress at January 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2020/21 claim began in November. DwP has extended the deadline for reporting the findings of this work to 31 January 2022. We will report our findings to the Audit and Member Standards Committee in our progress report in April 2022.

Meetings

We continue to meet with Finance Officers periodically as part of our liaison meetings and hold discussions with finance staff regarding emerging developments, to ensure the audit process is smooth and effective.

Events

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

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

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and communicated this to the Audit and Member Standards Committee previously.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Members Standard Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.	April 2021	Complete
Audit Findings Report The Audit Findings Report will be reported to the September Audit and Member Standards Committee.	September 2021	Complete
Auditors Report This includes the opinion on your financial statements.	September 2021	Complete
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	February 2022	In progress

2020/21 Audit-related Deliverables	Planned Date	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	31 January 2022	Not yet due

Audit Deliverables (cont.)

2021/22 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Members Standard Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.	April 2022	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the Audit and Members Standard Committee.	TBC	Not yet due
Auditors Report This includes the opinion on your financial statements.	TBC	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	TBC	Not yet due

Financial Reporting Council annual report

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

FRC AQR Major Local Audits_October 2021

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

Our file review results

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

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

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

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

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

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

FRC report (cont.)

Our continued commitment to Audit quality and continuous improvement

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

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

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

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

Conclusion

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

Sector Update

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

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

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

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

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

Public Sector

Local government

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

Page 119

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

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

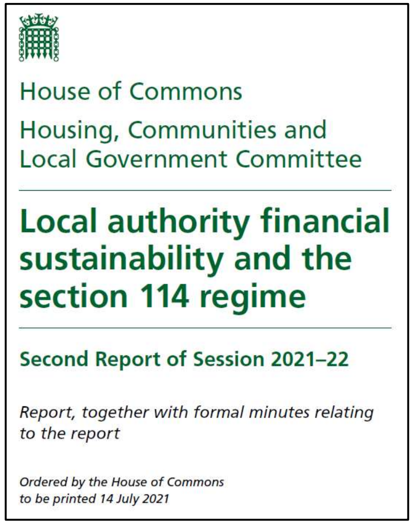
The report includes sections on:

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

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

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

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


House of Commons
Housing, Communities and Local Government Committee

Local authority financial sustainability and the section 114 regime

Second Report of Session 2021–22

Report, together with formal minutes relating to the report

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

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

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

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

Key conclusions were:

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

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

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


House of Commons
Committee of Public Accounts

Local auditor reporting on local government in England

Eleventh Report of Session 2021–22

2020/21 audited accounts – Public Sector Audit Appointments

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

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

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

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

2023-24 audit appointments – Public Sector Audit Appointments

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

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

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

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

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

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

The procurement strategy can be found here:

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

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

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

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

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

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

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

Ministry of Housing, Communities & Local Government

The press release can be found here:

Councils given power to build more homes for first time buyers and for social rent - GOV.UK (www.gov.uk)

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

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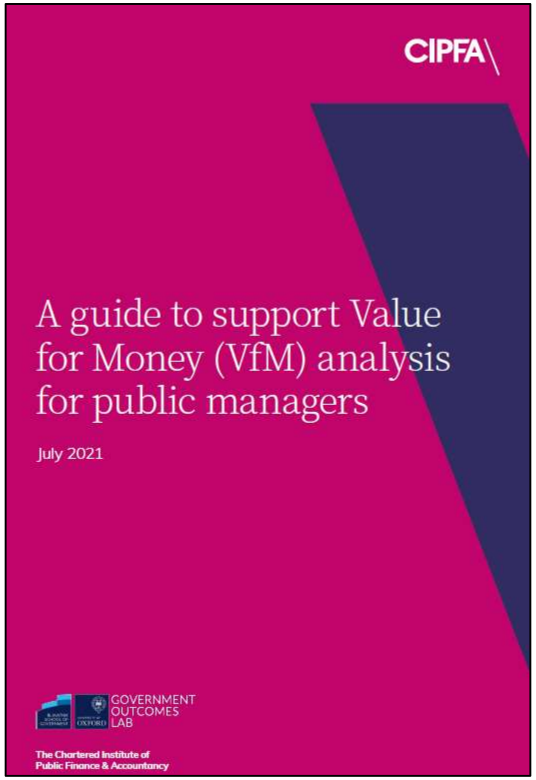
The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

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

CIPFA explain that the guide:

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



The guide is available to CIPFA members through the website.

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

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

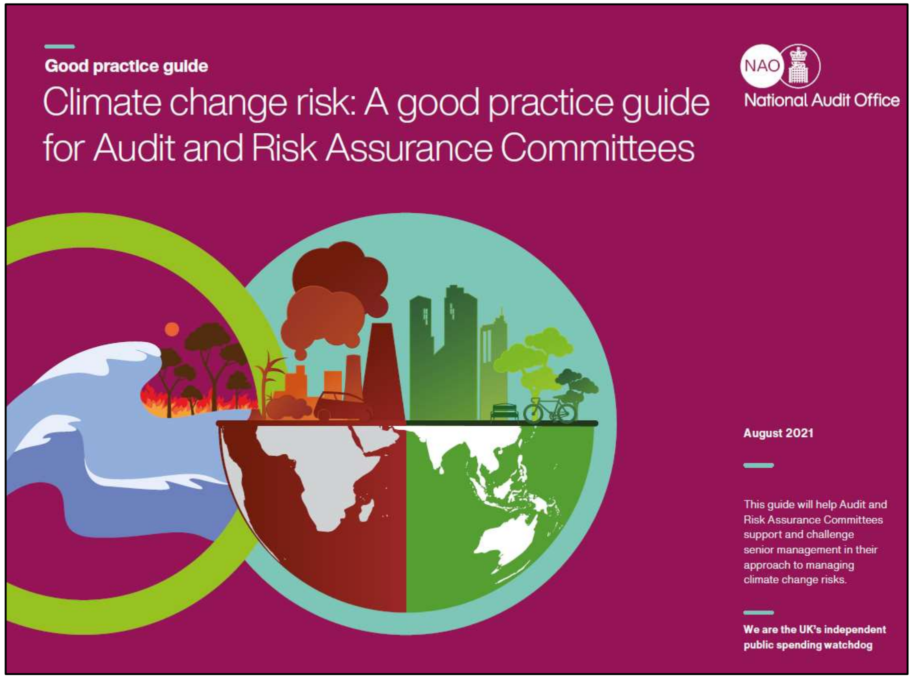
The NAO comment "Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

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

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

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

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



The report can be found here:

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

Local government and net zero in England – NAO

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

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

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

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

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

Key findings include:

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

The report can be found here:

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

Cyber and information security: Good practice guide – NAO

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

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

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

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

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

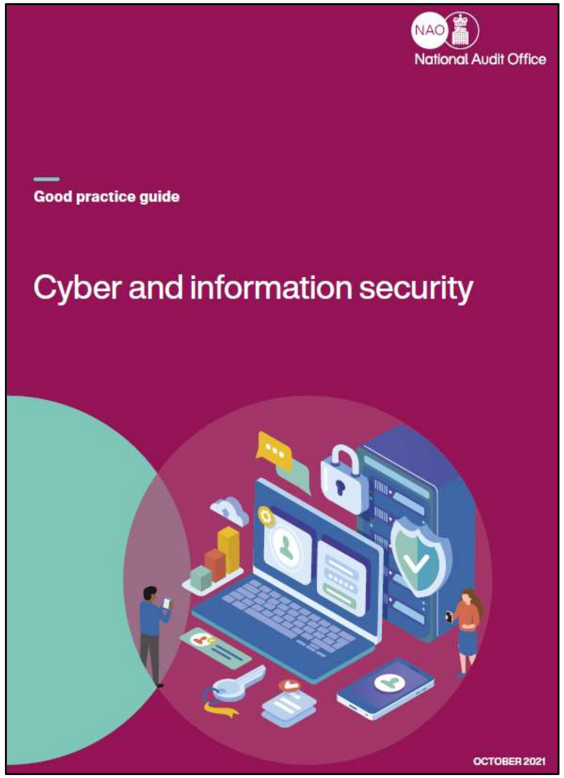
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

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

The report can be found here:

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



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Grant Thornton

grantthornton.co.uk

Agenda Item 9

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2021/22

Item	22 July 2021	22 Sept 2021	11 Nov 2021	3 Feb 2022	20 April 2022	Deferred Reason
FINANCE						
Annual Governance Statement					√	
Annual Treasury Management Report	√					
Mid-Year Treasury Management Report			√			
Accounting Policies and Estimation Uncertainty					√	
Statement of Accounts		√				
Treasury Management Statement and Prudential Indicators				√		
Audit & Member Standards Committee Practical Guidance				√		
CIPFA Financial Management Code						
CIPFA Resilience Index	√					
Local Audit Update			√			
Pension Accounting			√			
Overview of the Council's Constitution in respect of Financial Procedure Rules		√				
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 2022/23					√	

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2021/22

Internal Audit Progress Report	√		√	√	√	
Quality Assurance and Improvement Programme /Public Sector Internal Audit Standards	√					
Risk Management Update	√		√	√	√	
Counter Fraud Update Report including Counter Fraud & Corruption/Whistleblowing/Anti-Money Laundering/ Prevention of Tax Evasion Policies			√			
GOVERNANCE & PERFORMANCE						
Annual report on Exceptions and Exemptions to Procedure Rules 20/21					√*	*To be circulated as a briefing paper
GDPR/Data Protection Policy						
Annual Report of the Monitoring Officer - Complaints					√*	*To be circulated as a briefing paper
The Annual letter for Lichfield District Council from the Local Government Ombudsman					√*	Potentially circulated as a briefing paper
RIPA reports policy and monitoring	√					
Review of the Effectiveness of the Audit & Member Standards Committee					√	
Terms of Reference						
EXTERNAL AUDITOR						
Audit Findings Report for Lichfield District Council 2020/2021		√				
The Annual Audit letter for Lichfield District Council					√	
Audit Plan (including Planned Audit Fee 2021/22)					√	

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2021/22

Informing the Audit Risk Assessment - Lichfield District Council					√	
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2022				√		
Private meeting with the Internal and External Auditors		√				

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