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Nottingham
City Council

Nottingham City Council Audit Committee

Date: Friday, 28 July 2023

Time: 10.30 am

Place: Ground Floor Committee Room - Loxley House, Station Street, Nottingham,
NG2 3NG

Councillors are requested to attend the above meeting to transact the following business

Director for Legal and Governance

Governance Officer: James Lavender

Direct Dial: 0115 8764643

- 1 Apologies**
- 2 Declarations of interests**
- 3 Minutes** 3 - 14
To confirm the minutes of the meeting held on 30 June 2023
- 4 Statement of Accounts Progress Update** 15 - 18
Report of the Corporate Director for Finance and Resources
- 5 Financial Improvement Plan Update** 19 - 52
Report of the Corporate Director for Finance and Resources
- 6 External Audit Update** Verbal Update
Report of the Corporate Director for Finance and Resources
- 7 Treasury Management 2022/23 Annual Report** 53 - 70
Report of the Corporate Director for Finance and Resources
- 8 Annual Investment Strategy 2023/24 Revision** 71 - 84
Report of the Corporate Director for Finance and Resources
- 9 Improvement and Assurance Board Governance Instructions Update** 85 - 90
Report of the Corporate Director for Finance and Resources

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| 10 | Audit Committee Work Programme For noting/discussion | 91 - 98 |
| 11 | Recommendation Tracker For noting/discussion | 99 - 104 |
| 12 | Exclusion of the Public To consider excluding the public from the meeting during consideration of the remaining items in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. | |
| 13 | Exempt Minutes Exempt minutes of the meeting held on 30 June 2023 for consideration | 105 - 108 |
| 14 | Recommendation Tracker - Exempt Items For noting/discussion | 109 - 112 |

If you need any advice on declaring an interest in any item on the agenda, please contact the Governance Officer shown above, if possible before the day of the meeting

Citizens attending meetings are asked to arrive at least 15 minutes before the start of the meeting to be issued with visitor badges

Citizens are advised that this meeting may be recorded by members of the public. Any recording or reporting on this meeting should take place in accordance with the Council's policy on recording and reporting on public meetings, which is available at www.nottinghamcity.gov.uk. Individuals intending to record the meeting are asked to notify the Governance Officer shown above in advance.

Nottingham City Council

Audit Committee

Minutes of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 30 June 2023 from 10.30 am - 1.40 pm

Membership

Present

Councillor Samuel Gardiner (Chair)
Councillor Sulcan Mahmood (Vice Chair)
Councillor AJ Matsiko (Items 1-16)
Councillor Graham Chapman (Items 1-13)
Councillor Michael Edwards
Councillor Andrew Rule (Items 1-16)
Councillor Naim Salim
Councillor Adele Williams

Absent

Colleagues, partners and others in attendance:

| | |
|-----------------------------|--|
| Councillor Steve Battlemuch | - Portfolio Holder for Skills, Growth, Economic Development and Property |
| Ross Brown | - Corporate Director for Finance and Resources |
| Michael Clifford | - EY Ltd |
| Beverley Gouveia | - Development and Disposals Manager |
| Titu Hayre-Bennett | - Head of Transformation |
| Nicki Jenkins | - Director of Economic Development and Property |
| Shabana Kausar | - Director of Finance |
| James Lavender | - Governance Officer |
| Neil McArthur | - Head of Companies and Commercial Oversight |
| Steve Oakley | - Head of Commissioning and Procurement |
| Gareth Sayers | - Development and Change Manager |
| Shail Shah | - Head of Audit and Risk |
| Andrew J Smith | - External Auditor, Grant Thornton |
| Malcolm Townroe | - Director of Legal and Governance |

1 Appointment of Vice Chair

Resolved to appoint Councillor Sulcan Mahmood as the Vice Chair of Audit Committee for the municipal year 2023/24.

2 Apologies

None.

3 Declarations of Interests

None.

4 Minutes

The minutes of the meeting held on 31 March 2023 were confirmed as a correct record and signed by the Chair.

5 Dates of 2023-24 meetings

The Committee agreed to meet at 10:30am on the following Fridays:

- 28 July 2023
- 29 September 2023
- 24 November 2023
- 23 February 2024
- 26 April 2024

6 Financial Controls Assessment

Councillor Audra Wynter, Deputy Leader and Portfolio Holder for Finance, Ross Brown, Corporate Director for Finance and Resources, Annabel Scholes, Interim Director of Finance and Shabana Kausar, Director of Finance, presented the report which outlined the initial findings of a report commissioned by the Council and conducted by EY Ltd into the effectiveness of internal controls within the Council's financial processes and to provide risk management assurances to the Audit Committee and the External Auditor. Additional comments were provided by Michael Clifford, a representative of EY. The following information was highlighted:

- (a) the Control Environment is the set of standards, processes, and structures that provide the basis for carrying out internal controls across an organisation. These internal controls can consist of policies, procedures, and technical safeguards that protect local authority assets by preventing and detecting errors and inappropriate actions. They are essential for the accomplishment of goals and objectives, providing reliable financial reporting and ensuring compliance with applicable laws and regulations;
- (b) all Councils are required by legislation to appoint a s151 Officer, who is a professionally qualified and experienced person who makes arrangements for the proper administration of that Council's financial affairs;
- (a) the Council developed a recovery and improvement plan as part of its response to the 2020 Non-Statutory Review. As part of the Medium-Term Financial Strategy workstream, work was undertaken to gain assurance on financial management. From the work, it became apparent that the Council had breached the ring-fenced requirement for the Housing Revenue Account (HRA), which is unlawful. As a result, the Corporate Director for Finance and Resources commissioned this review;
- (b) EY, who have undertaken this review, have examined six ring-fenced areas that analyse policies, procedures, financial records, data and samples of historic financial transactions for evidence of effective control measures. The six ring-fenced areas examined are as follows:

- Dedicated Schools Grant (all four blocks);
 - Better Care Fund – including Disability Facilities Grants;
 - Licensing income;
 - Parking, Traffic Regulation and bus lane enforcement income;
 - Transforming Cities Grant;
 - Selective Licensing;
- (c) EY's evaluation took place over a three-month period, during which they requested procurement contracts, receipts and bank statements. They also interviewed council colleagues;
- (d) there are a number of very serious concerns identified from the results of the transactional testing for the period 2019 to 2022. EY observed a weak control environment, ineffective systems, associated management information and a culture not focused on compliance;
- (e) further areas of concern include ineffective audit trails, issues across samples such as transaction classification and approvals, limited preventative and detective controls, weaknesses in policy adherence and knowledge, and controls being circumnavigated through management override;
- (f) the challenges within those practices have continued into the 2022/2023 financial year;
- (g) the following conclusions are drawn from the assessment:
- an urgent intervention is required in establishing interim controls to avoid future inappropriate financial activity;
 - ineffective systems and processes led to a culture of non-compliance with financial procedures which needs to be addressed;
 - effective IT systems need to be implemented to strengthen the control environment;
 - improving skills and capabilities amongst officers to support effective financial management will improve the culture of compliance;
 - the process of improvement will be a long-term activity for the Council;
- (h) more needs to be done in terms of the governance and transparency of financial controls and transactions;
- (i) examples of systematic weaknesses include the failure of the system to archive previous records of transactions, hence leaving officers unsupported when they needed to take action;
- (j) there is evidence of insufficient record keeping in the finance journals;
- (k) since the EY work was commissioned, the Council has been issued with two instructions from the Improvement and Assurance Board (IAB) which link to this work. The first instruction is the resolution of all outstanding matters relating to the 2019/20, 2020/21 and 2021/22 audit of accounts. The second instruction is to deliver a Financial Improvement Plan (FIP), covering the key

elements identified by the IAB to provide assurance in respect of finance and accounting;

- (l) in response to the findings, the control weaknesses have been mapped onto the existing FIP and an assessment of capacity to deliver at pace has been completed. A remediation project has been scoped and commissioned to deliver a 12-week focused controls remediation response that will work alongside the Council's FIP resources;
- (m) Phase 1 of the remediation work will ensure the Council has the essential basics. Further investment in systems will be required to provide the most effective control environment, where the system will deliver record actions and the supporting evidence required for each financial transaction;
- (n) the aim of these remediation measures will be to move the Council from an assurance position to a high assurance position with regard to its financial processes;
- (o) the Corporate Director for Finance and Resources will have weekly meetings and reports upon the progress of the FIP and the remediation project;

During the discussion and in response to questions from the Committee, the following points were raised:

- (p) all the transactions which were examined by EY showed that the funds were spent correctly. The work undertaken on the FIP will not impact on the 2024/25 budget planning, but it will have an impact on the outturns for the 2023/24 financial year;
- (q) the Portfolio Holder for Finance has fortnightly briefings on the FIP and is confident that the officers will deliver the remediation measures on time;
- (r) the Council's HR and Procurement Teams are looking at skilling up members of staff and acquiring additional resources to put the Council on a strong footing to address the financial control issues. Additional training sessions will take place to change the culture by emphasising the importance of financial controls;
- (s) risk registers identify the weaknesses in system implementations;
- (t) the Audit Committee can use its remit to request a standing item for future meetings on the progress of the remediation measures within the five areas identified within the report;
- (u) a Cardiff Checks audit is effectively a "cradle to grave" audit of all aspects of procurement and finance by selecting a small number of invoices as a random sample which is then reviewed by members of the Audit Committee. These were stopped around fifteen years ago as they are a resource intensive exercise which yields limited results;

- (x) smaller task and finish groups or panels can be established to regular monitor the FIP and remediation works;
- (y) the Audit Committee can request for a Chartered Institute for Public Finance and Accountancy (CIPFA) assessment on itself to judge its effectiveness in financial audit matters.

Resolved to:

- 1. note the outcomes of the controls review, specifically the findings of the Controls Assessment underpin a conclusion that NCC is operation with a considerably weakened control environment which is not fit for purpose in allowing a Local Authority to enact effective financial stewardship;**
 - 2. note the immediate next steps that the Council has taken to address the findings;**
 - 3. receive future updates on the remediation work through the FIP reporting;**
 - 4. the remediation work becomes a standing item for future meetings;**
 - 5. establish a sub-group that can assist the remediation work;**
 - 6. establish new panels, the remit of which will be established at a future meeting;**
 - 7. undertake a CIPFA Self-Assessment on the Audit Committee.**
- 7 Regular monitoring of previous years' statement of accounts and finance improvement plan**

Shabana Kausar, the Director of Finance, and Andrew Smith, External Auditor at Grant Thornton Ltd, presented an update to the Committee on the progress the previous years' statement of accounts and the FIP. They highlighted the following information:

- (a) eight improvement initiatives have been developed to cover the IAB's recommendations. These include better financial leadership, embedding professional practices, reconciling spending, regular monitoring of financial journals and improvements in business processes;
- (b) a revised version of the FIP has been presented to the IAB;
- (c) the 2019/20 statement of accounts will be ready by mid-August. The final checks are taking place and Grant Thornton are making their additional amendments;
- (d) the 2020/21 statement of accounts are awaiting the professional feedback from Grant Thornton;

- (e) the 2021/22 accounts require further feedback;
- (f) the draft 2022/23 outturn will be presented to the Executive Board on 18 July 2023;
- (g) each audit year has to be reviewed by Grant Thornton in turn. The estimated deadline for all statement of accounts is towards the end of 2024. The Chair of the IAB is aware of this deadline;

During the discussion and in response to questions from the Committee, the following points were raised:

- (h) it usually takes six months to audit the annual accounts of a city council the size of Nottingham. There is limited capacity within the Council to undertake a three-month audit within two months;
- (i) the Council will be able to meet the obligations of providing an audit of annual accounts and it does allow time for Grant Thornton to take an independent audit of those accounts. The 2020/21 financial accounts are 60% complete and the 2021/22 financial accounts will be addressed in September;
- (j) financial journals are now being submitted for authorisation, so those financial controls are now in place;
- (k) additional training and advice will be given to budget managers around financial controls.

Resolved to note the contents of the update.

8 HR and EDI Annual Assurance

Titu Hayre-Bennett, Head of Transformation, and Gareth Sayers, Development and Change Manager, presented the report to update the Committee on the Council's progress in relation to Equality, Diversity and Inclusion (EDI), wellbeing, pay and sickness management. They highlighted the following information.

- (a) the work undertaken by the HR department is tied to the Together for Nottingham Plan and the IAB requirements;
- (b) with the new approach to Individual Performance Reviews into its second year, the number of managers setting objectives for their staff and employees recording them had increased;
- (c) the number of colleagues completing mandatory learning has increased from a low base of 71% in 2019/209 to 96% in 2022/23;
- (d) the Council's Leadership Development Programme has seen 87% of managers complete the Leading and Managing Together programme. Phase 2 of the programme will focus on embedding behavioural change and producing results;

- (e) the new Colleague Workforce Development programme has seen 1,822 colleagues attend workshops, 4,950 complete 21,000 e-learning modules and 83% colleagues completing their Best Value eLearning. As part of phase 2, further modules will include digital skills, managing workplace projects and collaboration/partnership working;
- (f) talent development programmes have been delivered to upskill Council colleagues in business analysis and project management;
- (g) participation from Councillors in the Councillor Development Programme has increased year on year since 2019. A six-week induction for all Councillors following the May 2023 Local Elections has seen fourteen sessions for Councillors delivered over a six-week period;
- (h) in January 2023, the Council passed a motion to consider Care Experience as a protected characteristic. The next step involves implementing the Care Leavers action plan and equality impact assess the Council's objectives and policies to determine the impact of changes on people with care experience;
- (i) the current EDI strategy is being reviewed with consultations and engagement exercises taking place with citizens and key stakeholders. An employee survey took place alongside a benchmarking exercise against other councils, including core city councils;
- (j) a specialist agency, Inclusive Employers, completed an audit of the Council's EDI strategy. The next steps are for the Corporate Leadership Team (CLT) to consider the key findings and recommendations for the new EDI strategy, which is due to launch in Autumn 2023;
- (k) the Council's inclusive initiatives include being a Disability Confident Employer, having achieved 'Leader' Status in 2022, Race at Work Charter; BSL Charter and the Stonewall Equality Index;
- (l) the casework numbers have increased from 170 per year in 2020 to 193 reported in 2022/23;
- (m) during the COVID-19 Pandemic, there was a moratorium on disciplinaries which was agreed by the Council with the trade unions;
- (n) the Disciplinary Policy and associated guidance has been reviewed. Subject to final negotiations with the trade unions, it is anticipated that this will be finalised by the end of July and will be scheduled for approval at Central Panel;
- (o) for the causes of sickness absence, cough, colds and flu was the primary absence in 2022/23. In terms of Full-Time Equivalent (FTE) days lost, the higher number of days of absence was due to stress, depression and mental health;

- (p) mental health and wellbeing resources are being provided to the Council's occupational health service, as well as specialist advice on complex cases, such as trauma;
- (q) proposals for revision to the Council's Pay Policy and funding provisions, as approved by the Appointments and Conditions of Service (ACOS) Committee and Executive Board, are currently subject to consultation and negotiation with the Council's recognised trade unions, with a view to securing a collective agreement;

During the discussion and in response to questions from the Committee, the following points were raised:

- (r) the EDI Audit Report can be shared with the rest of the Committee;
- (s) the revised pay grades are factored into the Council's current budget for 2023/24;
- (t) the Council is aiming to build support for Carers into the EDI Strategy, but more needs to be done to recruit staff from a variety of different social backgrounds;
- (u) departments can use needs assessments to identify skills required for roles within their own departments.

Resolved to:

- 1. take assurance in the HR activity as outlined within the report;**
- 2. circulate the EDI Strategy Audit Report by Inclusive Employers Limited amongst the Audit Committee.**

9 Together for Nottingham Theme 2 - Asset Management

Councillor Steve Battlemuch, the Portfolio Holder for Skills, Growth, Economic Development and Property, Nicki Jenkins, Director of Economic Development and Property, and Beverley Gouveia, Development and Disposals Manager, presented a report setting out the progress made on implementing Theme Two of the Together for Nottingham plan, which was the associated asset rationalisation programme. They highlighted the following information:

- (a) the Council owns over 3600 property assets, with an asset value of over £1bn. These are split over the General Fund, the Housing Revenue Account (HRA) and the Bridge Estate. These properties can be categorised as operational, commercial, investment, and community;
- (b) the Asset Rationalisation Programme aims to generate sufficient capital receipts by selling Council-owned property assets to meet the current commitments within the capital programme and reduce levels of borrowing, therefore the Council needs to:

- accelerate the sale of those properties currently declared surplus and on the programme;
 - increase the number of assets for disposal onto the programme; and
 - provide assurance on the way in which assets are sold;
- (c) the first two years of the plan achieved a level of capital higher than forecast, however the economic shocks experienced in the autumn of 2022 and a delay in the sale of two high-value assets saw a reduction in the forecast mid-year;
- (d) within the eleven actions of the Assessment Management Plan, eight actions are complete and three are still in progress. Overall the plan is still rated as 'amber' on the Theme 2 - Asset Management Risk Register (see Appendix 2 of the report) due to the need to develop a forecast for the duration of the Council's Medium-Term Financial Plan (MFTP);
- (e) the Council has received £56m in Capital Receipts to date from asset disposal;
- (f) the future years forecast gives a current total pipeline value of £28m, which when risk adjusted comes to £13m;
- (g) the three methods of asset disposal are either selling the properties at auction, on the market, or through special purchase;
- (h) the Theme 2 - Asset Management Risk Register and forecasts are monitored and adjusted where necessary on a monthly basis;
- (i) a review of high value and operational assets has begun to identify additional properties to expand the pipeline over time;
- (j) the Corporate Landlord Transformation Programme brings together the management of all property land and assets into one centralised function, except schools, HRA residential properties, car parks, and markets. The second phase of the programme requires the confirmation of wider assets within services to transfer into the Corporate Landlord function;
- (k) the Portfolio Holder for Skills, Growth, Economic Development and Property is awaiting a handover from the Leader of the Council regarding the Corporate Landlord arrangements and will take over the Asset Rationalisation Board;
- (l) income generation from asset disposal is key to funding the Council and its programme delivery;

During the discussion and in response to questions from the Committee, the following points were raised.

- (m) a review into the methodology of how assets are valued will take place to ensure the Council gets the best value for the disposal of assets. There have been examples of where properties have not been disposed of due to the expected value being below what the Council expected;

- (n) the Council will learn from the experiences of other local authorities which have suffered financial difficulties, but have not generated sufficient income from asset disposal to help pay off those debts;
- (o) there needs to be a distinction between the Council's Net Debt and the Gross Debt when making decisions around asset disposal.

Resolved to take assurance in the governance and control measures in place to manage the risks identified within the programme.

10 Together for Nottingham Theme 3 - Companies Update

Neil McArthur, Head of Companies and Commercial Oversight, presented the report which updated the Committee on the work undertaken in implementing the IAB instructions relating to Theme 3 – Companies' Governance of the Together for Nottingham Plan. He highlighted the following information:

- (a) the Companies Governance Handbook Strategic Review will take place in the second of the year with the aim of completing the review by 31 March 2024;
- (b) out of the forty-two requirements across the six council-owned companies, only four requirements are outstanding;
- (c) the policy and process for board appointments has been agreed by the Executive and is being implemented. Councillor board members and the Chairs of each board have been informed of the new arrangements;
- (d) a recruitment process is underway and aims to report to the July meeting of the Companies Governance Executive Committee (CGEC) with recommendations for appointments to the boards;
- (e) a review is taking place into all subsidiary/non-subsiary companies and other commercial ventures which the Council has representation at board level as a trustee or grants funding to. Each of the forty entities fit into one of the following five definitions:
 - where the Council has a controlling interest;
 - where the Council may not have ownerships or minority ownership, but does appoint representatives;
 - where the Council has no ownership or representatives, but does have strong associations, for example, they provide grants;
 - where the Council is engaging with liquidators;
 - Dormant non-trading entities which the Council owns to be closed and removed from the register;
- (f) the criteria of the review of the Shareholder Unit is set out in the Companies Governance Handbook. The evaluation of the unit may wish to recommend the recruitment of permanent members of staff to stabilise the work of the team. The review aims to be completed by 30 September 2023;

- (g) a review into the Council Companies' business and financial reporting will take place with the aim of completing the review by the end of March 2024.

Resolved to note the contents of the report.

11 Exemption from Contract Procedure Rules quarter four 2022/23

Steve Oakley, Head of Contracting and Procurement, presented the report detailing the exemptions from Contract Procedure Rules that had been approved during quarter four of 2022/23, and the actions being taken to ensure that exemptions only occur when there is a sound rationale for doing so. He highlighted the following information:

- (a) since the original audit of Procurement Dispensations in 2021, there is now an average of 5.1% exemptions from contract procedure rules per quarter;
- (b) the highest amount awarded in quarter four through exemption from contract procedure rules is to the Lovell Partnerships which is taking part in the Eastgate Phase 1 and 2 housing developments. This is the result of the previous construction company going into insolvency;
- (c) the Commercial Oversight Board has been established for officer scrutiny of all commercial activity, procurement, commissioning and contract management. Exemptions were discussed at the Board in May 2023;
- (d) the New Commercial, Procurement and Contract Management handbook is available on the Intranet. Contract Management Training has been developed and is live on the Learning Zone;

During the discussion and in response to questions from the Committee, the following points were raised:

- (e) all Councils have exemptions from contract procedure rules. There will always be some requests for exemption from Contract Procedure Rules as not all contracts can be let through a formal tendering or quotation process for various reasons, for example, where there is only one supplier for technical reasons, such as Microsoft being used for IT purposes;
- (f) the Commercial Oversight Board is chaired by the Corporate Director for Finance and Resources;
- (g) when boiler servicing was taken over by the Council after the close of Robin Hood Energy, the services were absorbed within the Council's contractual procedures;
- (h) changes to audit reporting will mean that this item may be an annual report to the Committee in future.

Resolved to note the number of exemptions from Contract Procedure Rules during quarter four of 2022/23 and the actions being taken to ensure that

contacts were awarded in line with Contract Procedure Rules, and exemptions only occurred where there was a sound rationale for approving that exemption.

12 Audit Committee Annual Work Programme

Shail Shah, Head of Audit and Risk, presented the Annual Work Programme to the Committee. He informed the Committee that it was subject to change across the municipal year.

The Committee noted the Annual Work Programme.

13 Recommendation Tracker

The Committee noted the Recommendation Tracker.

(At 12:54pm, the Committee agreed to a five minute comfort break. The meeting started again at 13:02pm).

14 Exclusion of the Public

The Committee decided to exclude the public from the meeting during consideration of the remaining agenda items in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information as defined in paragraphs 1, 3 and 5 of Part 1 of Schedule 12A of the Act.

15 Exempt minutes

The exempt minutes of the meeting held on 31 March 2023 were confirmed as a correct record and signed by the Chair.

16 Financial Controls Assessment - Exempt Appendices

The information contained within the exempt appendix was discussed, details of which are set out in the exempt minutes.

17 Recommendation Tracker - Exempt Items

The Committee noted the exempt items on the Recommendation Tracker.

Audit Committee – 28 July 2028

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| Title of paper: | Statement of Accounts Progress Update | |
| Director(s)/ Corporate Director(s): | Ross Brown, Corporate Director of Finance and Resources and Section 151 Officer Shabana Kausar, Director of Finance and Deputy S151 Officer | Wards affected: All |
| Report author(s) and contact details: | Jean Stevenson, Interim Finance Team Leader – Technical Finance | |
| Other colleagues who have provided input: | | |
| Does this report contain any information that is exempt from publication? No | | |
| Recommendation(s): | | |
| 1. | To note the current position with the Statement of Accounts for the years 2019/20 through to 2022/23 | |

1. Reasons for recommendations

- 1.1 As the Audit Committee is responsible for approving the audited accounts, this report looks to provide a formal update on the progress the Council is making with its statement of accounts relating to 2019/20 to 2022/23.

2. Background (including outcomes of consultation)

- 2.1 As previously reported to the Committee in verbal updates at recent meetings and formally in writing at the meeting on 30 July 2021, the Council experienced delays with the audit of its 2019-20 accounts due to issues with property valuations for specialist assets and with subsidiary company figures required for group accounts. It currently has three sets of accounts that should have already been published with audit opinions. The Improvement and Assurance Board has issued a directive that the outstanding issues with these accounts should be resolved by 30 September 2023.
- 2.2 The Council's 2018/19 Statement of Accounts were approved by the Audit Committee on 26 March 2021 for which Grant Thornton issued their audit opinion on the same day enabling the accounts to be formally published. These accounts were due to be published by 30 September 2019 but were delayed due to a conclusion being reached with regards to the value for money reported at the same meeting.
- 2.3 Grant Thornton originally commenced audit work on 2019/20's accounts in 2020 after work on the 2018/19 Statements concluded, but they decided to withdraw in early 2021 to allow the council to amend the draft for a number of emerging issues including the need to obtain valuations for specialist assets and to finalise figures for a former subsidiary company which was in administration.
- 2.4 The current position with 2019/20 and each of the subsequent years is as follows:

| Financial Year | Original audited accounts publication date <i>(per Accounts & Audit Regulations)</i> | Current position | Progress of production of draft accounts <i>(as at 30 June 2023)</i> |
|----------------|---|--|---|
| 2019/20 | 30 November 2020 | Draft published 28 August 2020 <i>Public inspection completed</i> | 100% |
| 2020/21 | 30 November 2021 | Unsigned draft published 30 July 2021 <i>Public inspection not yet opened</i> | 60% |
| 2021/22 | 30 September 2022 | No draft yet produced <i>(was due 30 July 2022)</i> | 5% |
| 2022/23 | 30 September 2023 | No draft yet produced <i>(was due 31 May 2023)</i> | 0% |

3. Other options considered in making recommendations

3.1 None as the publication of audited accounts is a statutory requirement.

4. Progress

4.1 The council have recruited additional temporary staffing resources to support the Technical Finance team with the production of accounts, with the additional team members joining through June 2023. Revisions, which are still subject to audit, have now been made to the 2019-20 accounts to incorporate the revised valuation information for specialist assets, to amend group accounts, to adjust for issues with the Housing Revenue Account and to address other issues identified during the audit.

4.2 Finance officers have been working with Grant Thornton to progress matters since the audit recommenced in July 2022 and the current position is as follows:

| Year | Ledger | Draft Accounts | Audit Queries |
|---------|---|---|---|
| 2019/20 | All required entries input by 30 June 2023 | Revised draft accounts submitted to Grant Thornton on 5 July 2023 incorporating all identified changes required | All requests received to date have been responded to by the Council |
| 2020/21 | Ledger entries being updated to complete by end of July 2023 | Revised draft accounts in production and expected to be completed by mid-August 2023 | Audit not yet commenced |
| 2021/22 | Ledger entries to be made by end of August 2023 | Draft accounts are expected to be ready by 30 September 2023 | Audit not yet commenced |
| 2022/23 | Initial close of ledger complete, accounting entries to be processed in Autumn 2023 | Draft accounts are expected to be ready by mid-December 2023 | Audit not yet commenced |

4.3 Periods of public inspection are a legal requirement. The accounting records have to be open to members of the public for a period of 30 working days under the Accounts and Audit Regulations. This period will need to be observed for all outstanding years except for 2019-20 which was open from 1 September 2020 to 12 October 2020 inclusive.

5. Finance colleague comments (including implications and value for money/VAT)

5.1 The scale fees paid to the External Auditor are set by Public Sector Audit Appointments and are as follows:

| | £ |
|---------|----------|
| 2019-20 | 132,531 |
| 2020-21 | 132,531 |
| 2021-22 | 141,531 |
| 2022-23 | 141,531 |

5.2 In addition, Grant Thornton indicated in their Audit Plan for 2019-20 brought before the Audit Committee at their meeting on 28 February 2020 that there would be additional fees of £27,350 to be paid. Recent discussions between the Council, Public Sector Audit Appointments and Grant Thornton have resulted in the additional fees being increased to £92,350 to reflect the issues encountered through the audit.

6. List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

6.1 None.

7. Published documents referred to in this report

7.1 None.

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Audit Committee – 28 July 2023

| | | |
|--|---|-------------------------------|
| Title of paper: | Finance Improvement Plan Update | |
| Corporate Director(s) / Director(s): | Ross Brown – Corporate Director of Finance and Resources (S151 Officer) | Wards affected: All |
| Author: | Shabana Kausar - Director of Finance and Deputy S151 Officer | |
| Other Colleagues who have provided input: | <ul style="list-style-type: none"> • Finance Team • Transformation Team | |
| Does this report contain any information that is exempt from publication? | | |
| | | |
| Recommendation(s): | | |
| 1. | To note the progress to date on the Finance Improvement Plan and remediation controls project | |

1. Reasons for recommendations

- 1.1 The purpose of this report is to provide the Audit Committee with an update on the Council’s Finance Improvement Plan (FIP) activity undertaken to end of June 2023 and its plans over the next 3 months (July to September) as the Council seeks to improve the financial landscape and move the overall Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management assessment to a position of significant assurance.
- 1.2 The report incorporates an extract of the Financial Improvement Plan demonstrating some of the activities planned for completion by the end of July 2023.
- 1.3 The report also provides an update to the committee on the progress of the control’s remediation project undertaken as the Council’s response to the financial controls assessment finding reports to the Audit Committee in June 2023.

2. Background

- 2.1 The original Financial Improvement Plan (FIP) was presented to the Improvement Assurance Board (IAB) in January 2023, setting out a high-level plan established under 8 improvement themes:
 - 1) Strengthening financial leadership.
 - 2) Improving the approach to managing and governing the capital programme.
 - 3) Enhancing financial systems to meet user needs.
 - 4) A well designed and robust system of internal financial control.
 - 5) Embedding professional accounting practice.
 - 6) Capacity building and training.
 - 7) Enhancing financial strategies.
 - 8) Understanding and effectively managing its finances (social care).

- 2.2 The FIP was mapped to the CIPFA Financial Management Code to establish how the financial control environment develops through the life of the FIP, with the outcomes from the FIP deliverables providing the professional standards expected of a council. This revised approach was presented to the IAB on 31 May 2023 reflecting the period under review and a prospective period to the end of July 2023.
- 2.3 It should be noted that the FIP is both dynamic and a comprehensive document that continues to reflect actions to address emerging risks and issues identified i.e., establishment control, spending controls and financial control assessment review and controls remediation.
- 2.4 Improvements to the Council's financial governance, financial management and control and reporting framework are at the heart of the Council's finance improvement agenda and are a high corporate priority for the Council. The organisation is starting from a very low base albeit it is starting to make demonstrable improvements that will have a positive and lasting impact on improving control and stewardship of its finances. However, it continues to face a number of fundamental challenges as it seeks to achieve wholesale improvement within a reasonable but ambitious timeframe. Given that financial management underpins the delivery of all services and enabling functions, the organisation is mindful of the fact that in establishing strong and robust financial management arrangements will require cross-cutting and deep-rooted cultural changes for all service areas.

3. Finance Improvement Plan (FIP) Overview

- 3.1 Over the period to the end of July 2023, work continues to be prioritised on improving the internal control environment, a theme that runs through all the above objectives. Any opportunity to implement improvements where possible in live business processes, whilst planning future improvements for implementation at the earliest opportunity, subject to available resources and system functionality and development constraints is also being taken.
- 3.2 All work activities are captured in detail within the FIP.
- 3.3 Appendix 1 provides an insight into the specific improvements delivered to date across the 8 improvement themes, whilst Appendix 2 provides key activities planned to be undertaken over the next 3 months to end of September 2023.
- 3.4 Work is continuing to be an ongoing and staged developments aimed at furthering the key financial controls improvements in relation to:
- a) Finalising the statutory accounts for 2019/20 – 2021/22 (paragraph 3.8)
 - b) Controlling and managing Journal activity and authorisations (paragraph 3.9)
 - c) Internal recharges and reallocations of spend (paragraph 3.10)
 - d) Grant management (paragraph 3.11)

- e) Continued development and roll out of Power BI dashboards (paragraph 3.12)
- f) Adult Social Care Financial Management (paragraph 3.13)
- g) Integrating transformation programme monitoring into business as usual (paragraph 3.14)
- h) Establishment Control (paragraph 3.15)

3.5 Below is an update to each of the key improvement areas noted above, illustrating how the earlier actions taken to date are being embedded and/or further developed across finance and into the wider organisation, where needed and the significant and positive change this is bringing about in how the Council is effectively managing its finances.

3.6 Interim finance project resource has now been appointed to programme manage the FIP

3.7 Finalising the statutory accounts for 2019/20 – 2021/22

3.7.1 The Council now has its draft 2019/20 Statutory Accounts ready for external audit certification and will have draft set of accounts for 2020/21 and 2021/22 ready for audit by September in line with the IAB instructions. A separate report on the progress is being presented to Audit Committee as this paper.

3.7.2 Steady, continuous progress is being made with all outstanding external audit issues and queries received from Grant Thornton in relation to 2019/20 statutory accounts have now been provided. This work was concluded late June, with the finance team focusing on 2020/21 statement of accounts. In line with expectations, the plan is to prepare a corrected 2020/21 draft Statement of Accounts, ready for audit when Grant Thornton commence work on that year. This will help facilitate resolving all known account issues before the end of September.

| Audit Year | Target Completion Date | Draft Accounts Status as at 30 June 2023 ¹ | RAG Rating |
|------------|------------------------|---|------------|
| 2019/20 | 30/06/2023 | 100% | Green |
| 2020/21 | 31/07/2023 | 60% | Green |
| 2021/22 | 30/09/2023 | 5% | Green |

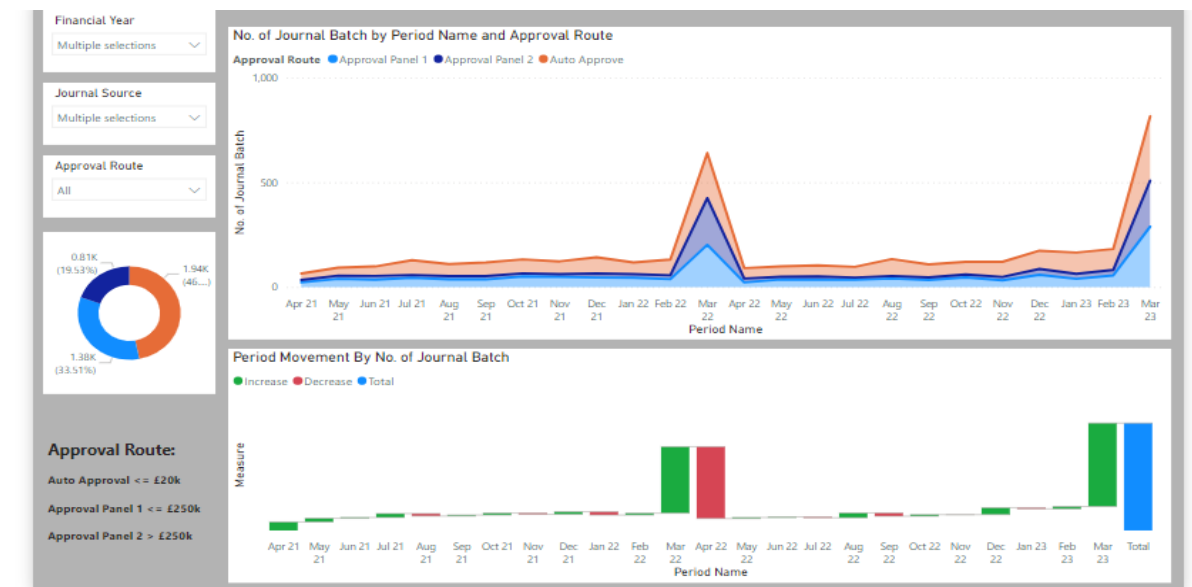
¹ including adjustments for all known outstanding matters

3.7.3 Additional team members have joined the accounts technical team during June to give additional capacity and enable progress to continue with later years whilst the team also respond to ‘live’ audit queries.

3.8 Journal Management

3.8.1 A robust internal control and reporting framework has been designed and implemented for managing journals that fundamentally and fully addresses the legacy control issues identified and enables management to have a clear oversight into ongoing journal activity.

- 3.8.2 East Midlands Shared Service (EMSS) and Mastek (the Oracle Managed Service Provider) are currently testing the required system changes to the Council’s journal authorisation rules, which will be introducing an in-system authorisation workflow for all journals with control totals in excess of £20,000. Currently all journals submitted by non-finance staff are being authorised within the Firmstep system by Finance staff before being uploaded to Oracle Fusion.
- 3.8.3 To support the new workflow/authorisation process, a business intelligence dashboard has been built to provide management insight and analysis on journal activity and thresholds. Additional functionality has enabled finance to ‘spotlight’ any issues regarding the recurrent and significant need for payroll correction journals. The dashboard has confirmed finance officer intelligence that there are payroll costing issues that need addressing. Work is on-going with HR and EMSS colleagues to identify the root-cause analysis so that demand failure activities can be mitigated freeing up significant finite staff resourcing time, for example, in 2022/23 over 22,000 payroll correction journal lines were raised by finance staff, totalling £13.4m.



3.9 Internal Recharges

- 3.9.1 A fundamental, deep-dive aligned to a pausing of all recharging activity has facilitated the design and development of a new, holistic control framework for managing, accounting for and reporting recharges.
- 3.9.2 Good progress has been made to date with this project, with all transactions for 2022/23 reviewed to understand the context of the recharge activity and following implemented:
- Recharges to the HRA in 2022/23 have been fully reviewed and sufficient evidence-based assurance has been provided to the Corporate Director of Finance and Resources enabling the recharges to be signed off.

- Some cost reallocation processes have been reviewed and changed (e.g., agency staff).

3.9.3 Following an initial data capture, additional recharges have been identified through the detailed tests, leading to widening of the original scope and expanding the implementation deadline of end of July. A flowchart and master list for future control of recharges is in development, and implementation during August is still on track.

3.9.4 A defined subset of the recharges improvement project, is a review of the process for capitalisation of staffing and other indirect costs to projects. This review has also considered the accounting arrangements to ensure alignment with extant accounting standards. Set out below are the findings of this review, reported to the Director of Finance:

- The process for raising, managing and controlling recharges needs to be strengthened to ensure there is a more standardised approach that is systems-based e.g., using Oracle Fusion Projects Time and Labour (OTL) Module. The Oracle Projects Module Review has recommended OTL should be used for all capitalisation. To support this recommendation, new templates are being designed to aid compliance.
- Discontinued use of Recharge Project, which bypasses cost centre managers' processes, removal of non-active projects to reduce the number of project codes and to explore the customisation of Oracle Projects Module and PBCS to stop offline budget monitoring and enable reporting within the system (see Appendix 1 – FIP theme 2).
- 2022/23 capital recharge transactions, primarily relating to highways spend were reviewed and assessed against professional capital accounting standards leading to corrective action being undertaken and processed for the reported 2022/23 provisional outturn. Further work is underway to review impact on previous accounting years with this to be concluded at the sametime as the production of draft accounts as set out above. In parallel, work is also planned on assessing the impact of these changes in the current year with the respective service areas.

3.10 **Grants Management**

3.10.1 There is now a corporate control, accounting and recording framework for grants into the Council that is embedded through finance into each directorate.

3.10.2 A lead officer has been identified from each of the Finance Business Partnering team who has worked with Technical Finance team to finalise the grants register for 2022/23 and update the register for 2023/24. This group of officers is meeting regularly to discuss issues identified and share best practice, with a view to continue to meet quarterly as the work transfers to a business-as-usual phase. In addition, guidance notes for budget managers are being circulated and the provisional guidance issued to the finance team in December 2022 is being updated.

3.11 Development of Power BI dashboards

3.11.1 The Power BI dashboards are being developed to enable council's leadership and senior managers to have the financial information tools to allow oversight and insight into resource allocation decisions and the effectiveness and efficiency of financial processes and controls

3.11.2 The ongoing development and build of Power BI Dashboards is progressing with the 1 FTE aligned to this element of the FIP.

3.11.3 A series of dashboards have been developed by the Finance team, two of which have been rolled out and are listed below:

- Budget Manager - updated based on the PWC version used in 2022/23
- Spending Controls - to provide insight into spending activities and profiles across specified subjective codes designated as non-essential spend

3.11.4 A detailed plan for rolling out the following dashboards including the provision of training and user guides is currently being formulated.

- Revenue Budget and Reserves
- Accounts Payable / Procurement including purchase card activity
- Accounts Receivable providing a single view of customer debt
- Journal activity and control providing an analysis of activity, compliance and demand failure
- Revenue Budget cost centre and subjective variance analysis across financial years

3.11.5 These dashboards are starting to attract interest from other local authorities, including Leicestershire County Council who also have similar but unsatisfied information needs. The EMSS stakeholders in June formed a new Fusion Owners Group who will look to champion information reporting as a workstream aligned to the new ERP Analytics functionality.

3.11.6 There is now an opportunity to supplement and enhance the dashboards through the provision of an ERP Analytics module within Fusion Financials which is part of the Oracle re-licensing contract, which the EMSS partnership will consider through the newly formed Fusion Owners Group. The module is particularly focused on identifying process bottlenecks and "pinch points" aimed at system owners/managers to put in place corrective control and efficiency actions.

3.12 Understanding and Effectively Financial Management - Adult Social Care

3.12.1 A number of reports identifying weaknesses in Adult Social Care (ASC) commitment recording and budget monitoring processes have previously been presented to Corporate Leadership Team (CLT) along with an action

plan to address the issues highlighted. Actions relating to improvement of ASC financial management formed part of the FIP.

3.12.2 The ASC Finance Business Partnering team have led on and implemented the following activities making a significant progress against FIP as summarised below with further details set out in in Appendix 1 (theme 8):

- Base budget review and 2023/24 budget realignment based on activity supporting transparent budgets that reflect the latest activity.
- Oracle coding structure/management reporting hierarchy revised and implemented to support more granular level reporting.
- Revised financial reporting and monitoring processes (linked to the above change), to allow transparent coding in Oracle and removing the need to hold detail workarounds off system commitment statement/spreadsheet, supporting the single version of the truth principle.
- 4 year reconciliation of ASC care system (ContrOCC) to Oracle completed (care package commitments vs actual values paid). Approach agreed with Grant Thornton and prior year accrual adjustments made where required.

3.12.3 Due to a significant movement in the reported budget variance between 2022/23 provisional outturn and previously reported in-year forecast, a subsequent report was presented to CLT, agreeing to establish an Oversight Board to monitor delivery of the ASC improvement plan. The board is jointly overseen by the Corporate Director of Finance and Resources (S151 Officer) and the Corporate Director for People.

3.12.4 As agreed with the Oversight Board the service held series of workshops to map current data and process issues linked to ContrOCC and interfaces with Oracle and identify key actions to be progressed. The first joint workshop was held in early June represented by colleagues from Finance, ASC service and wider support service colleagues (Commissioning, Analysis and Insight, Transformation etc) with additional service specific workshops held thereafter. The outcome of these workshops was reported to CLT in early July, alongside an ASC improvement plan, currently being reviewed to ensure alignment with the FIP.

3.12.5 Additional resource is being identified to support the delivery of the ASC improvement plan activities. The FIP activities with regards to this area are dependent on the successful and timely delivery of the ASC improvement plan, led and owned by the service.

3.13 **Integrating Transformation Programme Financial Management into Business as Usual**

3.13.1 Integrating transformation programme finances into mainstream financial control and reporting processes has already enabled the Council to have an enhanced grip on the programme and its implications for the Medium-Term Financial Plan (MTFP). Furthermore, a newly established Transformation Oversight Board will meet regularly to be updated on transformation

progress and ensure that the programme delivers on its objectives and outcomes. The first Board is expected to meet summer 2023.

- 3.13.2 The transformation programme is now in its second year of delivery with MTFP gross savings to be delivered in 2023/24 of £15.671m in addition to the 2022/23 gross savings of £1.765m. Each programme is in various stages of programme management from overview business case development for some of the new savings through to implementation, delivery, and handover to business as usual. The FIP identified actions to ensure that the finance team works effectively with the transformation programme to integrate the financial management and control required to provide senior leadership with a timely insight into the critical financials, both investment and savings being delivered.
- 3.13.3 Since early May, there has been a productive transition and handover from the previous incumbent to fully understand the transformation programme for investment and savings to ensure continuity for financial support, advice, and control. A key part of integrating the financial management and control has been the provision and agreement of a finance transformation “strawman” which is now to be implemented has been agreed and currently being implemented. Appendix 3 provides an overview of the strawman financial assurance activity. Existing governance and decisions as well as all investment to support ongoing management including allocation of funds have now been consolidated into one master reference document.
- 3.13.4 Meetings with the finance team strategic finance business partners and programme leads are in place for financial reporting and forecasting including risk and issue management and resolution. Work is continues developing benefit realisation methodologies to ensure that each programme delivers their savings and other outcomes, including any that are currently at risk of under delivery. The finance transformation lead also attends the relevant programme boards currently established to provide check and challenge through a critical friend model and to support and act as the liaison back to the Finance Business Partnering team.
- 3.13.5 A clear central record of targeted savings, linked to the annual budget and medium-term financial plan is in place and will be used to track savings (to be updated in the corporate savings tracker) and support the next budget setting / MTFP process which is already underway.

3.14 **Establishment Control**

- 3.14.1 The Management of staffing establishments is a fundamental management control for the Council. Having robust mechanisms that facilitate the provision of effective and accurate establishment data for reporting at a statutory and organisational level is of paramount importance. Findings of initial review undertaken by PWC LLP over 6 month to end of last financial year found the need for establishing a single version of the truth through establishment of robust control framework.

3.14.2 Following agreement with CLT an Establishment Control project has been established led by the Director of HR and EDI. The project is a key activity in supporting delivery of the HR improvement Plan and aligns to the FIP. There are 4 mutually exclusive workstreams to this project:

- 1) Rollout a baseline reconciliation of Fusion HCM across all directorates.
- 2) Implement the data HR hierarchy to provide a single view of the establishment.
- 3) Implement a monthly process for payroll control and sign off.
- 4) Develop and roll out an establishment control dashboard for budget holders to review and sign off.

3.14.3 The main priority focus is Workstream 1, which follows on from the pilot work done in Community, Environment and Resident Services directorate (in February 2023) to reconcile headcount and to provide a single version of truth in Fusion HCM, the standing HR and payroll record of the Council. PWC LLP have been commissioned for a 12-week period to provide an assessment of the design and operation of the internal controls for managing the establishment across all directorates. A revised Project Plan and Playbook have been made available and agreed with both HR/Finance colleagues. Weekly Stand-Up meetings have been diarised with all key stakeholders, including Transformation to ensure alignment of outcomes with monthly formal reporting into CLT. The 12-week plan is now supported by two resources from the Change Academy and is currently on track to be completed by end of September 2023.

3.14.4 Alongside this workstream the finance team have undertaken the following activities that contribute to improving financial management and controls:

- a) Actively reviewing the financial reporting hierarchy in Fusion to ensure alignment with the organisational management hierarchy. Mapping work is underway and expected to be completed in July.
- b) Payroll control environment review managed by EMSS
 - Requirement of corporate template for providing the S151 officer with the necessary assurances for releasing the payroll for BACS transmission.
 - A proposal for strengthening the control environment for managing, reviewing and reporting future payroll control account reconciliations aligned to the finance service redesign.

4. Financial Oversight and Governance

4.1 Financial Resilience and Sustainability

4.1.1 There is a continued imperative to ensure the council maintains a credible medium term financial strategy that addresses IAB instructions with regard to demonstrating Best Value. Consequently, the successful development and delivery of the forthcoming MTFP process is critical. To this end the Director of Finance working with the Corporate Director of Finance and Resources

and in consultation with CLT have formulated and presented 2024/25 Budget Strategy approach & MTFP to the Executive Board in July 2023.

4.1.2 As part of the FIP it has been important to reconsider the capacity for both finance and budget holders in preparing the in-year financial monitoring reports. In line with the recently agreed timetable the first bi-monthly forecasting report has been presented to the Executive Board in June 2023.

4.2 **CLT Oversight and Governance**

4.2.1 Alongside the specific areas of improvement in the control environment domain, CLT continues to seek routine oversight on key control and financial process and timetables. Papers received and actioned upon advice of the Councils S151 Officer include:

- Establishment control (see paragraph 3.14)
- Financial controls remediation (see section 5)
- 2023/24 Period 2 financial monitoring in accordance with the management timetable (as reported to Executive Board in June 2023)
- Release of spending control workbooks and dashboard (including user guidance) for completion by Directors for collation and reporting into CLT

4.2.2 Taken together, these pieces of work are all focused on improving the council's financial resilience and sustainability. When fully delivered, the Council will undoubtedly see a positive shift in the control (grip) it has over its finances and how they are routinely managed. This will undoubtedly provide sufficient and positive assurance that the Council has robust and "adequate" financial management arrangements.

5. **Financial Controls Remediation Project**

5.1 **Background**

5.1.1 As reported to Audit Committee in June 2023, a remediation project has been scoped and EY (Ernst & Young) commissioned to deliver a 12-week focused controls remediation response. The project commenced 12 June 2023 and is currently on track.

5.1.2 Phase 1 of the remediation work will ensure the Council has the essential basics in place, although it is anticipated further investment in systems will be required to provide the most effective control environment where the system will deliver record actions and the supporting evidence required for each financial transaction.

5.1.3 As set out in the Financial Controls Assessment report to Audit Committee meeting in June 2023, to mitigate the risks caused by the weakened control environment, immediate interventions are required. The first step involves the rapid assessment and remediation of ten specific control issue areas.

5.1.4 The following principles have been adopted to ensure there is synergy with the transformative focus being delivered within the FIP and empower officers from the Council to take ownership of control improvements going forward:

- Ensuring that the objectives and targets for both process design and key control design are validated against the FIP, to ensure work is additive and duplication avoided.
- Identifying Business Process Owners, and key Finance roles responsible for implementing and monitoring controls, strengthening job role and functions developed through the FIP programme.
- That a collaborative approach is adopted with the FIP programme leads, and regular touchpoints to ensure shared awareness and amplification of the respective work programmes within Finance, and with the service.

5.1.5 The approach is to work through the steps identified below:

- Step 1 – Rapid intervention on identified issues within areas in scope
- Step 2 – NCC and Group Wide Controls Health Check
- Step 3 – Implement newly scoped controls across the group
- Step 4 – Establishing Grip Report

5.2 Project Overview

5.2.1 The table below sets out the ten areas in scope of the remediation project grouped into three themes.

| Core Financial Process | Organisation Wide Process | Financial Systems |
|----------------------------|----------------------------|--|
| 1. Grant Receive to Record | 5. Procurement Process | 8. System Reporting |
| 2. Purchase to Pay | 6. Service Recharges | 9. Segregation of Certain Financial Activities |
| 3. Record to Report | 7. HR and Expenses Process | 10. Systems Access |
| 4. Goods Receipting | | |

5.2.2 Weekly project checkpoint meetings with EY are being held with additional meetings held with the Corporate Director Finance and Resources to provide progress and seek decisions at relevant milestones to ensure the control environment is improved at pace. Subject to any additional findings identified through Phase 1 of the remediations work, the improvements to the control environment are expected to provide the assurances required by the S151 officer to discharge their statutory responsibilities.

5.3 Progress Update

5.3.1 To date good progress has been made with 86% of controls agreed of which 3% implemented. Table below provides a summary of the progress against each control theme.

| Remediation Control Themes and specific areas | | Controls Agreed and Implemented | Controls Agreed not yet implemented | Controls not yet designed | Total | |
|---|--|---------------------------------|-------------------------------------|---------------------------|------------|-------------|
| Core Financial Process | 1. Grant Receive to Record | 0 | 1 | 2 | 3 | |
| | 2. Purchase to Pay | 0 | 3 | 1 | 4 | |
| | 3. Record to Report | 1 | 6 | 0 | 7 | |
| | 4. Goods Receipting | 0 | 2 | 1 | 3 | |
| Organisation Wide Process | 5. Procurement Process | 0 | 4 | 1 | 5 | |
| | 6. Service Recharges | 0 | 3 | 0 | 3 | |
| | 7. HR and Expenses Process | 0 | 3 | 0 | 3 | |
| Financial Systems | 8. System Reporting | 0 | 4 | 0 | 4 | |
| | 9. Segregation of Certain Financial Activities | 0 | 3 | 0 | 3 | |
| | 10. Systems Access | 0 | 2 | 0 | 2 | |
| Total | | No | 1 | 31 | 5 | 37 |
| | | % | 3% | 84% | 14% | 100% |

5.3.2 EY and council staff are prioritising tasks for implementation, reflecting capacity with a view to having these implemented between August and September 2023.

5.3.3 Also, over the coming weeks EY and the finance team will map the identified remediation control project outcomes to FIP deliverables. Some areas are challenging to implement interim measures for because they require a significant overhaul of systems for the Council to meet statutory requirements. However, it is important these are identified and closed in the next phase of the remediation works.

6. Financial Implications

6.1 The Local Government Act 1972, requires the Council to make arrangements for the proper administration of their financial affairs and shall secure one of their officers with the responsibility for the administration of those affairs.

6.2 The S151 officer has a Financial Improvement Plan in place which has been refreshed to demonstrate how CIPFA's Excellence in Finance model will be

implemented over the lifetime of the plan, giving the council the assurance, it requires in relation to this statutory duty.

- 6.3 It is important to note that the FIP is an evolving document and will be continuously updated and expanded to reflect outcome of particular pieces of work such as the remediation control project, establishment control, which may require additional resources.

7. Legal Comments

- 7.1 There are no legal implications to be noted at this stage.

8. Commercial and Procurement Comments

- 8.1 There are no implications with regards to procurement contained within this report.

9. HR and EDI Considerations:

- 9.1 There are no implications with regards to HR and EDI contained within this report.

10. Risk Management Considerations

- 10.1 Combination of staffing capacity across Finance and the weakened control environment poses significant risk in our processes and therefore will need to be reflected accordingly in our risk register.

11. Published documents referred to in compiling this report

- Audit Committee 28 July 2023 - Statement of Accounts Progress Update
- Audit Committee 30 June 2023 - Financial Controls Assessment
- Executive Board 18 July 2023 – Period 2 2023/24 Budget Monitoring
- Executive Board 18 July 2023 – Budget Strategy and MTFP Refresh 2024/25 – 2027/28

Appendix 1 - June Activity and Completions

| FIP Theme 1: Strengthening Financial Leadership | |
|---|---|
| Actions Taken | Impact on Control Environment |
| A new 'draft' MTFP revised framework and refreshed financial planning assumptions is formulated for initial discussions with key stakeholders including CLT prior to its finalisation and agreement with Leadership in July. Will take cognisance of key emerging messages arising from the ongoing transformation programme and 5 priority BV Reviews | Early indication of financial resilience and interventions required to ensure a balanced budget is delivered. Early opportunity to align resources to priorities and policy development and bring forward early choices for savings |
| Revised financial reporting cycle agreed with CLT. Period 2 draft monitoring and forecasting report circulated to CLT for discussion prior to its finalisation and agreement with the Leadership in July | Early intervention and prevention to identify the scale of the in-year financial challenge aligned to early adoption of phased spending control measures |
| Establishment controls – commission with PWC agreed. 12 week project plan led by HR/Finance Directors. Additional project resource secured from the Change Academy. Weekly stand up meetings to maintain pace over the course of the project. | One version of the truth – 4 data sets to transition to the HCM Fusion module facilitating greater insight to decision making. Enhanced internal control over payroll submissions and control account balances |
| Spending controls 2023/24– Processes for implementing pay and non-pay measures agreed with CLT. For non-pay Director Workbooks provided for completion and BI Dashboard built to aid monitoring | Identify one-off savings for supporting the Council's financial resilience. Leadership oversight of impact and outcomes achieved by the controls through monthly reporting |
| Proof of concept BI Dashboards now built with appropriate data security controls. Plan being developed to roll out dashboards to finance teams and Directors over the next period. | Accessible self-serve financial information to facilitate better resource management and engagement across the council |
| Completion of bespoke 10 week training programme for finance leads on Power BI dashboard development. Built in data security aligned to information governance policy | Dashboards will significantly enhance management insight to identify emerging financial risks/issues and or control and compliance and process issues to be addressed |
| Fit for the Future – Fusion Financials implementation review identified significant system reconfiguration required to enhance on system working and compliance. Ongoing work completed includes redesigning the use made of the fusion Projects and OTL Modules for managing Projects (Capital), review of PBCS Module started. FFTF LCC refund of £2m paid. | Enabler to better improve system configuration, controls and functionality enhancing use, compliance and insight through enhanced reporting eg Power BI . |

Appendix 1 - June Activity and Completions

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| FIP Theme 2 - Improving the approach to managing and governing the capital programme | |
|---|--|
| Actions Taken | Impact on Control Environment |
| Capital programme – Project managers reviewed budgets, profiling and forecasting for each scheme prior to reporting in period 2. This has identified the need to bring into the programme, £78m of energy hub grants that the Government Department is now allowing authorities to carry over into 2023/24. | Development of forecast accuracy and profiling across all years. Review and alignment of programme to match funding available |
| Completion of an initial 'Straw – man' review of the Transformational programme and its financing. | Assurance of spend classification management and financial reporting between revenue and capital |
| Fusion Projects and OTL Module – review of system capability and consultation with end users completed. NCC future business design document shared with Mastek (the Managed Service Provider) to cost the change requests. | Enhance, regularise and standardise use of system-based processes for capital projects including capital recharges of staff time and other overheads |
| Base Budget Assumptions supporting the capital programme / assets in use or under construction have been reviewed aligned to the MTFP refresh and Period 2 reporting. | Verifying prudence of underlying financial assumptions supporting capital schemes |
| New reporting template for 2023/24 developed for roll out with Period 2 reporting into the RECS DMT (pilot approach). | Greater management oversight of capital schemes at DMTs |
| Review of capital recharges concluded and reported into the Director of Finance as part of the wider recharges and cost reallocation project. | Assurance on spend classification for management and financial reporting |

| FIP Theme 3 - Enhancing financial systems to meet user needs | |
|---|--|
| Actions Taken | Impact on Control Environment |
| Review of Fusion configuration of the PBCS Module for revenue and capital planning and forecasting is underway. Insight gained from LCC / best practice, and alignment to both the Projects/OTL Module review outcomes and the Establishment Control work so as to facilitate payroll data workflow | Utilisation of system rather than excel based systems and spend linked to project milestones |

Appendix 1 - June Activity and Completions

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| FIP Theme 4 - A well designed and robust system of internal financial control | |
|---|---|
| Actions Taken | Impact on Control Environment |
| Review of all NCC / EMSS control account and Bank reconciliations completed – adoption of standardised templates and process to demonstrate separation of duties, audit trail and proactive action to clear unreconciled items | Improved working papers and management oversight of reconciliations |
| EMSS payroll control account review complete - legacy creditor (net) balance issues to be cleared to enable formal monthly reconciliations to be prepared / reviewed to the satisfaction of the Director of Finance | Balance sheet reconciliations on a regular basis across all areas |
| Payroll costing – finance are undertaking significant payroll correction journal activities throughout the year that is impacting on resource availability and forecasting accuracy. A root-cause review is underway involving Finance, HR and EMSS | Improve 'first-time' data accuracy, reduce demand-failure, and minimise the risk of salary overpayments |
| Establishment controls – 12 week project plan designed and agreed and PWC support commissioned to build on their pilot work in RECS Directorate | One version of the establishment/payroll truth to enhance forecasting, reduce demand failure (see above) and mitigate the risk of salary overpayments happening |

| FIP Theme 5 - Embedding Professional Accounting Practice | |
|---|---|
| Actions Taken | Impact on Control Environment |
| Draft register in place subject to final touch-point QA checks to be completed early July. | Key deliverable identified with the EY report in progress although full process map to be developed and full reconciliation to the ledger and collation of grant conditions |
| Recharges – capital recharges review completed and reported to the DoF. Main project ongoing expected completion end of July | Audit assurance standards improved Greater visibility of recharges vs cost reallocations, with 2023/24 recharges paused until revised policy approved |
| Journals – revised Journal authorisation workflow process in place and working, additional system-based controls in testing and due for implementation within a couple of weeks. Journal BI dashboard developed to provide insight into activity at each authorisation level. | Audit assurance standards improved. Management controls enhanced |

Appendix 1 - June Activity and Completions

| FIP Theme 6 - Capacity Building and training | |
|---|---|
| Actions Taken | Impact on Control Environment |
| Interim resources secured to cover vacancies and staff 'churn' and create capacity to deliver FIP and manage backlog of accounts closure in responding to the IAB instruction | Increased financial skills and capacity to oversee BAU activity, deliver the FIP activities and address the statutory accounts backlog |
| PwC commissioned to deliver in conjunction with HR/Finance the establishment control pilot and rollout across the council | One Version of the Truth for HR standing and payroll data enabling more accurate and complete financial data for monitoring / forecasting |
| EY – management override of controls remediation review commissioned | Increased understanding and assessment of the financial systems control environment, processes and actions to remediate any weaknesses |

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| FIP Theme 7 – Enhancing Financial Strategies | |
|---|---|
| Actions Taken | Impact on Control Environment |
| Transformation Strawman argument put forward to the CDF&R , Director of Transformation and DoF for consideration and agreement by CLT | Enhanced financial insight, awareness, understanding of governance and risks facing the transformation programme aligned to the MTFP refresh |
| Formulation of revised MTFP framework and provision of Period 2 monitoring drafted and discussed with CLT prior to finalisation and agreement with Leadership in July. | Early indication of financial resilience and interventions required to ensure a balanced budget is delivered. Opportunity to align resources to priorities and policy development |
| Spending control measures agreed by CLT and how measures are to be implemented, managed, and reported. For non-pay spend, Director Workbooks and user guidance provided and completed ready for review by CLT in early July. BI Spending Control dashboard built to provide granular insight into spending activities and patterns. | Leadership oversight of impact and outcomes achieved by the controls. Monthly reporting. |

Appendix 1 - June Activity and Completions

| FIP Theme 8 - Adult Social Care Managing Finances | |
|--|--|
| Actions Taken | Impact on Control Environment |
| Finalisation of the Budget Review (at individual code level) for 22/23 and 23/24 complete. | Improved budget holder accountability, budgets are now up to date with all high level rebase adjustments removed. |
| Oracle coding structure and hierarchy revised and updated budgets approved and in place at P3 | Supports improved budget holder accountability, more accurate in year forecasting and development of medium term forecasts linking budget, activity and cost data. |
| Monitoring process updated to replace single line forecasting with detailed forecasts at code level. | Improved accountability and system reporting with removal of “off ledger” spreadsheet workarounds to support one version of the truth within Oracle. |
| 4 year reconciliation of care systems (ContrOCC) to Oracle completed (care commitments vs actual values paid). Approach agreed with Grant Thornton and prior year accrual adjustments being made. | Provides clarity re prior year accruals brought forward and a robust basis for monthly reconciliation of care system commitments to ledger. |
| Initial Oversight Board Meeting agreed series of workshops to be held to map current data and process issues linked to ContrOCC and interfaces with Oracle and provide key actions to be progressed. First workshop held with Finance and further service workshops. | Oversight Board will drive the production of an appropriately resourced and jointly managed action plan to deliver data and system improvements and clarify future roles and responsibilities with regard to systems ownership and controls. |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|--|---|--------------|---|------------|--------------------------|----------------|
| A1 | Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team? | The authority has in place arrangements for internal audit that in performing their audits has considered value for money | A1.17 | Review of Internal Audit plan and reporting mechanism to ensure that value for money has been considered and reported to leadership and Audit Committee | May-23 | Sep-23 | Not Started |
| | | The finance team will operate a standard set of processes which will be owned centrally as a basic service to all budget holders and senior stakeholders. | A1.10 | Guidance developed and issued on standard required by Finance Business Partners when preparing activity based costing and zero based budgeting | May-23 | Sep-23 | In Progress |
| | | | A1.11 | Guidance developed and issued on standard required by Finance Business Partners when preparing variance analysis, constructive challenge and advice to budget holders | May-23 | Sep-23 | In Progress |
| | | | A1.9 | Guidance developed and issued on standard required by Finance Business Partners when preparing financial analysis and reporting | May-23 | Sep-23 | In Progress |
| A2 | Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services? | Audit Committee have suitable mechanisms in place to oversee and monitor VfM and risks | A2.8 | Provide annual training (could also be refresher if no change in membership) to Audit Committee members | Jun-23 | Sep-23 | Not Started |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|----------------------|--|--|--------------|---|------------|--------------------------|----------------|
| | | Audit recommendations are actively managed and implemented by lead officer | A2.6 | Respond to all External Audit / EY recommendations for the 2019/20 audit | Apr-23 | Jul-23 | In Progress |
| | | Publication of a debt management strategy (Income) | A2.7 | Formulation of a revised debt management strategy (Income) | Jul-23 | Sep-23 | Not Started |
| A3 | Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved | The authority undertakes a programme of best value reviews designed to assess the extent to which its principle services are operating effectively and making recommendations for improvement | A3.2 | SFBPs to attend relevant BV Squads on a weekly basis | Apr-23 | Jul-23 | In Progress |
| B4 Page 38 | Is the finance team suitably resourced and fit for purpose? | End users visit intranet site and download 'how to guides'. Site traffic captured through data analytics. | B4.4 | Develop a knowledge base on the finance intranet site that will provide end users with information on systems | Jul-23 | Sep-23 | Not Started |
| | | Level of compliance regarding proper use of corporate systems increases. | B4.2 | Draft 'how to guides' to support end users to be more compliant in the use of corporate systems. | Jul-23 | Sep-23 | Not Started |
| | | The finance TOM has been implemented and demonstrates an effective and efficient finance function in its core service delivery and supporting delivery of the authority's service and corporate plan | B4.3 | Define the new Finance TOM | Jun-23 | Sep-23 | In Progress |
| | | | B4.5 | Provide additional expert capacity to address backlogs in the achievement of statutory financial reporting and audit requirements | Mar-23 | Sep-23 | In Progress |
| | | | B4.6 | Implement the finance TOM | Aug-23 | Sep-23 | Not Started |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|--|---|--------------|---|------------|--------------------------|----------------|
| Page 39 | | | B4.7 | Aligned to the proposed Target Operating Model and EMSS reviews, determine the future structure, role and responsibilities of the Financials Transactions Teams that looks to facilitate and support a positive control environment that is not focused on 'demand failure' and is both proactive in identifying the root-cause effect, managing and clearing unreconciled items/issues and risks and developing functional solutions to process bottlenecks. | Apr-23 | Sep-23 | In Progress |
| | | Training programme is rolled out and attendance is high. Attendees have developed increased knowledge and understanding of how to use corporate systems | B4.1 | Develop training programme across Oracle Fusion and other Finance reporting tools. | May-23 | Sep-23 | In Progress |
| C2 | Does the authority have in place a clear framework for governance and internal control? | Audit Assurance on the operational robustness of internal financial control framework | C2.7 | Commission an internal audit review to supplement and test compliance with payroll submission and control account reconciliations | April | Jul-23 | Not Started |
| | | Improve robustness of the internal financial control framework | C2.6 | Establish a formal set of procedures and processes for HR to maintain data integrity incl periodic establishment reconciliation checks | Apr-23 | Jul-23 | Not Started |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|---|--|--------------|--|------------|--------------------------|----------------|
| Page 40 | | Improved accuracy of the establishment with minimal variances between HR/Payroll and Finance supporting improved financial forecasting and budget setting | C2.4 | Carryout a full review of the current establishment to identify one version of the truth in HCM Fusion | May-23 | Jul-23 | In Progress |
| | | Supports "One Version of the Truth" in financial reporting and compliance with the CIPFA FM Code standards | C2.8 | Develop a requirements document to understand all Oracle Fusion modules with the aim to document the gaps and implement future processes. Included in EY review. | May-23 | Jul-23 | In Progress |
| | | | C2.9 | Conduct a gap analysis (link to C2.8) to determine 'as is' and develop recommendations for 'to be' | Mar-23 | Sep-23 | In Progress |
| | | | C2.5 | Implement and make the necessary establishment changes identified from the review | Apr-23 | Jul-23 | In Progress |
| C4 | Does the leadership team espouse high standards of governance and internal control? | The leadership team espouses high standards of governance and internal control through an effective Constitution and effective decision making | C4.1 | Review the current working arrangements between Members and Officers against best practice to identify opportunities to ensure good governance is in place | May-23 | Jul-23 | In Progress |
| C5 | Does the leadership team nurture a culture of effective governance and robust internal control across the authority? | Comprehensive training and development including 'how to guides' available to all those using Oracle Fusion to provide effective governance and internal controls. Reported through the Annual Governance Reporting statements | C5.1 | Develop a training and improvement programme including 'how to guides' for all those using Oracle Fusion. Create knowledge base | Jul-23 | Sep-23 | Not Started |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|--|---|--------------|---|------------|--------------------------|----------------|
| | | Comprehensive training on developing skills and competencies in asset management, capital planning, project/risk and financial management is delivered, embedded in operational delivery going forward with an annual refresh programme | C5.4 | Develop a comprehensive training programme for developing skills and competencies in asset management, capital planning, project/risk and financial management | Jul-23 | Sep-23 | Not Started |
| E1 | Does the authority have in place an effective framework of financial accountability? | The authority operates financial information systems that enable the consistent production of comprehensive, accrual-based and up to date data that fully meets the users' needs | E1.7 | Review of Establishment Control arrangements to reconcile staff numbers and funding sources to Fusion - HCM and establish an effective arrangement for managing this going forward. | Apr-23 | Jul-23 | In Progress |
| | | Robust internal control framework | E1.8 | Review of control accounts, holding accounts, suspense account, and bank reconciliations including the development of a standardised approach. Included in EY review. | Apr-23 | Jul-23 | In Progress |
| | | Budgets are profiled to reflect an in year accrual accounting principle | E1.9 | Review the budget profiles to establish whether commitment accounting can be rolled out. Included in EY review | Apr-23 | Sep-23 | In Progress |
| E2 | Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness and equity of its services? | The authority is committed to continuous improvement in terms of the economy, efficiency and effectiveness | E2.6 | Perform post implementation system and process reviews for each transactional module of Oracle Fusion (AP/AR) Included in EY review | Feb-23 | Sep-23 | In Progress |
| | | | E2.7 | Create cost - benefit action plan for opportunities identified from the post implementation reviews | Apr-23 | Sep-23 | In Progress |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|---|---|--------------|---|------------|--------------------------|----------------|
| | | The authority's financial accounting and reporting are accrual based; comply with the Code of Practice on Local Authority Accounting in the United Kingdom, and meet the relevant professional and regulatory standards | E2.5 | Significant Accounting Review - Best value reviews | Apr-23 | Sep-23 | In Progress |
| | | | E2.8 | Deliver the P2P Improvement Plan | Apr-23 | Sep-23 | In Progress |
| E3 | Does the authority's finance team have appropriate input into the development of strategic and operational plans? | The finance team performs an integral role in providing financial advice and guidance into the development of the strategic and operational plans across the authority | E3.1 | Review the skills and capabilities of finance business partners and associated toolkit to support the review with Directors and staff on their divisional plans. Identify necessary actions for improvement | May-23 | Sep-23 | In Progress |
| E5 | Has the authority sought an external view on its financial style, for example through a process of peer review? | The authority has sought an external view on its Management of Override controls as part of its FIP | E5.1 | EY to report on its review of Management of Override Controls to provide an independent review | Apr-23 | Sep-23 | In Progress |
| E6 | Do individuals with governance and financial management responsibilities have suitable delegated powers and appropriate skills and training to fulfil these responsibilities? | Improve the financial competencies of finance staff to support the wider authority in effective decision making within their delegated authorities | E6.2 | Develop good practice guidance for Finance Business Partners | May-23 | Sep-23 | In Progress |
| | | | E6.3 | Communicate and roll out good practice guidance for Finance Business Partners | May-23 | Sep-23 | In Progress |
| F1 | Has the authority undertaken a financial resilience assessment? | To put in place the foundations for a financial resilience assessment | F1.1 | Review MTFP 2023/24 working papers approved at budget based on information known April 2023. (As part of MTFP 2024/25) | May-23 | Jul-23 | In Progress |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|--|--|--------------|---|------------|--------------------------|----------------|
| Page 43 | | | F1.2 | Refresh of the MTFP for July Exec | May-23 | Jul-23 | Complete |
| | | | F1.3 | Provide budget holders with regular reports on their performance against their budget allocations, identify any significant variations from the agreed budget, and take prompt action to address them. Link to new monitoring timetable | May-23 | Jul-23 | In Progress |
| | | | F1.4 | Confirm that the authority has put in place robust arrangements for processing and recording income and expenditure in a timely manner. Included in EY review | Apr-23 | Sep-23 | In Progress |
| F3 | Has the authority taken appropriate action to address any risks identified as part of the assessment? | Financial resilience statement - risk assessment | F3.1 | Post financial resilience statement, consider the risks and mitigating actions as required. Link into MTFP July Exec report | Jun-23 | Jul-23 | In Progress |
| G2 | Does the authority have a strategic plan and Longterm financial strategy that adequately address these risks? | The authority has a clear and achievable transformation programme in place that delivers the savings within the MTFP | G2.3 | Review the assumptions within the OBC's and current status of projects to assess savings targets and confirm alignment to MTFP or taken corrective action as necessary | May-23 | Jul-23 | In Progress |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|---|---|--------------|---|------------|--------------------------|----------------|
| H1 | Has the authority prepared a suitable capital strategy? | The authority has a capital strategy approved by Council that is underpinned by sound assumptions, policy and guidance | H1.4 | Review of underlying base budget assumptions that underpin the capital programme and related ongoing developments e.g., Broadmarsh deficit funding as part of the MTFP Refresh | May-23 | Jul-23 | Not Started |
| | | | H1.5 | Prepare a Capital FM Handbook that provides Project Managers / FBPs with a clear understanding of their financial role and responsibilities in managing and reporting a capital project | May-23 | Sep-23 | In Progress |
| | | | H1.6 | Develop and roll out a mandatory capital training module for completion by all PMs / Project Support Officers | Jul-23 | Sep-23 | Not Started |
| I2 | Is the medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy? | The medium-term financial plan is consistent and integrated into relevant service plans and its capital strategy and can be demonstrated by the in year reporting cycle | I2.1 | Review of underlying base budget assumptions that underpin the capital programme and related ongoing developments e.g., Broadmarsh deficit funding as part of the MTFP Refresh | May-23 | Jul-23 | On hold |
| L3 | What action does the authority plan to take to improve its engagement with key stakeholders? | To provide leadership with assurance that appropriate consultation and engagement will be carried out as part of the 24/25 budget | L3.1 | Seek feedback on the budget consultation undertaken in 23/24 | Jul-23 | Sep-23 | Not Started |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|---|--|--------------|--|------------|--------------------------|----------------|
| N1 | Does the authority provide the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability? | Compliance process in place for monthly financial monitoring to provide assurance as part of the suite of reports to leadership | N1.1 | Develop a compliance reporting framework for monthly reporting that provides assurance that the ledger /feeder systems are being managed in line with expected controls and highlights any emerging issues/risks/process bottlenecks to be addressed | Apr-23 | Sep-23 | In Progress |
| | | To provide the leadership team and budget holders with an appropriate suite of reports to facilitate effective performance and decision making | N1.10 | Finalise the proposed reporting templates for CLT / DMTs /Capital Board reporting with the DoF | Jun-23 | Sep-23 | Not Started |
| | | | N1.11 | Road-test the DMT reporting template with RECS. Take on board feedback before rolling out to all DMTs | Jun-23 | Jul-23 | Not Started |
| | | | N1.3 | Develop a suite of compliance reporting dashboards using Power BI that is accessible to CLT/DMTs for Accounts Receivable and P2P (AP) initially | Apr-23 | Sep-23 | In Progress |
| N3 | Are there mechanisms in place to report the performance of the authority's significant delivery partnerships such a contract monitoring data? | Well managed VFM shared service | N3.6 | Review of Finance TOM | Apr-23 | Sep-23 | In Progress |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|--|--|--------------|--|------------|--------------------------|----------------|
| N5 | Is the leadership team happy with the reports that it receives and with its ability to use these reports to take appropriate action? | Reporting and insight analysis is used to inform decision making and improve accuracy of forecasting | N5.4 | Working with key stakeholders, create a Finance MI Reporting Annual Plan that specifically identifies the financial reports to be prioritised for development to meet business needs | Jul-23 | Sep-23 | Not Started |
| | | | N5.5 | Identify the resource requirement to maintain, develop and meet the Annual Reporting Plan reporting needs (to be considered alongside the Finance TOM) | Jul-23 | Sep-23 | Not Started |
| | | Routine compliance and adherence to policies, processes and procedures | N5.3 | Develop an initial suite of prototype finance dashboards for demonstration these being: AR, Revenue Budget, AP, Journal management, others TBD once resource training complete). | Apr-23 | Sep-23 | In Progress |
| O1 | Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability? | Robust internal control | O1.4 | Payroll Control workstream - Review and implement payroll submission controls | Apr-23 | Jul-23 | In Progress |
| | | | O1.5 | Payroll Control workstream - Audit brief | May | Jul-23 | In Progress |
| | | Robust internal control framework for managing the payroll system | O1.1 | Payroll Control workstream - Implement and embed control account reconciliations | Apr-23 | Jul-23 | In Progress |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|--|---------------------------------------|--------------|---|------------|--------------------------|----------------|
| P3 | Have the authority's financial statements hitherto been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom | A clean audit opinion | P3.10 | Accounts Catch-up - 2021-2022 Accounts Draft 2021-22 accounts taking into account issues arising from the 2019-20 audit and any issues identified by Finance Staff. Prepare and quality assure all backing working papers. Look to automate links between working papers and the master document. Issue accounts formally for public inspection. | Apr-23 | Sep-23 | In Progress |
| | | | P3.11 | Closedown Process improvements To improve a range of processes to assist with accurate closedown of accounts building on training sessions run in March 2023. Evaluate the impact of training provided, plan and deliver further technical training as required. | Apr-23 | Sep-23 | In Progress |
| | | | P3.5 | Completing the outstanding accounts for 2019/20 to 2021/22 This refers to 2019-20 audit queries only | Apr-23 | Jul-23 | Complete |

Appendix 2 - FIP Activities to end of September 2023

| FM Code Ref | FM Code: Assessment Questions | Characteristics & Measures of Success | Action - UID | Action | Start Date | Expected completion date | Current Status |
|-------------|---|--|--------------|--|------------|--------------------------|------------------------|
| Page 48 | | | P3.6 | Completing the outstanding accounts for 2019/20 to 2021/22 To be updated to show split action This line refers to 2019-20 Statement Document only | Apr-23 | Jul-23 | Revised Draft Complete |
| | | | P3.7 | Grants management - building on work done by PwC | Apr-23 | Jul-23 | Complete |
| | | | P3.8 | Control of recharging processes improvement | Apr-23 | Aug-23 | In Progress |
| | | | P3.9 | Completing the outstanding accounts for 2019-20 to 2021-22 This is about the 2020-21 Statements | Apr-23 | Sep-23 | In Progress |
| Q1 | Is the authority's leadership team provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget? | Routine compliance and adherence to policies, processes and procedures | Q1.3 | Develop an initial suite of prototype finance dashboards for demonstration these being: AR, Revenue Budget, AP, Journal management, others TBD once resource training complete). | Apr-23 | Sep-23 | In Progress |

Appendix 3 - Transformation Strawman Financial Assurance Activity

| Activity | Status | Outcome |
|--|-------------|---|
| Discovery Stage | | |
| Handover from previous transformation finance lead | Complete | Understand current transformation programme and filing structures |
| Meet all programme leads to understand status of programmes | Complete | Understand current programme including high level gap analysis |
| Meet Strategic Finance Business Partners to understand status of programme | Complete | Understand current programme including high level gap analysis |
| Initial Health check | Complete | High level gap analysis |
| Design Stage | | |
| Development of Strawman | Complete | To support development of a financial assurance framework for delivery of the transformation programme |
| Implementation | | |
| Control / Reconciliation / Governance / Risk | In Progress | Robust, effective, and efficient internal control and governance framework in place including risk management |
| Reporting / Decision making / Value for Money | In Progress | Stakeholders are informed and able to make decisions whilst having regard for value for money |
| Milestones / Deliverables (Decision checkpoints) | In Progress | Ability to make effective decisions to maximise delivery of the savings |
| Communication and Organisational Awareness | In Progress | Financial accountability and responsibility that is clearly defined and understood |

Appendix 3 - Transformation Strawman Financial Assurance Activity

| Implementation Activity | Status | Control / Reconciliation / Governance / Risk Management | Reporting / Decision making / Value for Money | Milestones / Deliverables (Decision checkpoints) | Communication and Organisational Awareness |
|---|-------------|---|---|--|--|
| Financial due diligence of OBC's undertaken (metrics / saving type / budget monitoring / benefit realisation) | In progress | X | X | X | X |
| Consolidate all decisions (OED's / DDMs) and w/p's into a master document to create audit trail | Complete | X | X | | |
| Consolidate all spreadsheets (savings and investment) including funding sources into one master version shared with the transformation Director. This includes all Improvement activity | Complete | X | X | | |
| Reconciliation of gross savings, net savings and investment to MTFP and currently drafted OBCs | Complete | X | | | |
| Agree budgets for entering onto Fusion by P3 | Complete | X | | | |
| Align cost centres to appropriate budget manager | In progress | X | X | | |
| Reconciliation of actuals P1 – P3 to support forecasting | Complete | X | X | | |
| Issue budget timetable to programme leads | Complete | X | X | | X |
| Issue budget guidance to programme leads and transformation office | In Progress | X | | | X |
| Review all investment forecasts with programme leads | Complete | X | X | | X |
| Review all savings with programme leads | Complete | X | X | X | X |
| Budget monitoring versus benefits realisation to ensure expectations are managed across finance, transformation and SROs | In Progress | X | X | X | X |
| Update investment forecasts for P3 | Complete | X | X | X | |
| Establish monthly meetings with finance and programme leads from June 2023 | Complete | X | X | | X |

Appendix 3 - Transformation Strawman Financial Assurance Activity

| Implementation Activity | Status | Control / Reconciliation / Governance / Risk Management | Reporting / Decision making / Value for Money | Milestones / Deliverables (Decision checkpoints) | Communication and Organisational Awareness |
|---|-------------|---|---|--|--|
| Agree milestone / delivery decision checkpoints from July 2023 with programme leads | On track | | | X | |
| Establish robust benefits realisation tracker | In Progress | X | | | |
| Review and implement improved finance reporting on the transformation programme | In Progress | X | X | X | X |
| Ensure alignment with other savings and new savings being put forward | In Progress | X | X | | X |
| Create risk and issue register overall programme level that impacts on financial savings / investment | Complete | X | X | X | X |

Activities for next quarter outlined on the strawman include:

- Understanding all assumptions
- Roles and responsibilities
- Budget monitoring
- Benefits realisation
- Reporting – (clear, concise and evidence based)
- MTFP 2024/25 refresh and BV reviews outcomes

Appendix 3 - Transformation Strawman Financial Assurance Activity

Audit Committee – 28 July 2023

| | | |
|--|--|-------------------------------|
| Title of paper: | Treasury Management 2022/23 Annual Report | |
| Director(s)/ Corporate Director(s): | Ross Brown, Corporate Director of Finance and Resources and Section 151 Officer | Wards affected: All |
| Report author(s) and contact details: | Antony Huggett, Interim Senior Accountant – Treasury Management | |
| Other colleagues who have provided input: | Members of Treasury Management Panel: Ross Brown, Corporate Director of Finance and Resources Shabana Kausar, Director of Finance Jean Stevenson, Interim Finance Team Leader – Technical Finance | |
| Does this report contain any information that is exempt from publication? No | | |
| Recommendation(s): | | |
| 1. | To note the Treasury Management performance for 2022/23 | |

1. Reasons for recommendations

- 1.1 The Treasury Management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the City Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice. Under the latter Code, an annual report is required to be submitted to and considered by councillors.
- 1.2 The Council's Treasury Management Strategy for 2022/23 was approved by full Council on 7 March 2022.
- 1.3 The Council borrows and invests substantial sums of money as part of its business as usual activity. In common with all local authorities, it is therefore exposed to financial risks including the loss of invested funds and the revenue account impact of changing interest rates. This report covers performance in relation to treasury management activity and the associated monitoring and control of risk.

2. Background (including outcomes of consultation)

- 2.1 The Council is required to operate a balanced budget, which broadly means cash raised during the financial year will meet its cash expenditure. Treasury management operations ensure that this cash flow is adequately planned, with surplus monies being invested by prioritising low risk counterparties and ensuring liquidity of funds before considering and optimising investment return.
- 2.2 The treasury management function also services the financing of the Council's capital expenditure plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

- 2.3 Accordingly, Treasury Management is defined as: “The management of the local authority’s borrowing, 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.”
- 2.4 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2021).
- 2.5 The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. Receipt by Executive Board of a Mid-year Review Report and an Annual Report, covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of Treasury Management Strategy and Policies to a specific named body. For this Council the delegated body is the Audit Committee.
- 2.6 This Annual report has been prepared in compliance with CIPFA’s Code of Practice on Treasury Management, and covers the following:
- An economic update for the 2022/23 financial year.
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
 - The Council’s capital expenditure, and prudential indicators.
 - A review of the Council’s investment portfolio for 2022/23.
 - A review of the Council’s borrowing strategy for 2022/23.
 - A review of any debt rescheduling undertaken during 2022/23.
 - A review of compliance with Treasury and Prudential Limits for 2022/23.
- 3. Other options considered in making recommendations**
- 3.1 Options for management of the Council’s debt and investment portfolio are continually reviewed. The overall aim is to minimise the net revenue costs of the Council’s debt whilst maintaining an even debt profile in future years and to maximise investment returns within stated security and liquidity guidelines.
- 4. Treasury Management Activity in 2022/23**
- 4.1 **The UK Economy, Growth, Monetary Policy and Inflation**

4.1.1 Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23. Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

4.1.2 Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 2% in 2022. CPI inflation picked up to a peak reading of 11.1% in October, although hopes for significant falls from this level have been impacted by the resilience of core inflation. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of March 2023, CPI was 10.1%.

4.1.3 **Appendix 2** shows the money market interest rates and the Public Works Loans Board (PWL) borrowing rates for 2022-23

4.2 Local Context

4.2.1 Following a recent non-statutory review the Council has implemented a Voluntary Debt Reduction Policy (VDRP) with the aim to support the Council in returning to financial and operational stability. The borrowing and debt management strategies aim to reduce the Council's future requirement to borrow, known as the Capital Financing Requirement (CFR), and to reduce the level of debt held by the Council.

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources based on robust financial modelling, the capital expenditure will give rise to a borrowing need, however this route is strictly limited by the Capital Strategy.

4.2.3 4.2.3 The CFR is a gauge of the Council's indebtedness and results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022-23 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.2.4 At 31 March 2023 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,316.2m.

4.2.5 Table 1 below shows the original and the actual financing arrangements of the capital programme. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need will also be increased by maturing debt and other treasury requirements.

Table 1: Capital Outturn 2022/23

| | 2022/23 Original Budget £m | 2022/23 Actual £m | % Change original to actual |
|---|-------------------------------------|-------------------------|--------------------------------------|
| Capital Expenditure | | | |
| General Fund (exc. Midland Net Zero Hub) | 153.891 | 69.581 | (54.8%) |
| General Fund - Midland Net Zero Hub only | 0.000 | 83.492 | 100.0% |
| Housing Revenue Account | 71.003 | 51.689 | (27.2%) |
| Total Expenditure | 224.894 | 204.762 | (9.0%) |
| Financed by: | | | |
| Capital Receipts | (27.161) | (33.045) | 21.7% |
| Capital Grants & Contributions | (114.897) | (130.286) | 13.4% |
| Internal Funds / Revenue (Inc. Major Repairs Reserve) | (48.023) | (32.957) | (31.4%) |
| Total Financing | (190.081) | (196.288) | 3.3% |
| BORROWING REQUIREMENT | (34.813) | (8.474) | (75.7%) |

4.3 Borrowing

- 4.3.1 To finance the CFR (the Capital Financing Requirement), the Council may borrow externally from the Public Works Loans Board (PWLB) or the market, or from its own internal balances on a temporary basis (internal borrowing), by using its cash balances that are not immediately needed for the delivery of services. The balance of external and internal borrowing is generally driven by market conditions.
- 4.3.2 During 2022-23, the Council continued its strategy to reduce the CFR and external debt balances by repaying maturing loans with its cash balances and by internal borrowing. This means that the overall capital borrowing need (known as the CFR), has not been fully funded by taking external loan debt.
- 4.3.3 Total outstanding external loan debt in 2022-23 decreased by £22.9m (-2.5%) to £878.0m at 31 March 2023. The average rate of interest on total external loan debt decreased, from 3.431% at 31 March 2022 to 3.423% at 31 March 2023. Table 2 below analyses the debt portfolio:

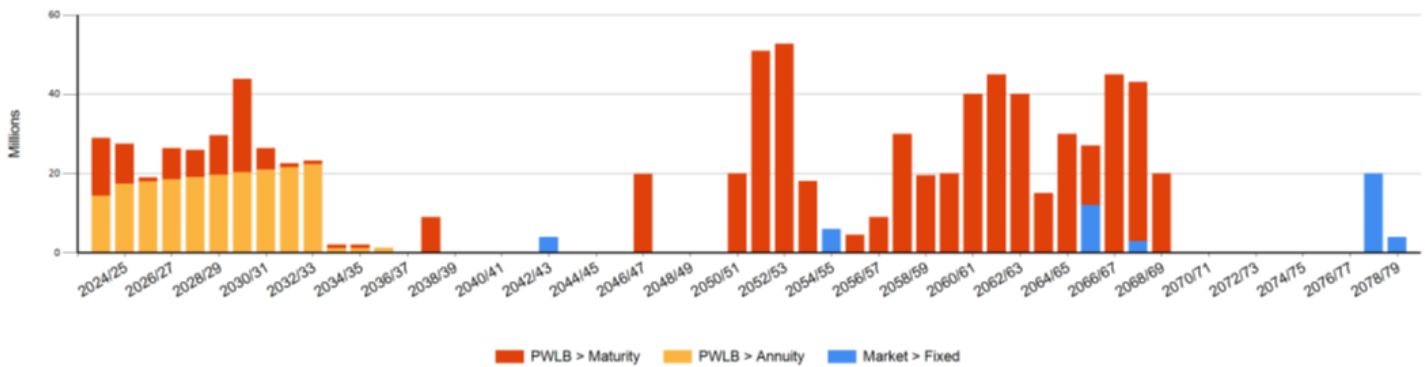
Table 2: Debt Portfolio

| Debt | 01-Apr-22 | | 31-Mar-23 | | Movement |
|-----------------------|-----------|--------------------|-----------|--------------------|----------|
| | £m | Average Interest % | £m | Average Interest % | £m |
| PWLB borrowing | 849.7 | 3.385% | 824.7 | 3.36% | -25.0 |
| Market loans inc LOBO | 49.0 | 4.348% | 49.0 | 4.35% | 0.0 |
| Temporary borrowing | 2.2 | 0.768% | 4.3 | 2.29% | 2.1 |

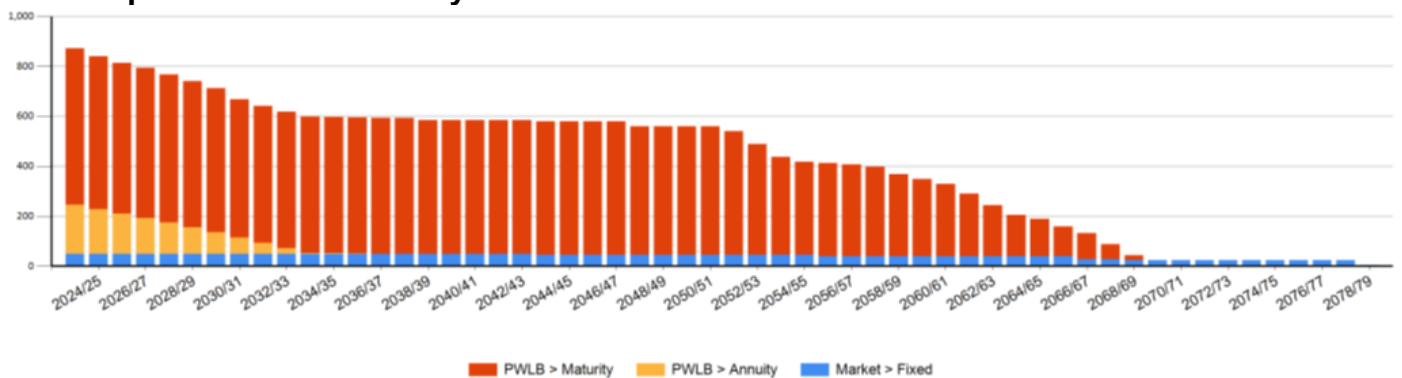
| Table 2: Debt Portfolio | | | | | |
|-------------------------|----------------|--------------------|----------------|--------------------|--------------|
| Debt | 01-Apr-22 | | 31-Mar-23 | | Movement |
| | £m | Average Interest % | £m | Average Interest % | £m |
| & other | | | | | |
| TOTAL LOANS DEBT | 900.9 | 3.431% | 878.0 | 3.423% | -22.9 |
| Other including PFI | 170.2 | | 158.3 | | -11.9 |
| TOTAL DEBT | 1,071.1 | | 1,036.3 | | -34.8 |

4.3.4 The graphs below show the maturity profile of the debt portfolio and total debt each year. These graphs should be reviewed together with the Prudential Indicator for Debt Maturity shown in paragraph 4.11.4.

Graph 1 Debt Maturity profile



Graph 2 Total Debt each year



4.3.5 In 2022-23 the Council did not take any further long term borrowing from the Public Works Loans Board (PWL) or from banks.

4.3.6 The Council's internal borrowing position at 31 March 2023 was £279.9m. This meant that c.24% of the overall capital borrowing need including prior year capital expenditure but excluding PFI liabilities (known as the Capital Financing Requirement), was not funded with loan debt as cash held by the Council for reserves, balances and cash flow was used as a temporary measure.

- 4.3.7 The strategy of using internal borrowing avoids the cost of interest payable on external borrowing in the short term until actual new borrowing is taken or the borrowing requirement reduces.
- 4.3.8 The Council expects to retain this internal borrowing position as a prudent and cost effective approach in view of the reducing CFR and the current forecast for balances available to support this position.
- 4.3.9 The continuation of this existing strategy will further support managing the Council's cost of financing in the coming years and supports the aims of the VDRP in reducing the Council's debt levels.

4.4 Compliance with the Voluntary Debt Reduction Policy

- 4.4.1 Table 3 below reflects the reductions in capital expenditure financed by borrowing and the capital receipt strategy in the forecast Capital Financing Requirement (CFR) and external loans debt in the medium term.

| Table 3: VDRP Forecast Refresh | | | | |
|---------------------------------------|-------------------------------|---------------------------|--------------------------------|-------------------------------|
| Debt Measurement | VDRP Original Forecast | Outturn / Forecast | Movement (Under) / Over | Movement From forecast |
| | £m | £m | £m | % |
| CFR | | | | |
| 2020/21 * | 1,443.50 | 1,411.60 | -31.90 | -2.2% |
| 2021/22 * | 1,434.20 | 1,374.21 | -59.99 | -4.2% |
| 2022/23 * | 1,390.60 | 1,316.15 | -74.45 | -5.4% |
| 2023/24 ** | 1,337.30 | 1,251.18 | -86.12 | -6.4% |
| 2024/25 ** | 1,272.50 | 1,168.82 | -103.68 | -8.1% |
| External Debt | | | | |
| 2020/21 * | 981.60 | 932.80 | -48.80 | -5.0% |
| 2021/22 * | 991.00 | 900.94 | -90.06 | -9.1% |
| 2022/23 * | 986.20 | 878.00 | -108.20 | -11.0% |
| 2023/24 ** | 954.80 | 844.58 | -110.22 | -11.5% |
| 2024/25 ** | 927.40 | 817.14 | -110.26 | -11.9% |

* Outturn; ** Forecast

4.5 Lender Option Borrower Option (LOBOs)

- 4.5.1 The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £14.000m of these LOBO loans had options during the year, none have been exercised by the lender.

4.6 Borrowing in advance of need

- 4.6.1 The Treasury Management Code of Practice states an organisation may only borrow in advance of the need in order to reduce financing and interest rate risks i.e. not

purely in order to profit from the investment of the extra sums borrowed. The Council has complied with the Code in this respect.

4.7 Debt Rescheduling

4.7.1 The PWLB continued to operate a spread of approximately 1% between “premature repayment rate” and “new loan” rates so the premium charge for early repayment of PWLB debt has made rescheduling unviable for the existing loans in the Council’s portfolio. No rescheduling activity was undertaken as a consequence.

4.8 Housing Revenue Account (HRA) Borrowing

4.8.1 From 1 April 2002, the Council’s HRA was allocated a separate debt portfolio based on the appropriate proportion of the Council’s existing debt at that time. No new HRA borrowing was taken in 2022-23.

4.8.2 The HRA element of the CFR was £296.4m at 31 March 2023 and is fully financed at an average rate of 4.26%. This includes £53.161m of long term fixed rate loans from the General Fund (known as internal loans). The HRA interest charge for 2022-23 was £12.8m.

4.8.3 In October 2018 the Government announced the HRA debt cap was to be abolished, but the now notional cap has been retained as a useful indicator shown in **Appendix 1**. Any capital expenditure financed by borrowing needs to comply with the requirements of the CIPFA prudential code including ensuring the scheme was affordable, sustainable and in proportion to the resources available.

4.8.4 The HRA has 2 local indicators to manage its debt as shown below:

| | 2022/23 | 2022/23 |
|----------------------------------|---------------|---------------|
| | Estimate | Actual |
| Ratio of Debt to Revenues | | |
| HRA Debt £m | 300.754 | 296.403 |
| HRA Revenues £m | 111.795 | 111.175 |
| Ratio of Debt to Revenues | 2.7 | 2.7 |
| Debt per Dwelling | | |
| HRA Debt £m | 300.754 | 296.403 |
| No. of Dwellings | 24,756 | 25,082 |
| Debt per Dwelling £ | 12,149 | 11,817 |

4.9 Investments

4.9.1 The Council’s investment policy is governed by the Department of Levelling Up, Housing and Communities (DLUHC) investment guidance, which has been implemented in the annual investment strategy approved by the Council on 7 March 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

- 4.9.2 The investment activity during the year conformed to the approved strategy.
- 4.9.3 The Council has reduced cash and investment balances which averaged £377.0m for the year as Government grants received last year on behalf of other authorities have been distributed.
- 4.9.4 The Council held £308.0m of investments at 31 March 2023 (£368.2m at 31 March 2022) and the investment portfolio yield for the year was 1.947%, below the benchmark 7 day SONIA (sterling overnight index average rate of 2.225%. This under-performance was due to the rapid increase in short term interest rates during the year and the high proportion of fixed term deposits held in the portfolio.
- 4.9.5 Table 4 below summarises investment activity in 2022-23.

| TABLE 4: Investment Activity for 2022-23 | Balance on 01.04.2022 £m | Balance on 31.03.2023 £m | Average Rate at 31.03.2023 % |
|---|---|---|---|
| Short term investments: | | | |
| - Banking Sector | 90.0 | 95.0 | 3.83% |
| - UK Government | 52.0 | 40.0 | 4.06% |
| - Local Authorities | 142.0 | 41.0 | 2.82% |
| - Overseas Government | 0.0 | 9.9 | 0.37% |
| - Money Market funds | 49.3 | 112.2 | 4.12% |
| Long term investments | | | |
| - Local Authorities | 15.0 | 0.0 | n/a |
| - Overseas Government | 19.9 | 9.9 | 1.08% |
| TOTAL INVESTMENTS | 368.2 | 308.0 | 3.63% |
| Increase / (Decrease) in Investments | | -60.2 | |

4.10 External advisors

4.10.1 External treasury management advisors are retained to provide additional input on treasury management matters. The service comprises economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other matters, as required.

4.10.2 The Council has retained Link Group as its treasury management advisors.

4.11 Compliance with Prudential Indicators

4.11.1 The Council confirms compliance with its Prudential Indicators for 2022-23 set on 7 March 2022 as part of the Council's Treasury Management Strategy Statement. The Prudential Indicators can be found in **Appendix 1**.

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

4.11.3 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The limits variable rate interest rate exposures are:

| | 2021-22 £m | 2022-23 £m | 2023-24 £m |
|--|---------------|---------------|---------------|
| Upper limit on variable interest rate exposure | 300.0 | 200.0 | 200.0 |
| Actual | 41.3 | 38.3 | |

4.11.4 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

| | Lower | Upper | Actual |
|--------------------------------|-------|-------|--------|
| Under 12 months | 0% | 25% | 6% |
| 12 months and within 24 months | 0% | 25% | 3% |
| 24 months and within 5 years | 0% | 25% | 10% |
| 5 years and within 10 years | 0% | 25% | 14% |
| 10 years and within 25 years | 0% | 50% | 6% |
| 25 years and within 40 years | 0% | 50% | 40% |
| 40 years and above | 0% | 50% | 21% |

4.11.5 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

| | 2021-22 £m | 2022-23 £m | 2023-24 £m |
|---|---------------|---------------|---------------|
| Limit on principal invested beyond year end | 100 | 100 | 100 |
| Actual | 35 | 10 | |

4.11.6 **Operational Boundary and Authorised Limit for External Debt:** The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

| | 2022/23 Outturn £m | 2022/23 Max Debt in year £m |
|-------------------------------|--------------------------|--------------------------------------|
| Borrowing | 878.0 | 900.9 |
| Other Long-term Liabilities * | 158.3 | 170.2 |
| Total External Debt | 1,046.3 | 1,071.1 |
| Operational Boundary | 1,365.1 | |
| Authorised Limit | 1,395.1 | |

* Includes PFI and Leases liabilities

4.12 Treasury Management Reserve

4.12.1 The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year including new technical accounting entries relating to IFRS 9 (which stipulates the treatment of expected loss model based impairments on Treasury related investments and capital investments such as loans to third parties and financial guarantees). There was no expected loss impairment made to treasury investments in 2022/23.

4.12.2 The reserve at 31 March 2023 was £15.9m, a net reduction over the year of £2.3m due in part to re-allocation to the Corporate Resilience Reserve following a review of the reserve. The appropriateness of the balance held will be reviewed as part of the annual reserves review, which forms part of the 2024/25 budget setting process.

4.13 Risk Management

4.13.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

4.13.2 The treasury management risk register's overall risk rating at 31 March 2022 was 4.23, (Likelihood = unlikely, Impact = minor) and is a lower rating than as at 31 March 2021, but it remains over the targeted risk rating of 2.94 (Likelihood = remote, Impact = minor). The risk rating reflects reduced risks around the capital programme, impacts of Covid-19, working from home arrangements and the changes to the PWLB lending arrangements.

4.14 Other Issues

4.14.1 CIPFA published the revised Treasury Management Code and Prudential Code in December 2021. Both revised codes and guidance notes must be adopted within the 2023-24 Treasury Management Strategy, with the principles to be applied from the publication date of December 2021.

4.14.2 The Treasury Management Code key proposals – update to the Treasury management practices (TMP) TMP10 training requirements; TMP 12 Corporate Governance; Environmental, Social and Governance investment considerations to be

included within the credit and counterparty risk management policies and amendments to Maturity Structure of Borrowing indicator.

4.14.3 The Prudential Code key proposals:

- revision to Borrowing in Advance of Need criteria, including in respect of primarily yield generating investments;
- inclusion of proportionality in key capital expenditure objectives;
- process and governance sections to incorporate further changes in respect of commercial activity;
- three new prudential indicators:
 - External Debt to Net Revenue Stream (NRS),
 - Income from Commercial and Service Investment to NRS;
 - Liability Benchmark;
- Proposal to abolish Gross Debt to Capital Financing Requirement indicator.
- Council investments are to be split and reported by code definitions for Service Investments, Treasury Management investments and Commercial Investments.

5. Finance colleague comments (including implications and value for money/VAT)

5.1 General Fund Revenue Implications

5.1.1 Revenue costs associated with borrowing and lending can be volatile, being affected by a number of factors including movements in interest rates, the timing of capital spending, the extent of reserves held and actual cash flows during the year.

5.1.2 The General Fund outturn in 2022-23 for treasury management costs was £81.8m comprising of interest charges, provisions for the repayment of debt, PFI related expenditure and investment income. The PFI expenditure accounted for £35.8m which includes the NET lines 1 & 2 (the Nottingham Tram Network). A proportion of the Council's debt relates to capital expenditure on HRA housing and an additional £12.8m of debt costs was charged to the HRA. The HRA also received their share of investment income on their cash balances which totalled £2.8m.

5.1.3 The General Fund budget and outturn for 2022-23 treasury management costs are summarised in the table below:

| Treasury Management | Budget 22-23 | Outturn 22-23 | Variance |
|-----------------------------|--------------|---------------|-------------|
| | £m | £m | £m |
| Interest Receivable | -0.1 | -3.7 | -3.6 |
| Interest Payable | | | |
| Debt | 19.9 | 17.9 | -2.0 |
| PFI | 24.7 | 24.7 | 0.0 |
| Debt Repayment (MRP) | | | |
| Non-PFI | 32.8 | 31.8 | -1.0 |
| PFI | 11.1 | 11.1 | 0.0 |
| Total | 88.4 | 81.8 | -6.6 |

5.2 **Value for Money**

5.2.1 Management of borrowing and investments is undertaken in conjunction with our appointed external advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

6. **List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)**

6.1 None.

7. **Published documents referred to in this report**

- Treasury Management Strategy 2023-24 and Capital Investment Strategy 2023-24
- Treasury Management Strategy 2021-22 and Capital Investment Strategy 2021-22
- Together for Nottingham Plan
- Money Market and PWLB loan rates
- Treasury Management in the Public Services Code of Practice 2017 & 2021–CIPFA
- Prudential Code 2017 & 2021 -CIPFA
- Treasury Management in the Public Services Guidance Notes 2018 & 2021–CIPFA
- Statutory guidance on local government investments 3rd Edition 2018
- Statutory guidance on Minimum Revenue Provision (MRP) 2018

PRUDENTIAL INDICATORS

Appendix 1

| INDICATORS | 2021/22 Actual | 2022/23 Estimate | 2022/23 Outturn |
|---|--------------------|------------------|--------------------|
| 1) Prudence indicators | | Per TMSS 22/23 | |
| i) Capital Expenditure | | | |
| General Fund | £62.8m | £152.7m | £153.1m |
| HRA | £37.9m | £71.0m | £51.7m |
| | £100.7m | £223.7m | £204.8m |
| ii) CFR at 31 March | | | |
| General Fund | £905.3m | £899.4m | £861.5m |
| HRA | £298.7m | £307.4m | £296.4m |
| PFI notional 'debt' | £170.2m | £158.3m | £158.3m |
| | £1,374.2m | £1,365.1m | £1,316.2m |
| iii) External Debt at 31 March | | | |
| Borrowing | £900.9m | £888.0m | £878.0m |
| PFI & leasing notional 'debt' | £170.2m | £158.3m | £158.3m |
| Gross debt | £1,071.1m | £1,046.3m | £1,036.3m |
| Less treasury investments | -£368.2m | N/A | -£308.0m |
| Net Debt | £702.9m | N/A | £728.3m |
| | | | |
| 2) Affordability indicators | | | |
| i) Financing costs ratio | | | |
| General Fund | 16.45% | 17.40% | 16.33% |
| General Fund (Inc PFI costs) | 26.34% | N/A | 29.01% |
| HRA | 12.68% | 15.61% | 9.06% |
| | Max in year | | Max in year |
| ii) Authorised limit for external debt | £1,114.1m | £1,395.1m | £1,071.1m |
| | | | |
| iii) Operational limit for ext. debt | £1,114.1m | £1,365.1m | £1,071.1m |
| | | | |
| iv) HRA limit on indebtedness | | | |
| HRA Debt Cap (abolished) | £319.8m | £319.8m | £319.8m |
| HRA CFR | £298.7m | £307.4m | £296.4m |
| | | | |
| 3) Treasury Management indicators | | | |
| i) Limit on variable interest rates | £41.3m | £300.0m | £38.3m |
| | | | |
| ii) Fixed Debt maturity structure | | | |
| - Under 12 months | 3% | 0-25% | 6% |
| - 12 months to 2 years | 4% | 0-25% | 3% |
| - 2 to 5 years | 8% | 0-25% | 10% |
| - 5 to 10 years | 16% | 0-25% | 14% |
| - 10 to 25 years | 7% | 0-50% | 6% |
| - 25 to 40 years | 35% | 0-50% | 40% |
| - 40 years and above | 27% | 0-50% | 21% |
| | Max in year | | Max in year |
| iii) Max sum invested for >365 days | £35m | £100.0m | £10.0m |

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

1) Prudence Indicators

- i) *'Estimate of total capital expenditure'* – a “reasonable” estimate of total capital expenditure to be incurred, split between the General Fund and the HRA.
 - This estimate takes into account the current approved asset management and capital investment strategies.
- ii) *'Capital financing requirement' (CFR)* – this figure constitutes the aggregate amount of capital spending which has not yet been financed by capital receipts, capital grants or contributions from revenue, and represents the underlying need to borrow money long-term. An actual figure at 31 March each year is required.
 - This approximates to the previous Credit Ceiling calculation and provides an indication of the total long-term debt requirement.
 - The figure includes an estimation of the total debt brought 'on-balance sheet' in respect of PFI schemes and finance leases.
- iii) *'External debt'* - the actual level of gross borrowing (plus other long-term liabilities, including the notional debt relating to on-balance sheet PFI schemes and leases) calculated from the balance sheet.

2) Affordability Indicators

- i) *'Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes revenue raised from the Workplace Parking Levy.
 - These indicators show the impact of borrowing on the revenue accounts and enable a comparison between years to be made. The increase in the General Fund ratio reflects the falling grant from government and the impact of the extension of the NET capital scheme, funded from specific Government grant and the Workplace Parking Levy income streams.
- ii) *'Authorised limit for external debt'* – this represents the maximum amount that may be borrowed at any point during the year.
 - This figure allows for the possibility that borrowing for capital purposes may be undertaken early in the year, with a further sum to reflect any temporary borrowing as a result of adverse cash flow. This represents a 'worst case' scenario.
- iii) *'Operating boundary for external debt'* – this indicator is a working limit and represents the highest level of borrowing is expected to be reached at any time during the year - It is recognised that this operational boundary may be breached in exceptional circumstances.

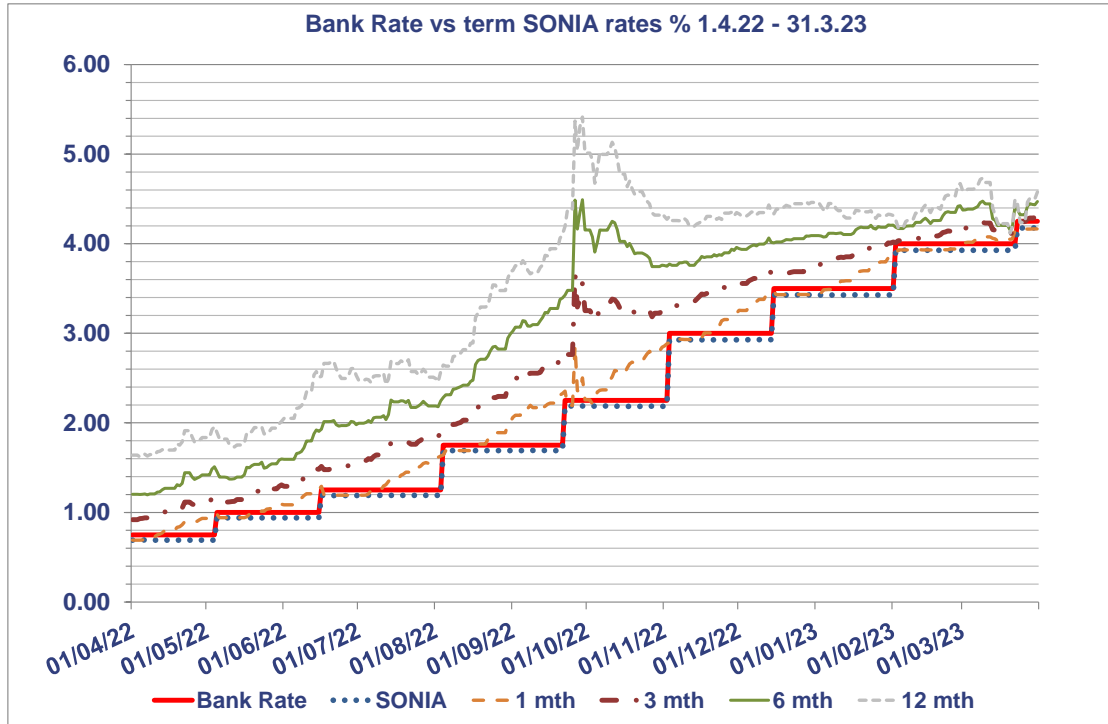
- iv) *'HRA limit on indebtedness'* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The MHCLG have now abolished the 'cap' on the maximum level of HRA debt, but this indicator shows the notional difference between this limit and the actual HRA CFR i.e. notional headroom available for future new borrowing.

3) **Treasury Management Indicators**

- i) *'Upper limit on variable interest rate exposure'* - is set to control the Authority's exposure to interest rate risk. The upper limits on variable rate interest rate exposures, expressed as the amount of principal borrowed.
- A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.
- ii) *'Upper and lower limits with respect to the maturity structure of the authority's borrowing'* – this shows the amount of fixed rate borrowing maturing in each period, expressed as a percentage of total fixed rate borrowing.
- This indicator is designed to be a control over having large amounts of fixed rate debt falling to be replaced at the same time.
- iii) *'Total sums invested for periods of greater than 365 days'* – a limit on investments for periods longer than 1 year.
- This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods.

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Money Market Interest Rates, PWLB rates in 2022-23 & Forecast at 31/03/23



| FINANCIAL YEAR TO QUARTER ENDED 31/3/2023 | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| | Bank Rate | SONIA | 1 mth | 3 mth | 6 mth | 12 mth |
| High | 4.25 | 4.18 | 4.17 | 4.30 | 4.49 | 5.41 |
| High Date | 23/03/2023 | 31/03/2023 | 31/03/2023 | 31/03/2023 | 29/09/2022 | 29/09/2022 |
| Low | 0.75 | 0.69 | 0.69 | 0.92 | 1.20 | 1.62 |
| Low Date | 01/04/2022 | 28/04/2022 | 01/04/2022 | 01/04/2022 | 07/04/2022 | 04/04/2022 |
| Average | 2.30 | 2.24 | 2.41 | 2.72 | 3.11 | 3.53 |
| Spread | 3.50 | 3.49 | 3.48 | 3.38 | 3.29 | 3.79 |

Changes in Interest Rate Environment in 2022-23

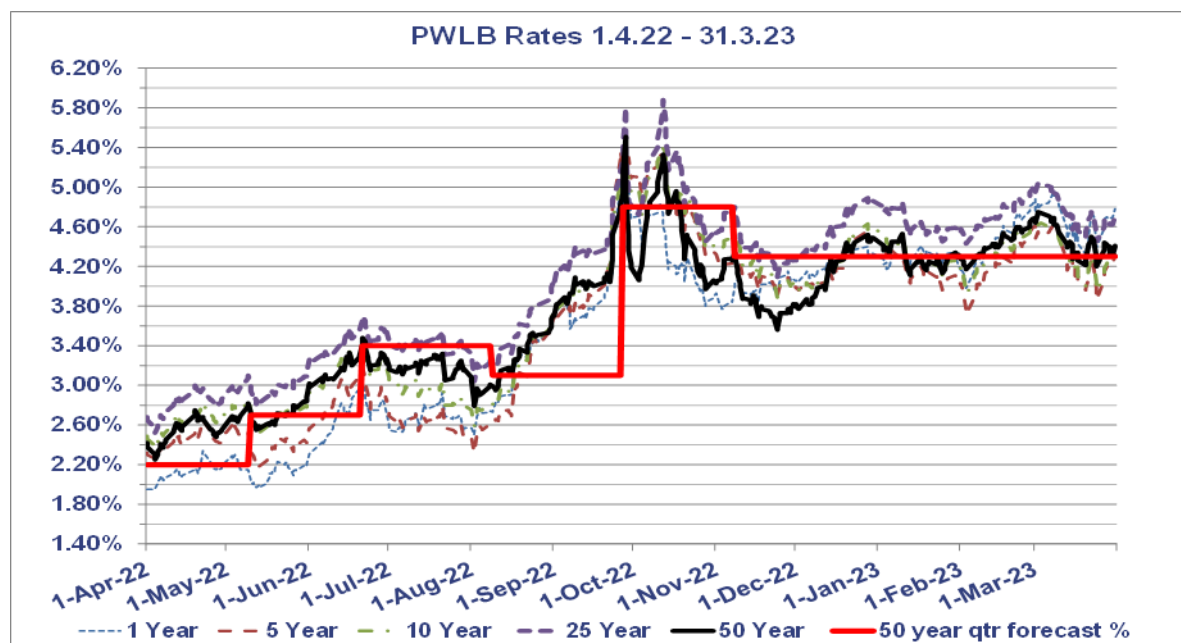
To show the change in market expectations the forecast outlook for money market interest rates and PWLB Certainty rates dated 07.02.2022 used in the Treasury Strategy for 2021-22 are shown below followed by the last forecast in 2022-23 dated 27.03.2023 which shows forecast rates have significantly increased – Bank rate was 4.25% at 31.03.23

| Link Group Interest Rate View | 7.2.22 | | | | | | | | | | | |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 |
| BANK RATE | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |
| 3 month ave earnings | 1.00 | 1.00 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| 6 month ave earnings | 1.10 | 1.20 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 |
| 12 month ave earnings | 1.50 | 1.60 | 1.70 | 1.70 | 1.60 | 1.60 | 1.50 | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 |
| 5 yr PWLB | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 |
| 10 yr PWLB | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 |
| 25 yr PWLB | 2.50 | 2.50 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 |
| 50 yr PWLB | 2.30 | 2.30 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 |

| Link Group Interest Rate View | 27.03.23 | | | | | | | | | | | |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
| BANK RATE | 4.50 | 4.50 | 4.25 | 4.00 | 3.50 | 3.25 | 3.00 | 2.75 | 2.75 | 2.50 | 2.50 | 2.50 |
| 3 month ave earnings | 4.50 | 4.50 | 4.30 | 4.00 | 3.50 | 3.30 | 3.00 | 2.80 | 2.80 | 2.50 | 2.50 | 2.50 |
| 6 month ave earnings | 4.50 | 4.40 | 4.20 | 3.90 | 3.40 | 3.20 | 2.90 | 2.80 | 2.80 | 2.60 | 2.60 | 2.60 |
| 12 month ave earnings | 4.50 | 4.40 | 4.20 | 3.80 | 3.30 | 3.10 | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 |
| 5 yr PWLB | 4.10 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.50 | 3.40 | 3.30 | 3.20 | 3.20 | 3.10 |
| 10 yr PWLB | 4.20 | 4.20 | 4.00 | 3.90 | 3.80 | 3.70 | 3.50 | 3.50 | 3.40 | 3.30 | 3.30 | 3.20 |
| 25 yr PWLB | 4.60 | 4.50 | 4.40 | 4.20 | 4.10 | 4.00 | 3.80 | 3.70 | 3.60 | 3.50 | 3.50 | 3.40 |
| 50 yr PWLB | 4.30 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.50 | 3.50 | 3.30 | 3.20 | 3.20 | 3.10 |

PWLB Interest Rates during 2022-23

The graph and table below show the actual 2022/23 PWLB rates.



| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|------------|------------|------------|------------|------------|
| Low | 1.95% | 2.18% | 2.36% | 2.52% | 2.25% |
| Date | 01/04/2022 | 13/05/2022 | 04/04/2022 | 04/04/2022 | 04/04/2022 |
| High | 5.11% | 5.44% | 5.45% | 5.88% | 5.51% |
| Date | 28/09/2022 | 28/09/2022 | 12/10/2022 | 12/10/2022 | 28/09/2022 |
| Average | 3.57% | 3.62% | 3.76% | 4.07% | 3.74% |
| Spread | 3.16% | 3.26% | 3.09% | 3.36% | 3.26% |

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

Gilt yields have been on a continual rise since the start of 2021 due to global inflationary pressures, peaking in the autumn of 2022 with the mini-budget of the Truss government. Currently, yields are broadly range bound between 3% and 4.25%. Over the next two years there is likely to be a fall in gilt yields and PWLB rates across the whole curve as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

Audit Committee – 28 July 2023

| | | |
|--|---|-------------------------------|
| Title of paper: | Annual Investment Strategy 2023/24 revision | |
| Director(s)/ Corporate Director(s): | Ross Brown, Corporate Director of Finance and Resources and Section 151 Officer | Wards affected: All |
| Report author(s) and contact details: | Antony Huggett, Interim Senior Accountant – Treasury Management | |
| Other colleagues who have provided input: | Shabana Kausar, Director of Finance Jean Stevenson, Interim Finance Team Leader – Technical Finance | |
| Does this report contain any information that is exempt from publication? No | | |
| Recommendation(s): | | |
| 1. | To consider revisions to the Annual Investment Strategy for 2023/24, attached as Appendix 1, and, in particular: <ul style="list-style-type: none"> a. the increase to counterparty limits; b. other technical changes. | |

1. Reasons for recommendations

- 1.1 The Audit Committee holds the responsibility for providing the effective scrutiny of treasury management policies and practices. The approval of a Treasury Management Strategy by Full Council is a legal requirement. The Annual Investment Strategy is incorporated into the Treasury Management Strategy and therefore also requires Full Council approval. This report sets out the proposed revisions to the Annual Investment Strategy for 2023/24.
- 1.2 The Annual Investment Strategy includes details on how the Council will invest its cash balances across different counterparties and financial instruments.
- 1.3 Approval of an Annual Investment Strategy is a legal requirement, to comply with:
 - Financial Regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management by submitting a policy and strategy statement for the ensuing financial year incorporating an Annual Investment Strategy.
 - guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April and any subsequent revisions to it.
- 1.4 The Treasury Management Code of Practice and Prudential Code (2021 editions) are both adopted by the Council. There is a requirement for authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity, policies and practices. It is considered that the City Council's Audit Committee is the most appropriate body for this function.
- 1.5 The Annual Investment Strategy was based on the TMS projections for investment balances of between £100m to £200m in 2023/24. At 31 March 2023 investment balances were £308m and they are expected to be in the range £300m to £400m in 2023/24. Therefore, in order for the Council to continue to invest with high quality

counterparties paying the most competitive investment rates, the following changes are recommended:

| CounterParty Limits | Current | Revised |
|------------------------------|---------|---------|
| | £m | £m |
| Banks and other institutions | 20 | 30 |
| Money Market Funds | 30 | 40 |
| Country | 40 | 60 |

- 1.6 The AIS also clarifies that for UK banks split into ring-fenced and non-ring fenced banks then each entity will be treated separately for determining counterparty limits. This recognises that each entity is separately capitalised without recourse to each other unlike previously.
- 1.7 There is also a change to the interest earned by the HRA on its share of cash balances which will now be the average interest rate earned for the year on the Council's investments instead of the 3 month Treasury bill rate. This has the effect of HRA and General Fund balances benefitting from the actual investment returns achieved by the Council.
- 1.8 The Treasury Panel reviewed these changes on 14 June 2023 and they have also been reviewed the Council's treasury adviser Link Group.

2. Background

- 2.1 Treasury management is a term used to describe the management of an organisation's borrowing, investments and other financial instruments, their associated risks and the pursuit of optimum performance or return consistent with those risks.
- 2.2 The Annual Investment Strategy (AIS) as set out in **Appendix 1** sets the operational and strategic parameters for how treasury management activity will take place in the year.
- 2.3 The Treasury Management budget for 2023/24 includes a budget of £4.1m for investment income which is a product of the application of the AIS.
- 2.4 Treasury management and capital functions are governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the Council must have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council formally adopts the requirements of these codes (as updated in 2021) as part of its Treasury Management Policy Statement.
- 2.5 The Treasury Management Strategy (TMS) 2023/24 was approved by Full Council on 6 March 2023 and revisions to it will be considered for approval by Full Council on 13 November 2023.

3. Background papers other than published works or those disclosing exempt or confidential information

- 3.1 None

4. Published documents referred to in compiling this report

- Treasury Management in the Public Services Code of Practice 2021–CIPFA
- Prudential Code 2021-CIPFA
- Treasury Management in the Public Services Guidance Notes 2021 - CIPFA
- Statutory guidance on local government investments 3rd Edition 2018
- Treasury Management Strategy 2023/24 Full Council 6 March 2023

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Nottingham City Council

Annual Investment Strategy 2023/24 Revised

1 Annual Treasury Investment Strategy

1.1 Treasury Management Investment policy – management of risk

The Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two categories of investment: ‘specified’ and ‘non-specified’.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to

maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by councillors and officers before being authorised for use.
5. Non-specified investments limit. are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The Council has determined that it will limit the maximum total exposure to non-specified investments (see table 2 in section 1.3).
 6. **Approved Counterparties and limits**, (amounts and maturity), for each type of counterparty will be set through applying the matrix table 1 in section 1.3.
 7. **Investment limits** are set for each type of investment in table 3 in section 1.4.
 8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, shown in table 4 in section 1.5.
 9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see section 1.3 – specified investments).
 10. This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
 11. All investments will be denominated in **sterling**.
 12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 1.5). Regular monitoring of investment performance will be carried out during the year.

1.2 Investment strategy

Objectives: Both the CIPFA Code and the DLUHC Guidance require the Council to invest its 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 receiving unsuitably low investment income. For liquidity purposes investment balances are expected to be maintained above £30m.

Strategy: Investments will be made with reference to the forecast core cash balances, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

The current forecast includes Bank Rate to reach 4.5% in Q2 2023.

The suggested investment earnings rates for returns on new investments placed for periods up to about three months during each financial year are as follows:

| Average % for new investments in each year | |
|--|-------|
| 2022/23 (remainder) | 4.00% |
| 2023/24 | 4.40% |
| 2024/25 | 3.30% |
| 2025/26 | 2.60% |
| Long term later years | 2.50% |

1.3 Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown.

| Credit Rating | Banks Unsecured | Banks Secured | Government |
|---------------|-------------------|------------------|-------------------------|
| UK Govt | n/a | n/a | £ Unlimited 50 years |
| AAA | £30m 12 months | £30m 10 years | £30m 10 years |
| AA+ | £30m 12 months | £30m 5 years | £30m 10 years |
| AA | £30m 12 months | £30m 5 years | £30m 10 years |
| AA- | £30m 12 months | £30m 2 years | £30m 5 years |
| A+ | £30m 12 months | £30m 2 years | £30m 5 years |
| A | £30m 12 months | £30m 2 years | £30m 5 years |
| A- | £20m 6 months | £30m 1 year | £30m 5 years |
| None | n/a | n/a | £30m * 5 years |

| | |
|--|---------------|
| Money Market Funds (AAA or equivalent) | £40m per fund |
| Strategic pooled funds (AAA or equivalent) | £20m per fund |

** Includes other UK Local Authorities – limit per Authority*

This table must be read in conjunction with the notes below: -

Lloyds Bank: The Council's current provider of banking services, will be subject to the limits in table 1 for investment balances, but also accommodate necessary short-term cash management balances within its bank accounts for periods of up to 4 days with no maximum sum.

Credit Rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. 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 not made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks 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.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Debt Management Office deposits, loans, bonds and bills issued or guaranteed by national governments, regional and local authorities, supranational banks and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Money Market Funds: A highly rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments and offer same-day or short notice liquidity and very low or no price volatility. The Money Market Fund definition and limit includes CNAV, LVNAV and VNAV Cash and Cash-plus funds. All are highly regulated and have to operate within minimum credit quality and diversification requirements as set out by rating agencies to maintain an AAA money market fund rating. These are used as an alternative to short term deposits and instant access bank accounts.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment

objectives will be monitored regularly. Funds will only be considered if they have an AAA fund credit rating.

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. 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 “rating watch negative” or “credit watch negative”) 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.

Specified Investments: The DLUHC Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of AAA from at least one of the main credit rating agencies.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any financial investments (treasury management investments) denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified treasury investments will therefore be limited to long-term investments, i.e. those that are due to mature in 12 months or longer. The limits for non-specified investments are shown in **table 2** below.

| Table 2: Non-Specified Investment Limit | |
|---|-------------------|
| | Cash limit |
| Unsecured Bank Investments > 365 days * | £0m |
| Secured Bank Investments > 365 days * | £40m |
| Government Investments > 365 days (inc Local Authorities) * | £100m |
| Total non-specified investments | £100m |

* The table above shows the non-specified investment limits by the investment type. The investment limits in Table 1 & 3 also apply.

1.4 Investment Limits

In order to limit the amount of available reserves put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK Government and Money Market Funds) will be £30 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes except for UK banks that are split into ring-fenced and non-ring-fenced entities where each entity will be treated separately. Limits will also be placed on Money Market Funds, foreign countries and industry sectors as below. Investments in Money Market Funds & Strategic 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.

| Table 3: Investment Limits | Cash limit |
|---|--------------------------------|
| Any single organisation, except the UK Central Government and Money Market Funds | £30m each |
| UK Central Government | Unlimited |
| Any group of organisations under the same ownership (except UK banks noted above) | £30m per group |
| Foreign countries | £60m per country |
| Money Market Funds (AAA or equivalent *) | £40m per fund & £120m in total |
| Strategic Pooled Funds (AAA or equivalent *) | £20m per fund & £40m in total |

* Money market fund “fund” ratings are different to individual counterparty ratings, coming under either specific “MMF” or “Bond Fund” rating criteria.

1.5 Investment treasury indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. These voluntary indicators are a guide to risk levels and they may be breached from time to time, depending on movements in interest rates and counterparty criteria. These will be reported against, in the mid-year or Annual Report.

Security

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

- Target portfolio average credit rating = A

Liquidity

The Council balances not keeping excessive amounts of cash in call accounts to reduce the cost of carrying excess cash against the liquidity risk of not having cash available to meet unexpected payments. To mitigate the liquidity risk the Council has access to borrow additional, same day, cash from other local authorities and seeks to maintain:

- Liquid short term deposits of at least £30m available within a week’s notice.
- Bank overdraft - £0m

Yield

The Council has adopted a voluntary measure of yield against industry benchmark rates

- Average Investment return against the 7-day SONIA rate

Interest Rate Exposures

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits reflect the forecast cash balances after each year-end plus headroom to accelerate borrowing to manage interest rate risk as detailed in section 3.4. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| £m | 2023/24 | 2024/25 | 2025/26 |
|--|----------------|----------------|----------------|
| Principal sums invested for longer than 365 days | £100m | £100m | £100m |
| Current investments as at 31.12.22 in excess of 1 year maturing in each year | £20.0m | £0m | £0m |

Other Items

There are additional items that the Council is obliged to include in its Treasury Management Strategy in line with CIPFA or DLUHC guidance.

1.6 Liquidity Management:

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

1.7 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

1.8 Other Items

There are additional items that the Council is obliged to include in its Treasury Management Strategy in line with CIPFA or DLUHC guidance.

1.8.1 Policy on Use of 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. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

1.8.2 Policy on Apportioning Interest to the HRA:

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA at the average interest rate achieved by the Council's investment portfolio in the year.

1.8.3 Policy on Council Subsidiary Deposit Facility:

The Council has a number of subsidiary companies within the group organisation, as such the it may provide a safe haven deposit facility for surplus cash balances held by these companies. These funds are available on request subject to minimum notice period and balances would attract interest at a rate agreed at the time of the request.

1.8.4 Management of treasury risk:

Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. Details of the specific risks identified in respect of treasury management within the Council are adopted to form a Risk Management Action Plan. This Plan is reviewed at regular intervals at meetings of the Treasury Management Panel and an overview is reported to Audit Committee as part of the Treasury Management reporting.

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Audit Committee – 28 July 2023

| | | |
|--|---|-------------------------------|
| Title of paper: | Improvement and Assurance Board Governance Instructions - Update | |
| Director(s)/ Corporate Director(s): | Ross Brown – Corporate Director, Finance and Resources Malcolm Townroe – Director of Legal and Governance and Monitoring Officer | Wards affected: All |
| Report author(s) and contact details: | Nancy Barnard – Head of Governance Nancy.barnard@nottinghamcity.gov.uk 0115 876 4312 | |
| Other colleagues who have provided input: | | |
| Does this report contain any information that is exempt from publication? No | | |
| Recommendation(s): | | |
| 1. | That Audit Committee note the update on the Governance Instructions | |

1. Reasons for recommendations

- 1.1 To inform and provide assurance to the Audit Committee on the progress made in implementing the Improvement and Assurance Board's (IAB) instructions relating to Governance.

2. Background

- 2.1 In February 2023 the IAB issued 39 instructions to Nottingham City Council. These instructions had the weight of statute and sought to continue the improvement work at the pace and in the direction required by the IAB. Five instructions related to the governance workstream. These had varying deadlines as follows:
1. Operate an efficient and effective decision making process – deadline 30 June 2023
 2. Application, in full, of the Council's Officer/Member protocol – deadline 30 June 2023
 3. Regularise, in a consistent way, good communication and engagement with stakeholders – deadline 30 April 2023
 4. Consolidate best practice in governance relating to all partnership working – deadline 30 June 2023
 5. Finalise the implementation of the restructured commissioning and procurement system – deadline 31 March 2023

2.2 **Instruction 1 - Operate an efficient and effective decision making process**

Working with colleagues from the Change Academy programme a review was conducted of decision making which included discussions with senior officers, and departmental management teams where feedback was obtained on decision making, invitations to Executive Councillors to provide feedback, desktop reviews of practice in other Core Cities, analysis of data from the delegated decisions system and the reports management system. Although decisions and reports were consistently found to meet Constitutional requirements areas were identified for further action by 30 June.

2.3 The following key actions have been taken in response to the first instruction – Operate an efficient and effective decision making process

- a) The scheme of Executive delegation has been reviewed by the leader of the Council and the financial limit on officer decision making has been raised to £300,000 with the minimum value at which a financial decision must be published has been raised to £100,000 bringing the Council closer to alignment with other core cities.
- b) New guidance on decision making has been produced and is available on the Council's Intranet pages for use by all those involved in the decision making. This includes a quick reference guide on decision making which outline typical decision making pathways and provides clarity on processes. The intranet pages themselves have been redesigned making it easier to find key information.
- c) Timescales for the provision of professional advice on decisions have been clarified and the new guidance emphasises the need for report/ decision authors to seek input from relevant teams across the Council at an early stage to ensure decisions are well considered and shaped as they are developed.
- d) Informal meetings have been streamlined to improve the efficiency of decision making and provide greater clarity on what business is required at what meetings prior to formal decisions.
- e) Sessions on decision making have been provided to all Councillors and specifically to Executive Councillors as part of the induction programme following the city council elections on 4 May.
- f) Overview and Scrutiny structures have been reviewed and new committees established to better support Scrutiny's contribution to the decision making process. Additional officer support has been recruited to support the Overview and Scrutiny and Audit Committees and is currently progressing through the pre-employment phase.

2.4 **Instruction 2 – Application, in full, of the Council's Officer/Member protocol**

The following key actions have been taken in response to this instruction:

- a) Portfolio Holder remits were reviewed as part of their appointment from 22 May 2023, bringing them into closer alignment with Council departments and the new Overview and Scrutiny structure. This will support the efficient management of key relationships.
- b) E-Learning on Councillor/Officer relationships and working in a political environment has been made compulsory as part of the induction programme for all new colleagues in addition to managers.

- c) The Councillor induction programme included sessions on Councillor/ Officer relationships and roles across several sessions.
- d) A reporting policy has been developed establishing clear pathways for councillors and colleagues to report any concerns they have about breaches of the Councillor/ Officer Protocol and identifying where to seek advice. This went live on 30 June and provides a route through to the Monitoring Officer should matter not be able to be resolved informally.

2.5 In relation to these two instructions, further work is ongoing to support the good governance of the City Council. This includes:

- a) The development of a new delegated decisions and, eventually, reports management system to improve the management of decisions and reports as they are drafted.
- b) Establishment of more robust corporate forward planning processes.
- c) Further review of informal meetings to establish whether further streamlining can be undertaken.
- d) Review of guidance on processes including Data Protection Impact Assessments and Equality Impact Assessments to ensure clarity.
- e) Review of documents used to define Executive/ Officer working arrangements in other Councils for potential use in Nottingham.

2.6 **Instruction 3 – Regularise, in a consistent way, good communication and engagement with stakeholders**

The following response was reported to the IAB on 26 July on this instruction:

- a) Stakeholder database produced with input from senior officers and Leader & Deputy. This formed the basis of high-level mapping of stakeholders against the Strategic Council Plan outcomes.
- b) New Communication and Engagement Strategy sets out our objectives, priorities and associated action plan for delivery. It includes a quarterly forward planning approach that coordinates communication and engagement activity taking place.
- c) The strategy segments stakeholders with tailored objectives and methods of engagement and communication for optimum impact. Segments include citizens, workforce, stakeholders/partners, business and media.
- d) There is a particular focus on supporting the delivery and achievement of other relevant IAB Instructions.
- e) Initial baseline feedback was sought from key stakeholders to inform the quarterly forward planning approach and a formal annual baseline survey was launched in early June 2023. The results of which will provide a baseline for evaluation and inform delivery.

2.7 **Instruction 4 – Consolidate best practice in governance relating to all partnership working**

The following response was reported to the IAB on 26 July on this instruction:

- a) Partnerships have been mapped and key partnerships defined.
- b) We have reviewed current partnership governance arrangements through the NCC responsible officers on each key partnership to establish current practice around governance and identify and close gaps.
- c) The review has enabled the identification of NCC's 'significant partnerships' which are now all captured on the 'Register of Significant Partnerships'
- d) Best Practice Guidance has been created based upon internal practice and by seeking out best practice from other Councils and Local Government representative bodies such as CIPFA.
- e) The Best Practice guidance now sits alongside a checklist which enables senior officer representatives on each Partnership to offer assurance that the Partnership is operating as it should.
- f) Dissemination of the Best Practice Guidance and checklist will occur on a rolling annual cycle, with this year's process beginning in June.
- g) Where poor practice is identified this will be logged and addressed by the representative with central support as required.
- h) A final part of this process will include the annual update of the Register of Significant Partnerships which forms a part of the Best Practice Guidance.
- i) Nottingham continues to benefit from the 'One Nottingham' Partnership, a successor to the Local Strategic Partnership. This is chaired by the Leader of the Council – and those attending are the Chairs of many of the other major partnerships.
- j) Effective partnership working with external partners was demonstrated following the death of HM Queen Elizabeth II through the implementation and coordination of Operation London Bridge - enabling the delivery of a range of events and services in a respectful and synchronised way.
- k) Recent and tragic events in Nottingham on Tuesday 13 June have seen our partnerships working effectively as Nottingham came together to respond and recover.

2.8 **Instruction 5 – Finalise the implementation of the restructured commissioning and procurement system**

The following response was reported to the IAB on 26 July on this instruction:

- a) New Commercial Oversight Board chaired by Corporate Director of Finance and Resources and Section 151 Officer established and operational, covering commercial strategies including approach to market for all contracts over threshold, Value for Money reviews (periodically), procurement exemptions and forward procurement plans.

- b) Commercial Oversight Board has now met 4 times since inception and is demonstrating the value of having cross departmental challenge resulting in fully considered and informed approaches to market. Attendance is all Corporate Directors (CD), Chaired by CD of Finance and Resources, with Directors and Heads of Service attending for specific items.
- c) Commissioning and Procurement Executive Committee that oversees decisions related to Commissioning and Procurement focuses on the policy direction to ensure projects deliver best value and drive social value to improve the economic and environmental well-being of the city.
- d) New Commissioning structure with 50% new post holders in place and phase 2 recruitment in train. Induction includes Oxford Brookes, Skills for Care and Government Commercial College training.
- e) A suite of commissioning work is driving savings and best value through the Adults' and Children's Transformation Programmes. For example, commissioning new supported living capacity with external developers in adult social care has delivered £775k in 22/23 and is projected to deliver £1.698m in 23/24.
- f) Likewise, procurement has delivered £440k of savings in 2022/23 with a further £940k of savings and income in 2023/24 being validated.
- g) Children in Care Placements Team transfer to Commissioning and Partnerships on 8 August to strengthen the oversight and cost effectiveness of commissioned services.

3. **Background papers other than published works or those disclosing exempt or confidential information**

None

4. **Published documents referred to in compiling this report**

Reports to and minutes of the Full Council Annual General Meeting held on 22 May 2023.

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Audit Committee Proposed Work Programme for 2023-24

The schedule of meetings set out below is proposed but the committee reserve the right to review and amend the work programme content and meeting dates throughout the year.

Key to activity

| |
|--|
| Governance risks around high level financial strategy and reserves |
| Governance risks connected to asset realisation |
| Governance of Capital programme and projects |
| Value for Money and Delivering Objectives |
| Governance of linked incorporated bodies |
| Core functions arising from statutory obligations and guidance |
| Annual Assurance reports |

| Date | Item | Committee Objective | Director | Author |
|----------|---|--|----------|--------------------------------------|
| TBC | External Audit Report 2019-20 | Consider the outcome of the External Audit and assurance on management response to issues identified. | | A Smith |
| | External Audit Report 2020-21 | Consider the outcome of the External Audit and assurance on management response to issues identified. | | A Smith |
| | External Audit Report 2021-22 | Consider the outcome of the External Audit and assurance on management response to issues identified. | | A Smith |
| | Financial Accounts Training | Audit Committee Performance | R Brown | S Kausar |
| Jun 2023 | Regular monitoring of previous years' statements of accounts and finance improvement plan | Assurance that appropriate arrangements are in place to regarding progress on the completion and audit of the Council's financial accounts including financial improvement plan. | R Brown | S Kausar |
| | Financial Controls Assessment | Assurance on operation of key financial controls by external assurance provider (EY). | R Brown | A Scholes S Kausar J Stevenson |

| Date | Item | Committee Objective | Director | Author |
|-----------------|--|---|-----------------|-----------------|
| | Companies Update (TfN Theme 3) | Assurance on progress, benefit realisation, controls, associated risks and their management to ensure that the Council has in place appropriate arrangements to manage risks connected to its investments in companies. | R Brown | M Hainge |
| | HR & EDI Annual Assurance | Assurance that cross-cutting corporate arrangements are working well and any significant risk and issues are being actively managed. | R Henderson | T Hayre-Bennett |
| | TfN workstream lead Theme 2 (Asset Management) | Assurance on progress, benefit realisation, controls, associated risks and their management. | S Rose | N Jenkins |
| | Exemption from Contract Procedure Rules Q4 | Oversight of procurement dispensations and assurance on their future procurement process. | R Brown | S Oakley |
| Jul 2023 | Regular monitoring of previous years' statements of accounts and comprehensive finance improvement plan update | Assurance that appropriate arrangements are in place to regarding progress on the completion and audit of the Council's financial accounts including financial improvement plan. | R Brown | S Kausar |
| | External Audit update | Consider the update from External Audit and assurance on management response to any issues identified. | | A Smith |
| | Treasury Management Annual Report | Assurance on management of Treasury Management | R Brown | J Stevenson |

| Date | Item | Committee Objective | Director | Author |
|-----------------|--|---|-----------------|---------------|
| | | risks in accordance with Council policy. | | |
| | IAB instructions: Theme 1 Governance | Assurance on progress, benefit realisation, controls, associated risks and management of IAB instructions under this theme. | R Brown | M Townroe |
| Sep 2023 | Statement of Accounts 2019-20 | Consider any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council. | R Brown | S Kausar |
| | Statement of Accounts 2020-21 | Consider any concerns arising from the financial statements or from the governance statement that need to be brought to the attention of the Council. | R Brown | S Kausar |
| | Statement of Accounts 2021-22 | Consider any concerns arising from the financial statements or from the governance statement that need to be brought to the attention of the Council. | R Brown | S Kausar |
| | Regular monitoring of previous years' statements of accounts | Assurance that appropriate arrangements are in place to regarding progress on the completion and audit of the Council's financial accounts. | R Brown | S Kausar |
| | External Audit update | Consider the update from External Audit and assurance on management response to any issues identified. | | A Smith |
| | Comprehensive finance improvement plan update | Assurance that appropriate arrangements are in place and satisfactory progress on the financial improvement plan. | R Brown | S Kausar |

| Date | Item | Committee Objective | Director | Author |
|-----------------|--|--|--------------------------|------------------|
| | Audit Committee Annual Report | Audit Committee Performance | | Cllr S Gardiner |
| | IA Annual Report & Opinion including Counter Fraud Strategy including IA plan update | Consider arrangements for Internal Audit, reports on the effectiveness of internal controls supporting the Head of Audit & Risk's opinion, and seek assurance on the implementation of agreed actions. | R Brown | S Shah |
| | Service Response on Progress following Limited or No Assurance IA Report - (HR & Payroll) | Assurance on improvements planned and made and how these will be sustained. | R Henderson | T Hayre-Bennet |
| | Service Response on Progress following Limited or No Assurance IA Report - (Appointeeship) | Assurance on improvements planned and made and how these will be sustained. | C Underwood | S Storey / L Lee |
| Nov 2023 | IAB instructions: Theme 4 (Corporate Planning) | Assurance on progress, benefit realisation, controls, associated risks and management of IAB instructions under this theme. | M Barrett I O'Donovan | J Rhodes |
| | IAB instructions: Theme 5 Companies | Assurance on progress, benefit realisation, controls, associated risks and management of IAB instructions under this theme. | R Brown | M Hainge |
| | Treasury Management Half Year Report | Assurance on management of Treasury Management risks in accordance with Council policy. | R Brown | J Stevenson |
| | Draft Statement of Accounts 2022-23 | Consider any concerns arising from the financial statements or from the governance statement that need to be brought to the attention of the Council. | R Brown | S Kausar |
| | Regular monitoring of previous years' statements of accounts | Assurance that appropriate arrangements are in | R Brown | S Kausar |

| Date | Item | Committee Objective | Director | Author |
|------|--|---|--------------|-----------|
| | | place to regarding progress on the completion and audit of the Council's financial accounts. | | |
| | External Audit update | Consider the update from External Audit and assurance on management response to any issues identified. | | A Smith |
| | Comprehensive finance improvement plan update including Financial Management Code assessment | Assurance that appropriate arrangements are in place and satisfactory progress on the financial improvement plan and that these are informed by a Financial Management Code assessment. | R Brown | S Kausar |
| | Corporate Risk & Assurance Register | Assurance that appropriate arrangements are in place to manage risk. | R Brown | S Shah |
| | Internal Audit Update including Limited Assurance audits and High Priority Recommendations | Consider reports on the effectiveness of internal controls supporting the Head of Audit & Risk's opinion and seek assurance on the implementation of agreed actions. | R Brown | S Shah |
| | Service Report on Progress following Limited Assurance IA Report - (Procurement Dispensations & Contract Management) | Assurance on improvements planned and made and how these will be sustained. | R Brown | M Hainge |
| | Customer Experience / Complaints & Ombudsman Annual Assurance (to note) | Assurance that cross-cutting corporate arrangements are working well and any significant risk and issues are being actively managed. | L Lee | D O'Melia |
| | EMSS Annual Report (to note) | Assurance that the Council has in place appropriate arrangements to | L Littlefair | |

| Date | Item | Committee Objective | Director | Author |
|-----------------|--|---|--------------------------|-----------------|
| | | manage risks connected to its joint service arrangements. | | |
| Feb 2024 | IAB instructions: Theme 2 Finance | Assurance on progress, benefit realisation, controls, associated risks and management of IAB instructions under this theme. | R Brown | S Kausar |
| | Treasury Mgt Strategy & Capital Strategy | Assurance on setting Council policies to best manage Treasury Management & Capital risks. | R Brown | J Stevenson |
| | IAB instructions: Theme 6 Workforce, Culture & Performance Outcomes | Assurance on progress, benefit realisation, controls, associated risks and management of IAB instructions under this theme. | M Barrett R Henderson | T Hayre-Bennett |
| | AGS Process 2023-24 | Assurance on arrangements for a review of the Council's governance. | R Brown | S Shah |
| | Regular monitoring of previous years' statements of accounts | Assurance that appropriate arrangements are in place to regarding progress on the completion and audit of the Council's financial accounts. | R Brown | S Kausar |
| | External Audit update | Consider the update from External Audit and assurance on management response to any issues identified. | | A Smith |
| | Comprehensive finance improvement plan update | Assurance that appropriate arrangements are in place and satisfactory progress on the financial improvement plan. | R Brown | S Kausar |
| | Internal Audit Update including Limited Assurance audits and High Priority Recommendations | Consider reports on the effectiveness of internal controls supporting the Head of Audit & Risk's opinion and seek | R Brown | S Shah |

| Date | Item | Committee Objective | Director | Author |
|-----------------|---|---|----------------------------|------------------------|
| | | assurance on the implementation of agreed actions. | | |
| | Review of Accounting Policies 2023/24 | Assurance that appropriate arrangements are made to comply with statutory guidance. | R Brown | S Kausar |
| Apr 2024 | IAB instructions: Theme 3 Transformation | Assurance on progress, benefit realisation, controls, associated risks and management of IAB instructions under this theme. | C Underwood I O'Donovan | R Grice |
| | Regular monitoring of previous years' statements of accounts | Assurance that appropriate arrangements are in place to regarding progress on the completion and audit of the Council's financial accounts. | R Brown | S Kausar |
| | External Audit update | Consider the update from External Audit and assurance on management response to any issues identified. | | A Smith |
| | Comprehensive finance improvement plan update | Assurance that appropriate arrangements are in place and satisfactory progress on the financial improvement plan. | R Brown | S Kausar |
| | Annual Information Security & Information Governance Compliance Assurance | Assurance that cross-cutting corporate arrangements are working well and any significant risk and issues are being actively managed. | M Townroe | S Salmon N Matthews |
| | Health & Safety Annual Assurance | Assurance that cross-cutting corporate arrangements are working well and any significant risk and issues are being actively managed. | M Townroe | P Millward |

| Date | Item | Committee Objective | Director | Author |
|-------------|--------------------------------------|--|-----------------|---------------|
| | Procurement Exemptions Annual Report | Oversight of procurement exemptions and assurance on their future procurement process. | R Brown | S Oakley |

Audit Committee Recommendation Tracker 2022/23

1 Purpose

This document will collate and track progress of all recommendations made by the Audit Committee to the Executive and Senior Managers throughout the year, and to log the responses to the recommendations. The explanation of terms used can be found in section 3.

2 Audit Committee Recommendations to the Executive and Senior Managers

| Reference number | Title of agenda item | Recommendation | Date referred | Progress status | Response and next steps | Key contacts |
|----------------------------|-------------------------|--|---------------|-----------------|--|-------------------|
| 221125-47-a | Minutes confirmation | A rolling log of actions is created, kept up to date and reported to every meeting of the Committee | 25/11/22 | Responded to | This document to be updated – retrospective application to follow. | Nancy Barnard |
| 221125-50-1 | External Audit - update | A copy of the Value for Money report to Committee members in advance of the February meeting | 25/11/22 | Accepted | Document circulated to the Committee. | Andrew Smith |
| 221125-50-2 | External Audit - update | Provide the Chair of the Audit Committee with a copy of External Auditor's letter to the Chief Executive about concerns over the approach to the review of management override of controls | 25/11/22 | Accepted | Document provided to Chair. | Andrew Smith |
| 221125-50-3 221125-54-1 | External Audit – update | Amend the Work Plan with additional item for February - how the Council is responding to | 25/11/22 | Responded to | Report at 24 February 2023 Audit Committee. | Richard Henderson |

| | | | | | | |
|-------------|--|--|----------|--------------|---|----------------|
| | Work plan | recruitment challenges and managing risks associated with this, with detail of how many posts in Finance and IT teams are a) filled with interim staff and b) unfilled | | | | |
| 221125-51-2 | Treasury Management 2022/23 half-yearly report | Future treasury management reports include information on debt servicing costs and the debt redemption profile. | 25/11/22 | Responded to | Maturity structure of the debt is in the Treasury Management Strategy (Para 5.1.4) – (this meeting). Interest payable budget for next year is in the introductory report for the Treasury & Capital Strategies going to Executive Board - the figure is available to members. The team has been reminded of the requirement to include these in the annual and half-year reports. | Jean Stevenson |
| 221125-53-1 | Additional meeting | hold an additional meeting on 31 March 2023 at 10:30am | 25/11/22 | Approved | Meeting scheduled. | Nancy Barnard |
| 230224-59 | Minutes | Committee Members requested an amendment to Minute 52, to reflect their concern about | 24/02/23 | Responded to | Responded to at same meeting. | Ross Brown |

| | | | | | | |
|-------------|--|---|----------|-----------------------------------|---|---------------------|
| | | checks and balances on the commercial director for business cases, and that Audit Committee - 24.02.23 2 this would be a matter of interest for the Committee going forward | | | | |
| 230224-70-3 | Corporate Recruitment Challenges and NCC response | Request the following information from the Organisational HR Manager: a. Data on long-term sickness and its impact on key services in the Council; b. Data on the cost of the Engage recruitment portal IT system now being replaced by the Oracle Recruitment Cloud (ORC). | 24/02/23 | Responded to | Information circulated to the Committee on 22 June 2023. Further information on Engage requested. | Daljit Singh Nijran |
| 230331-75 | Regular monitoring of previous years' statements of accounts | Resolved to make this item a standing verbal update for future committee meetings. | 31/03/23 | Approved | This is now a standing item until all previous' years statements of accounts are accounted for. | Shabana Kausar |
| 230331-78-3 | Annual Report of Health and Safety within the Council | Include statistics and trends within future reports. | 31/03/23 | 23/02/24 – Awaiting consideration | To be reported to 23 February 2024 Audit Committee. | Paul Millward |

| | | | | | | |
|----------------|-------------------------------|---|----------|------------------------|--|---------------------------------------|
| 230630-6-3 | Financial Controls Assessment | Audit Committee to receive future updates on the remediation work through the FIP reporting. | 30/06/23 | Responded to | This will be built into the Regular monitoring of previous' years statement of accounts item. | Ross Brown/ Shabana Kausar |
| 230630-6-5 & 6 | Financial Controls Assessment | Audit Committee to establish a financial controls sub-group / new panels. | 30/06/23 | Awaiting Consideration | Consideration of what resources may be available to prioritise to such groups. Name and the remit of such a sub-group needs to be established by the Committee and the lead officer for the Committee. | Audit Committee/ Shabana Kausar |
| 230630-6-7 | Financial Controls Assessment | Undertake a CIPFA Self-Assessment on the Audit Committee. | 30/06/23 | Awaiting Consideration | Audit & Scrutiny Officer to support this activity when in post. | Audit Committee / Nancy Barnard |
| 230630-8-2 | HR and EDI Annual Assurance | Circulate the EDI Strategy Audit Report by Inclusive Employers Limited amongst the Audit Committee. | 30/06/23 | Awaiting Consideration | Request made. | Titu Hayre-Bennett/ James Lavender |

3 Explanation of terms used

Recommendation reference number - each recommendation added to this tracker will be assigned a unique reference number eg 220511-3-1, where 220511 represents the date of the meeting, -3 is the minute number, and -1 is the recommendation number.

Progress status - this column indicates individual progress status for each recommendation and will present 1 of 3 options:

- Responded to/Accepted/Approved - Green
- Awaiting Consideration – Amber

- Rejected - **Red**

Response and next steps - this column will include details on why a specific recommendation was accepted or rejected, and where appropriate, will indicate what the next steps are for the officers or councillors.

4 Future meeting dates and reporting deadlines

| Date of meeting (10:30am) | Deadline for draft reports (10:00am) | Chair's Briefing (2:00pm, *11:00am) | Deadline for final reports (5.00pm) |
|--------------------------------------|---|--|--|
| 28/07/23 | 06/07/23 | 12/07/23 | 18/07/23 |
| 29/09/23 | 07/09/23 | 13/09/23 | 19/09/23 |
| 24/11/23 | 02/11/23 | 08/11/23 | 14/11/23 |
| 23/02/24 | 01/02/24 | 07/02/24 | 13/02/24 |
| 26/04/24 | 04/04/24 | 10/04/24 | 16/04/24 |

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